PREMCOR INC
Form 424B5
April 08, 2004
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The information in this Preliminary Prospectus Supplement is not complete and may be changed. This Preliminary Prospectus Supplement and accompanying Prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS SUPPLEMENT *(Subject to Completion)* *Issued April 8, 2004*

(To prospectus dated January 7, 2004)

13,000,000 Shares

COMMON STOCK

Premcor Inc. is offering 13,000,000 shares of its common stock.

Our common stock is listed on the New York Stock Exchange under the symbol PCO. On April 7, 2004, the reported last sale price of our common stock on the New York Stock Exchange was $30.83 per share.

Concurrently with this offering, our subsidiary, The Premcor Refining Group Inc., or PRG, is offering by means of a separate prospectus supplement, $400 million aggregate principal amount of senior notes. Neither offering is contingent upon the other.

Investing in our common stock involves risks. See Risk Factors beginning on page S-10 of this prospectus supplement and on page 6 of the accompanying prospectus.

PRICE $ A SHARE

	Price to Public	*Underwriting Discounts and Commissions*	*Proceeds to Premcor Inc.*
Per Share	$	$	$
Total	$	$	$

We have granted the underwriters the right to purchase up to an additional 1,950,000 shares to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on , 2004.

Joint Book-Running Managers

MORGAN STANLEY *CREDIT SUISSE FIRST BOSTON*

CITIGROUP *UBS INVESTMENT BANK*

April , 2004

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If

anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and accompanying prospectus, including the documents that we incorporate by reference, contain both historical and forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are not historical facts, but only predictions and generally can be identified by use of statements that include phrases such as believe, expect, anticipate, intend, plan, foresee or other words or phrases of similar import. Similarly, statements that describe our objectives, plans goals also are forward-looking statements. These forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those currently anticipated. Factors that could materially affect these forward-looking statements can be found in our periodic reports filed with the SEC. Potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements, including the factors described under the heading Risk Factors, and are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this prospectus supplement are made only as of the date of this prospectus supplement and we undertake no obligation to publicly update these forward-looking statements to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events might or might not occur. We cannot assure you that projected results or events will be achieved.

MARKET DATA

We obtained market and competitive position data including market forecasts used through this prospectus supplement and accompanying prospectus and incorporated by reference herein from market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither we nor the underwriters make any representation as to the accuracy of such information.

IMPORTANT NOTICE ABOUT INFORMATION PRESENTED IN THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering and certain other matters relating to our business. The second part, the accompanying prospectus, gives more general information, some of which does not apply to this common stock offering. Generally, when we refer to the prospectus, we are referring to both parts combined. If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference. It is not complete and may not contain all the information that you consider important. We encourage you to read this prospectus supplement, the accompanying prospectus and the documents to which we have referred you in their entirety. As used in this prospectus supplement, the terms Premcor, we, our, or us refer to Premcor Inc. and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates. Premcor Inc. should be distinguished from its subsidiaries, including The Premcor Refining Group Inc. and Port Arthur Finance Corp., each of which has publicly traded debt outstanding.

Premcor Inc.

We are one of the largest independent petroleum refiners and suppliers of unbranded transportation fuels, heating oil, petrochemical feedstocks, petroleum coke and other petroleum products in the United States. Our wholly owned subsidiary, The Premcor Refining Group Inc., or PRG, currently owns and operates three refineries, which are located in Port Arthur, Texas, Memphis, Tennessee, and Lima, Ohio, with a combined crude oil volume processing capacity, known as throughput capacity, of approximately 610,000 barrels per day or bpd. We sell petroleum products in the Midwest, the Gulf Coast, Eastern and Southeastern United States. We sell our products on an unbranded basis to approximately 1,200 distributors and chain retailers through our own product distribution system and an extensive third-party owned product distribution system, as well as in the spot market.

For the year ended December 31, 2003, highly refined products, known as light products, such as transportation fuels, petrochemical feedstocks and heating oil, accounted for approximately 93% of our total product volume. For the same period, high-value, premium product grades, such as high octane and reformulated gasoline, low-sulfur diesel and jet fuel, which are the most valuable types of light products, accounted for approximately 42% of our total product volume.

We source our crude oil on a global basis through a combination of long-term crude oil purchase contracts, short-term purchase contracts and spot market purchases. The long-term contracts provide us with a steady supply of crude oil, while the short-term contracts and spot market purchases provide us with flexibility in obtaining crude oil. Since all of our refineries have access, either directly or though pipeline connections, to deepwater terminals, we have the flexibility to purchase foreign crude oils via waterborne delivery or domestic crude oils via pipeline delivery. Our Port Arthur refinery, which possesses one of the world s largest coking units, can process approximately 80% low cost, heavy sour crude oil, substantially all of which is crude oil from Mexico called Maya.

Delaware City Refinery Acquisition

On March 30, 2004, we executed an agreement with Motiva Enterprises LLC, or Motiva, to purchase its Delaware City refining assets located in Delaware City, Delaware. The purchase price is $800 million, plus the value of net working capital, currently estimated at $100 million, which we expect will be funded with available cash. We expect to finance the purchase of the refinery assets with approximately equal parts equity and debt, including the net proceeds from this offering and the proceeds from a $400 million offering of PRG s senior notes. In addition, Motiva will be entitled to receive from us earn-out payments of $25 million per year up to a total of $75 million over a three-year period depending on the amount of crude oil processed at the refinery and the level of industry refining margins during that period, and a $25 million payment per year up to a total of $50 million over a two-year period depending on the achievement of certain performance criteria at the gasification facility.

The Delaware City refinery is a high-conversion heavy crude oil refinery with a rated crude oil throughput capacity of 180,000 bpd. Also included in the acquisition is a petroleum coke gasification unit, a cogeneration facility, crude oil and product tankage, and a truck-loading rack. Major process units include a crude unit, a fluid coking unit, a fluid catalytic cracking unit, a hydrocracking unit with a hydrogen plant, a continuous catalytic reformer, an alkylation unit, and several hydrotreating units. Primary products include regular and premium conventional and reformulated gasoline, low-sulfur diesel, and home heating oil. The refinery s production is sold in the U.S. Northeast via pipeline, barge, and truck distribution. The refinery s petroleum coke production is sold to third parties or gasified to fuel the cogeneration facility, which is designed to supply electricity and steam to the refinery as well as electricity for sale to third parties.

We expect the acquisition to be completed by the end of the second quarter of 2004, subject to our obtaining the necessary financing and the satisfaction of customary conditions. There is no assurance we will consummate the transaction.

Market Trends

We believe that the longer-term outlook for the United States refining industry is attractive due to certain significant trends that we have identified. We believe that:

- *The supply and demand fundamentals for refined petroleum products have improved since the late 1990s and will continue to improve.* While the Department of Energy s Energy Information Administration, or EIA, expects refining capacity growth to be nominal over the next two decades and utilization to remain high relative to historical levels, the EIA expects demand for petroleum products to continue to grow steadily at 1.6% per year over the next two decades. Of this projected growth, approximately 96% is expected to come from the increased consumption of light petroleum products including gasoline, diesel, jet fuel and liquefied petroleum gas. We believe that impending regulatory requirements will result in the rationalization of non-competitive refineries, further reducing refining supply.

- *Increasing worldwide supplies of lower cost sour and heavy sour crude oil will provide an increasing cost advantage to those refineries with complex configurations that are able to process these crude oils.* Industry sources estimate that total worldwide heavy sour crude oil production will increase, which should result in a continuation of the downward price pressure on this type of crude oil relative to benchmark West Texas Intermediate crude oil, and that imports, primarily from Latin America and Canada, of sour and heavy sour crude oil are also expected to increase over the next several years.

- *Products meeting evolving fuel specifications will account for an increasing share of total fuel demand, which will benefit refiners possessing the capabilities to blend and process these fuels.* According to industry sources, the demand for reformulated gasoline and the oxygenates used in its production is expected to increase over the next several years, while the trend toward banning MTBE as a blendstock in reformulated gasoline is expected to result in a reduction of the gasoline supply by 3% to 4%.

- *The continuing consolidation in the refining industry will create attractive opportunities to acquire competitive refining capacity.* We believe that integrated oil companies may continue the trend of divesting refining assets rather than making costly investments to meet increasingly strict product specifications.

Competitive Strengths

We believe that we have the following strengths:

- As a pure-play refiner, which is a refiner without crude oil exploration and production or retail sales operations, we are free to acquire the most attractive crude supply and to supply our products to markets having the greatest profit potential and to focus our management attention and capital expenditures solely on refining.

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- Our refineries are logistically well-located modern facilities of significant size and scope with access to a wide variety of crude oils and product distribution systems.

- Our Port Arthur, Texas refinery and the Delaware City refinery we plan to acquire have significant heavy sour crude oil processing capacity, giving us a cost advantage over other refiners that are not able to process high volumes of these less expensive crude oils.

- We have a long-term crude oil supply agreement with an affiliate of Petroleos Mexicanos, or PEMEX, the Mexican state oil company, that provides a stable and secure supply of heavy sour Maya crude oil to our Port Arthur refinery.

- We have an experienced and committed management team led by Mr. Thomas D. O Malley, a refining industry veteran with a proven track record of growing businesses and shareholder value through acquisitions.

Business Strategies

Our goal is to be a premier independent refiner and supplier of unbranded petroleum products in the United States and to be an industry leader in growing shareholder value. We intend to accomplish this goal, grow our business, enhance earnings and improve our return on capital by executing the following strategies:

- Growing through timely and cost-effective acquisitions and by undertaking discretionary capital projects to improve, upgrade and potentially expand our refineries.

- Continuing to promote excellence in safety and reliability at our operations.

- Maintaining an organization in which employees are highly motivated to enhance earnings and improve return on capital.

Other Financing Transactions

Concurrently with this offering, our operating subsidiary, PRG, is offering $400 million aggregate principal amount of senior notes. This prospectus supplement shall not be deemed to be an offer to sell or a solicitation of an offer to buy the senior notes. Neither the offering made hereby nor the senior notes offering is contingent on the other or upon the closing of the Delaware City refinery acquisition.

We have signed a commitment letter to establish a new $1 billion senior secured revolving credit facility for PRG which would replace PRG s existing $785 million credit facility. This new facility will be secured by substantially the same assets as the existing facility, will extend the maturity date to April 2009 and will modify certain covenant requirements. There are no assurances that PRG will enter into this new facility. If PRG does not enter into this new facility, the senior notes offering is contingent upon us obtaining required waivers and approvals under PRG s existing credit facility.

* * * *

We are a Delaware corporation. Our principal executive offices are located at 1700 East Putnam Avenue, Suite 400, Old Greenwich, Connecticut 06870, and our telephone number is (203) 698-7500. Our website address is www.premcor.com. Information contained on our website is not incorporated by reference into this prospectus supplement and should not be considered to be a part of this prospectus supplement.

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THE OFFERING

Common stock offered	13,000,000 shares
Common stock to be outstanding after this offering	87,119,694 shares
Over-allotment option	1,950,000 shares
Use of proceeds	We expect to receive net proceeds from the sale of shares of our common stock in this offering of approximately $ million, or $ million if the underwriters exercise their over-allotment option in full. We intend to contribute the net proceeds from this offering and the other financing transactions to PRG to finance the Delaware City refinery acquisition and for general corporate purposes.
Dividend policy	We do not expect to pay dividends on our shares of common stock for the foreseeable future.
New York Stock Exchange symbol	PCO

The number of shares of common stock to be outstanding after this offering is based on 74,119,694 shares outstanding as of December 31, 2003 and, unless we indicate otherwise, excludes:

- 5,114,171 shares issuable upon the exercise of stock options held by our directors, employees and former employees, which were outstanding as of December 31, 2003, with exercise prices ranging from $9.90 to $24.53 per share;
- an additional 1,351,225 shares authorized and reserved for issuance to our directors or employees under our stock incentive plans and other agreements; and
- 1,950,000 shares that the underwriters have the option to purchase from us solely to cover over-allotments.

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SUMMARY SELECTED FINANCIAL DATA

The following table presents summary selected financial and other data about us. The summary statement of earnings and cash flows data for the years ended December 31, 2003, 2002 and 2001 and the selected balance sheet data as of December 31, 2003 and 2002 are derived from our audited consolidated financial statements including the notes thereto incorporated by reference in this prospectus supplement. The selected statement of earnings and cash flow data for the years ended December 31, 2000 and 1999, and the selected balance sheet data as of December 31, 2001, 2000, and 1999 have been derived from our audited consolidated financial statements, including the notes thereto, which are not incorporated by reference in this prospectus supplement. The data below reflects the closure of our Blue Island refinery in January 2001, the closure of our Hartford refinery in September 2002 and the acquisition of our Memphis refinery in March 2003. This table should be read in conjunction with the information contained in Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes incorporated by reference in this prospectus supplement.

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(in millions, except per share data)				
Statement of earnings data:					
Net sales and operating revenues(1)	$ 8,803.9	$ 5,906.0	$ 5,985.0	$ 7,162.3	$ 4,245.7
Cost of sales(1)	7,719.2	5,235.0	4,818.9	6,423.1	3,825.0
Operating expenses	524.9	432.2	467.7	467.7	402.8
General and administrative expenses	67.1	51.8	63.3	53.0	51.5
Stock-based compensation	17.6	14.0			
Depreciation and amortization(2)	106.2	88.9	91.9	71.8	63.1
Refinery restructuring and other charges	38.5	172.9	176.2		
Inventory write-down (recovery) to market value					(105.8)
Operating income (loss)	330.4	(88.8)	367.0	146.7	9.1
Interest expense and finance income, net(3)	(115.1)	(101.8)	(139.5)	(82.2)	(91.5)
Gain (loss) on extinguishment of long-term debt(4)	(27.5)	(19.5)	8.7		
Income tax (provision) benefit	(64.0)	81.3	(52.4)	25.8	12.0
Minority interest in subsidiary		1.7	(12.8)	(0.6)	1.4
Income (loss) from continuing operations	123.8	(127.1)	171.0	89.7	(69.0)
Discontinued operations, net of taxes(5)	(7.2)		(18.0)		32.6
Net income (loss)	116.6	(127.1)	153.0	89.7	(36.4)
Preferred stock dividends		(2.5)	(10.4)	(9.6)	(8.6)
Net income (loss) available to common stockholders	$ 116.6	$ (129.6)	$ 142.6	$ 80.1	$ (45.0)
Net income (loss) from continuing operations per share:					
basic	$ 1.70	$ (2.65)	$ 5.05	$ 2.79	$ (3.59)
diluted	1.68	(2.65)	4.65	2.55	(3.59)
Weighted average number of common shares outstanding:					
basic	72.8	49.0	31.8	28.8	21.6
diluted	73.6	49.0	34.5	31.5	21.6
Cash flow data:					
Cash flows from operating activities	$ 182.4	$ 15.9	$ 439.2	$ 124.4	$ 85.5
Cash flows from investing activities	(710.3)	(144.5)	(152.9)	(375.3)	(321.3)

Cash flows from financing activities	787.2	(214.1)	(66.3)	234.8	393.9
Capital expenditures for property, plant and equipment	229.8	114.3	94.5	390.7	438.2
Capital expenditures for turnarounds	31.5	34.3	49.2	31.5	77.9
Refinery acquisition expenditures	476.0				
Earn-out payment on refinery acquisition	14.2				

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	Year Ended December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
	(in millions, except per share data)				
Key operating statistics:					
Production (barrels per day in thousands)	532.6	438.2	463.4	477.3	460.5
Crude oil throughput (barrels per day in thousands)	501.3	412.8	439.7	468.0	451.7
Total crude oil throughput (millions of barrels)	183.0	150.7	160.5	171.3	164.9
Per barrel of crude oil throughput:					
Gross margin	$ 5.93	$ 4.45	$ 7.27	$ 4.32	$ 2.55
Operating expenses	2.87	2.87	2.91	2.73	2.44

	As of December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
	(in millions)				
Balance sheet data:					
Cash, cash equivalents and short-term investments(6)	$ 499.2	$ 234.0	$ 542.6	$ 291.8	$ 307.6
Working capital	860.1	320.9	482.6	325.0	305.8
Total assets	3,715.3	2,323.0	2,509.8	2,469.1	1,984.1
Long-term debt	1,452.1	924.9	1,472.8	1,516.0	1,340.4
Exchangeable preferred stock			94.8	90.6	81.1
Stockholders equity	1,145.2	704.0	294.7	152.1	14.7

(1) Cost of sales includes the net effect of the buying and selling of crude oil to supply our refineries. Operating revenue and cost of sales for 2002, 2001, 2000 and 1999 have been reclassified to conform to the fourth quarter 2003 application of EITF 03-11 *Reporting Gains and Losses on Derivative Instruments That Are Subject to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes*, effective as of January 1, 2003. The reclassification had no effect on previously reported operating income (loss) or net income (loss). See Management s Discussion and Analysis of Financial Condition and Results of Operations 2003 Compared to 2002 incorporated by reference in this prospectus supplement.

(2) Amortization includes amortization of turnaround costs. However, this may not be permitted under Generally Accepted Accounting Principles, or GAAP, in the future. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Judgments and Estimates incorporated by reference in this prospectus supplement.

(3) Interest expense and financing income, net, included amortization of debt issuance costs of $9.1 million, $12.3 million, $14.9 million, $12.4 million, and $7.9 million for the years ended December 31, 2003, 2002, 2001, 2000, and 1999, respectively. Interest expense and financing income, net, also included interest on all indebtedness, net of capitalized interest and interest income.

(4) In 2002, we elected the early adoption of Statement of Financial Accounting Standard No. 145 and, accordingly, have included the gain (loss) on extinguishment of long-term debt in Income (loss) from continuing operations as opposed to as an extraordinary item, net of taxes, in our statement of operations. We have accordingly restated our statement of operations and statement of cash flows for 2001.

(5) Discontinued operations is net of an income tax benefit of $4.4 million and $11.5 million for the years ended December 31, 2003 and 2001, respectively, and an income tax provision of $21.0 million for the year ended December 31, 1999.

(6) Cash, cash equivalents, and short-term investments includes $66.6 million, $61.7 million, and $30.8 million of cash and cash equivalents restricted for debt service as of December 31, 2003, 2002, and 2001, respectively.

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RISK FACTORS

An investment in our common stock involves risks. You should consider carefully, in addition to the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, the following risk factors and the risk factors contained in the accompanying prospectus before deciding to purchase any common stock.

Risks Related to the Delaware City Refinery Acquisition and Future Acquisitions

We may not realize the anticipated benefits of the Delaware City refinery acquisition.

Our estimates regarding the earnings, operating cash flow, capital expenditures and liabilities resulting from our acquisition of the Delaware City refinery may prove to be incorrect. In addition, we may not realize any synergies and we may not be successful in integrating the acquired assets into our existing business.

If we do not consummate the Delaware City refinery acquisition, we will not realize the anticipated benefits from the acquisition.

Although the information in this prospectus supplement assumes the consummation of the Delaware City refinery acquisition, the consummation is subject to the satisfaction of certain conditions precedent. Our failure to acquire the Delaware City refinery would result in our asset base being smaller than as described in this prospectus supplement. Accordingly, we would not realize the anticipated benefits we discuss in this prospectus supplement which are based on our completion of this acquisition. Additionally, if the Delaware City refinery acquisition is not consummated for any reason, we would retain broad discretion as to the use of the net proceeds of this offering and the senior notes offering and we might not be able to effectively deploy them.

We may be liable for significant environmental costs relating to the Delaware City refinery acquisition or future acquisitions.

In connection with acquisitions of refineries, we may become responsible for certain environmental clean-up liabilities or costs. The Delaware City refinery acquisition agreement provides that, subject to certain limitations, the seller shall indemnify us against certain environmental liabilities and costs to the extent related to, arising out of, resulting from, or occurring during the ownership, operation or use of the refinery assets prior to the closing. Conversely, we have agreed to indemnify the seller against environmental liabilities and costs to the extent related to, arising out of, resulting from, or occurring during the period of time after the closing. These indemnities are generally subject to a cap of $50 million, with the exception of certain matters, including outstanding consent orders involving, and ongoing cleanup projects at, the refinery, which are subject to an aggregate cap of $800 million. In addition, we have agreed to be generally responsible for costs relating to existing consent orders relating to the refinery. In particular, we have agreed to assume responsibility under an existing consent order which requires the installation of air pollution control technology to the refinery s coker and fluid catalytic cracker by 2006. The seller estimates this project to cost approximately $175 million. There can be no assurances that the seller will satisfy its obligations under this agreement, or that significant liabilities will not arise with respect to the matters we have assumed or for which we are indemnifying the seller. In addition, we may agree to be responsible for these or other types of environmental liabilities in connection with future acquisitions. There can be no assurances that these environmental liabilities and/or costs or expenditures to comply with environmental laws will not have a material adverse effect on our current or future financial condition, results of operations and cash flow.

We may not be able to consummate future acquisitions or successfully integrate the Delaware City refinery or other future acquisitions into our business.

A substantial portion of our growth over the last several years has been attributed to acquisitions. A principal component of our strategy going forward is to continue to selectively acquire refining assets in order to increase cash flow and earnings. Our ability to do so will be dependent upon a number of factors, including our ability to identify acceptable acquisition candidates, consummate acquisitions on favorable terms, successfully integrate acquired assets and obtain financing to support our growth, and many other factors beyond our control. We may not be successful in implementing our acquisition strategy and, even if implemented, such strategy may not improve our operating results. In addition, the financing of future acquisitions may require us to incur additional indebtedness, which could limit our financial flexibility.

In connection with the Delaware City refinery acquisition or with future acquisitions, we may experience unforeseen operating difficulties as we integrate the acquired assets into our existing operations. These difficulties may require significant management attention and financial resources that would otherwise be available for the ongoing development or expansion of existing operations. The Delaware City refinery acquisition and any future acquisitions involve risks, including:

- unexpected losses of key employees, customers and suppliers of the acquired operations;
- difficulties in integrating the financial, technological and management standards, processes, procedures and controls of the acquired business with those of our existing operations;
- challenges in managing the increased scope, geographic diversity and complexity of our operations; and
- mitigating contingent and/or assumed liabilities.

Risks Related to this Offering

Our use of certain federal income tax attributes will be limited as a result of this offering because we will experience an ownership change as defined in the Internal Revenue Code.

As of December 31, 2003, our consolidated group had regular federal income tax net operating loss carryforwards of approximately $420 million and alternative minimum tax net operating loss carryforwards of approximately $192 million.

For federal income tax purposes, we will, as a result of this offering, experience a stock ownership change of more than 50%, determined over the preceding three-year period. Under federal tax law, the more than 50% stock ownership change will result in an annual limitation being placed on the amount of regular and alternative minimum tax net operating losses, and certain other losses and tax credits (collectively tax attributes) that may be utilized in any given year. Accordingly, depending upon the amount of the annual limitation, our ability to utilize our tax attributes could be affected in both timing and amount. For example, the annual limitation may cause the utilization of our tax attributes to be delayed or the tax attributes to expire unutilized. A delay in utilization of our tax attributes could cause us to pay taxes in a given year that we otherwise would not have to pay in that year, thereby adversely affecting our future cash flow, and the potential expiration of our tax attributes could cause us to record additional valuation allowance, thereby negatively affecting our future net income.

Our stock price may be volatile

The market price of our common stock has been in the past, and could be in the future, subject to significant fluctuations due to the following factors, some of which are beyond our control:

- fluctuations in the market prices of crude oil, other feedstocks and refined products, which are beyond our control and may be volatile, such as announcements by OPEC members that they may reduce crude oil output in order to increase prices;
- quarterly variations in our operating results such as those related to the summer and winter driving seasons and resulting demand for unleaded gasoline and heating oil;
- operating results that vary from the expectations of securities analysts and investors;
- operating results that vary from those of our competitors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;

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- announcements by us or our competitors of significant contracts, acquisitions, joint marketing relationships, joint ventures or capital commitments;
- announcements by third parties of significant claims or proceedings against us;
- future sales of our common stock, for example, when lock-up agreements expire 90 days following this offering; and
- general domestic and international economic conditions.

If we or our existing stockholders sell additional shares of our common stock after this offering, the market price of our common stock could decline.

The market price of our common stock could decline as a result of sales of a large number of shares of common stock in the market after this offering, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, could make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

All of the shares we are selling in this offering, plus any shares issued upon the underwriters exercise of their option to purchase additional common stock, will be freely tradable without restriction under the United States securities laws, unless purchased by our affiliates.

We, our directors and executive officers, and Blackstone Capital Partners III Merchant Banking Fund L.P. (Blackstone) and Occidental Petroleum Corporation (Occidental), our principal stockholders, owning an aggregate of 39,262,150 shares, have agreed not to offer or sell, directly or indirectly, any common stock without the permission of Morgan Stanley & Co. Incorporated for a period of 90 days from the date of this prospectus supplement, subject to certain exceptions. Sales of a substantial number of shares of our common stock following the expiration of this lock-up period could cause our stock price to fall. We continually evaluate potential refinery acquisitions. Any other significant acquisition may require us to issue shares of our common stock or securities linked to shares of our common stock to finance all or a portion of such acquisition.

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THE ACQUISITION OF THE DELAWARE CITY REFINERY

Overview of the Acquisition

On March 30, 2004, we executed an agreement with Motiva Enterprises LLC, or Motiva, to purchase its Delaware City refining assets located in Delaware City, Delaware. The purchase price is $800 million, plus the value of net working capital which we expect will be funded with available cash. In addition, Motiva will be entitled to receive from us earn-out payments of $25 million per year up to a total of $75 million over a three-year period depending on the amount of crude oil processed at the refinery and the level of industry refining margins during that period, and a $25 million payment per year up to a total of $50 million over a two-year period depending on the achievement of certain performance criteria at the gasification facility.

The Delaware City refinery has a rated crude oil throughput capacity of 180,000 bpd. We expect to have an average crude oil run rate in the low to mid 170,000 bpd range. Also included in the acquisition is a 2,400 tons per day, or tpd, petroleum coke gasification unit, a 180 megawatt cogeneration facility, 8.5 million barrels of crude oil, intermediate and blendstock, and product tankage, and a 50,000 bpd truck-loading rack.

We intend to finance the acquisition with the proceeds from this offering, PRG s senior notes offering and available cash. See Use of Proceeds.

Consummation of the acquisition is conditioned upon our securing the requisite financing. If we are unable to secure this financing and have notified Motiva of our inability to obtain such financing, we will be excused by Motiva of our obligation to purchase the Delaware City refining assets. Notification to Motiva must be accompanied by a notice from our lead investment banker regarding its opinion as to the dollar amount of equity financing available to us at such time and the terms and conditions under which such equity financing is available.

In the event that the proceeds from this offering and PRG s senior notes offering exceed $800 million in the aggregate, due to the purchase of shares by the underwriters pursuant to the over-allotment option or otherwise, we may use the additional proceeds to fund the purchase of net working capital at closing or for general corporate purposes.

The Delaware City refinery acquisition agreement provides that, subject to certain limitations, the seller shall indemnify us against certain environmental liabilities and costs to the extent related to, arising out of, resulting from, or occurring during the ownership, operation or use of the refinery assets prior to the closing. Conversely, we have agreed to indemnify the seller against environmental liabilities and costs to the extent related to, arising out of, resulting from, or occurring during the period of time after the closing. These indemnities are generally subject to a cap of $50 million, with the exception of certain matters, including outstanding consent orders involving, and ongoing cleanup projects at, the refinery, which are subject to an aggregate cap of $800 million. In addition, we have agreed to be generally responsible for costs relating to existing consent orders relating to the refinery. In particular, we have agreed to assume responsibility under an existing consent order which requires the installation of air pollution control technology to the refinery s coker and fluid catalytic cracker by 2006. The seller estimates this project to cost approximately $175 million.

Completion of the acquisition is also subject to the satisfaction of customary conditions, including regulatory approvals. The waiting period pursuant to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, applicable to the Delaware City refinery acquisition expired on March 8, 2004. The acquisition is expected to close in the second quarter of 2004. There is no assurance we will consummate the transaction.

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Delaware City Refinery

The Delaware City refinery has the capacity to process 180,000 barrels of crude oil per day and is the only crude oil refinery in the state of Delaware. It is located 15 miles south of Wilmington, Delaware on approximately 4,000 acres along the Delaware River.

The Delaware City refinery began production in 1957 as part of the Tidewater Oil Company. In 1967, the Tidewater Oil Company merged into Getty Oil Company. The refinery became an important part of Texaco s domestic refining portfolio when Texaco acquired Getty in 1984. The Delaware City refinery was part of Star Enterprise, a joint venture between Texaco and Saudi Refining from 1989 until 1998, when it became one of Motiva s four refineries.

The Delaware City refinery is the only heavy coking refinery on the East Coast of the United States with coking capacity equal to 28% of crude capacity. Only one other East Coast refiner (Valero Paulsboro) is configured with a coker. A $400 million repowering project was constructed in 2001 to enable the refinery to produce electricity and steam from petroleum coke produced at the refinery. The gasifier associated with this project has two parallel trains with a nominal capacity of 1,300 tpd each, with a design capacity of 2,400 tpd.

Feedstocks. The refinery can process a variety of heavy crude oils typically ranging from 15 to 32 API with sulfur content up to 4 wt.%, with the refinery normally being constrained by the sulfur limit of the fluid coking unit, or FCU. All crude is received by water with cargo size generally limited by draft to some 550,000 barrels. The typical refinery crude oil slate is about 50% Arabian and 50% Latin American, with the flexibility to capture spot opportunities.

The refinery has large conversion capacity with its 82,000 bpd fluid catalytic cracking unit, or FCCU, 47,000 bpd FCU and 20,000 bpd high pressure hydrocracking unit with vacuum distillation. An average of 15,000 bpd of cat-cracker feed is imported to fully load the FCCU. Hydrogen is provided via the refinery s own steam methane reformer and continuous catalytic reformer. The refinery has two sulfur recovery units with 530 long tpd capacity. The following table sets forth capacity information regarding the refinery units.

Stream-Day Capacity for Refining Units

Unit Description	Units	Capacity (bpd)
Atmospheric Crude	1	180,000
Vacuum Distillation	1	102,000
Fluid Coking Unit (FCU)	1	47,000
Fluid Catalytic Cracking Unit (FCCU)	1	82,000
Continuous Catalytic Reformer (CCR)	1	43,000
Hydrocracking Unit	1	20,000
Alkylation (sulfuric)	2	12,000 total
Hydrotreating (5 trains + SHU)	6	140,000
Sulfur Recovery, LT/d	2	530 total
MTBE, product	1	2,500
TAME, product	1	2,600
Aromatic Solvent Extraction	1	15,000

Hydrogen (SMR), kSCF/d	1	40,000
Petroleum Coke Gasification (T/D)	2	2,400
GE Frame 6 Combustion Turbines (MW)	2	180
Steam Drive Turbo Generators (MW)	4	102

We will depreciate these assets in accordance with our policies related to property, plant and equipment, and the assets have estimated useful lives of approximately 25 to 30 years.

Product Offtake. The Delaware City refinery produces about 60% motor gasoline, 35% distillates and 5% coke. Clean products are shipped via the local truck rack, pipeline and water. Conventional gasoline is shipped to markets in western Pennsylvania via the Shell pipeline to the Sun pipeline, which connects to the Laurel and

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Buckeye pipelines. Reformulated gasoline is sold into region 1 (south Delaware, Maryland, Virginia) and region 2 (north New Jersey, Pennsylvania, New York) via pipeline and/or barge.

The refinery produces 100,000 bpd of motor gasoline, of which approximately 65% is reformulated gasoline. Premium gasoline production is about 35% of the total refined product pool. The refinery produces approximately 60,000 bpd of distillates roughly split between low sulfur diesel and home heating oil. Ultra low sulfur diesel production of up to 10,000 bpd can be produced from the hydrocracker. No aviation fuel is produced, but kerosene is produced on a spot opportunity basis.

Energy. The seller recently constructed and is in the startup phase of a repowering project that includes two combined cycle combustion turbines with a maximum gross electrical output of 180 megawatts. This power production is sufficient to supply the refinery with all its electrical needs and could also sell electricity into the Pennsylvania New Jersey Maryland, or PJM, grid. The refinery also has four turbo generators that can produce 120 megawatts of electricity depending on steam production available from the refinery boilers.

Tankage Capacity. The following table sets forth certain information regarding tank capacity at the Delaware City refinery:

	Capacity in barrels (in thousands)	Number of tanks
Crude Oil	2,072	12
Intermediates and Blendstock	4,790	63
Gasoline	956	12
Distillate	648	6
Other	59	16
Total	8,525	109

Employees. The seller has indicated that the refinery employs approximately 650 employees, of whom approximately 60% are represented by a union. We have agreed to recognize and enter into a contract with the union and intend to offer employment to qualified union-represented personnel and intend to consider the non-union-represented employees as candidates for employment.

Impact of the Acquisition

We believe Delaware City refinery s historical operating performance is not indicative of the results that can be expected under our ownership of the assets. Premcor expects to run the 180,000 bpd crude oil refinery in the low to mid 170,000 bpd range, which is greater than Motiva s historical rates. The revenues and costs associated with this production level will also be significantly different as Motiva purchased crude oil and marketed refined products through its parent company relationships and contractual arrangements. We will establish new supply activities to purchase all crude oil and intermediate feedstocks for the refinery, and market products from the refinery in the wholesale and spot markets while developing our own customer base. In addition, the petroleum coke gasification unit of the refinery, which is designed to process 2,400 tpd of petroleum coke, has not been in full operation under Motiva. Motiva has only recently transitioned from the start-up phase into the operational phase for this unit during the fourth quarter of 2003 and is currently operating at approximately 450 tpd with no third party electricity sales. We intend to run this unit from 1,600 to 1,880 tpd and the refinery s petroleum coke production will be gasified to fuel the cogeneration facility, which can supply electricity and steam to the refinery. There can be no assurances that the unit will operate at our intended rate, or at all, which could cause us to seek alternative energy sources. As a result of this and various other factors, we believe we have purchased an asset, rather than a business, from the seller. Accordingly, we are not providing historical or pro forma financial statements for this acquisition. We intend to optimize the refinery s operations as part of our existing refining system.

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We believe that our acquisition of the Delaware City refinery will benefit us in the following ways:

We believe the acquisition will be accretive to our earnings per share and will generate positive cash flow from operations. The Delaware City refinery is capable of processing more than 180,000 bpd of crude oil, thus increasing our capacity base by approximately 30%. We intend to utilize the New York harbor reformulated gasoline 3/2/1, or NYH RFG 3/2/1, crack spread as a benchmark for the Delaware City refinery operations. See Management s Discussion and Analysis of Financial Condition and Results of Operations Outlook incorporated by reference in this prospectus supplement. Our ability to achieve these results depends on various factors, many of which are beyond our control, including market prices for refined products and crude oil, economic conditions, regulatory environment and unanticipated changes in the Delaware City refinery s operations. There can be no assurances that we will achieve our expected results.

Motiva and its predecessors have invested $800 million in the Delaware City refining complex over the past five years. Approximately $400 million has been spent for the petroleum coke gasification unit and cogeneration facility to convert low-value coke into electricity, steam, and commercial gases for refinery use. The gasification unit should reduce our reliance on natural gas. The remaining approximately $400 million was spent to complete the Tier II gasoline upgrade and other capital investments. The refinery is configured to meet current Tier II gasoline requirements and has demonstrated the capability to produce 10,000 bpd of ultra low sulfur diesel.

The acquisition should enhance and diversify our asset base. The acquisition of the Delaware City refinery will give us a broader more diversified asset base and increase the number of our operating refineries from three to four and our combined crude oil throughput capacity from 610,000 bpd to 790,000 bpd. The acquisition provides us with a presence in the attractive PADD I market. The Delaware City refinery has a high clean product yield with excellent conversion capabilities and increases our ability to process low cost heavy sour and high acid crude oils.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of the shares of our common stock in this offering, after deducting underwriting discounts and commissions and our estimated expenses, will be approximately $ million, or $ million if the underwriters exercise their over-allotment option in full. We expect PRG to receive gross proceeds of $400.0 million from the separate issuance of its senior notes.

We intend to contribute the net proceeds from this equity offering to PRG to finance the Delaware City refinery acquisition or for general corporate purposes. However, neither the consummation of this offering nor the consummation of the senior notes offering is contingent on the other or on the completion of the Delaware City refinery acquisition. We will retain broad discretion as to the use of the net proceeds currently allocated to the Delaware City refinery acquisition if it is not completed.

Consummation of the acquisition of the Delaware City Refinery is conditioned upon our receiving adequate financing. If we do not consummate this offering, or if the gross proceeds of this offering are less than $400.0 million, we will evaluate our financing alternatives to complete the Delaware City Refinery acquisition, including whether we will incur additional debt to finance the purchase price.

In the event that the proceeds from this offering and PRG s senior notes offering exceed $800 million in the aggregate, due to the purchase of shares by the underwriters pursuant to the underwriters exercise of their over-allotment option or otherwise, we may use the additional proceeds to fund the purchase of the Delaware City refinery net working capital or for general corporate purposes.

Pending the uses described above, we intend to invest the net proceeds in direct or guaranteed obligations of the United States, interest-bearing, investment-grade investments or certificates of deposit.

The following table sets forth the expected sources and uses of the gross proceeds of this offering and the debt offering:

	Amount (in millions)
Sources:	
Proceeds from this offering (contributed to PRG)	$ 400.0
Proceeds from the PRG senior notes offering	400.0
Cash	119.0
Total sources	$ 919.0
Uses:	
Purchase of Delaware City refinery and related assets	$ 800.0
Purchase of Delaware City refinery net working capital	100.0
Fees and expenses of financing transactions	19.0
Total uses	$ 919.0

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CAPITALIZATION

The following table sets forth our cash, cash equivalents and short-term investments, and capitalization as of December 31, 2003:

- on an actual basis; and
- on an as adjusted basis to reflect:
  - our receipt of the net proceeds from the sale of our common stock in this offering;
  - our receipt of the net proceeds from the senior notes offering; and
  - the use of the net proceeds from this offering and the senior notes offering as described under Use of Proceeds.

The table below should be read in conjunction with Summary Selected Financial Data in this prospectus supplement and Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes to those statements incorporated by reference in this prospectus supplement.

	As of December 31, 2003	
	Actual	**As Adjusted**
	(in millions)	
Cash, cash equivalents and short term investments(1)	$ 499.2	$
Debt(2):		
Port Arthur Finance Corp.:		
12 1/2% Senior Secured Notes due 2009	$ 221.8	$ 221.8
The Premcor Refining Group Inc.:		
9 1/4% Senior Notes due 2010	175.0	175.0
6 3/4% Senior Notes due 2011	210.0	210.0
% Senior Notes due 2011 and % Senior Notes due 2014 offered separately(3)		400.0
9 1/2% Senior Notes due 2013	350.0	350.0
7 1/2% Senior Notes due 2015	300.0	300.0
7 3/4% Senior Subordinated Notes due 2012	175.0	175.0
Ohio Water Development Authority Environmental and Facilities Revenue Bonds	10.0	10.0
Obligations under capital leases	10.3	10.3
Total debt	1,452.1	1,852.1
Common stockholders equity:		

Common Stock, $0.01 par value (74,119,694 shares issued and outstanding; 87,119,694 shares issued and outstanding, as adjusted)	0.7	
Paid-in capital	1,186.8	
Retained earnings (deficit)	(42.3)	(42.3)
Total common stockholders equity	1,145.2	
Total capitalization	$ 2,597.3	$

(1) Includes $66.6 million of cash restricted for debt service.

(2) In addition, PRG has a credit facility that provides for the issuance of letters of credit and revolving loan borrowings of up to the lesser of $785 million or the amount available under a borrowing base calculation. As of December 31, 2003, $602.1 million of the line of credit was utilized for the issuance of letters of credit primarily to secure purchases of crude oil. Direct cash borrowings under the credit facility are limited to $75 million. There were no direct borrowings under the facility as of December 31, 2003. In connection with the senior notes offering and the Delaware City refinery acquisition, we must obtain various waivers and approvals under this credit facility. We have signed a commitment letter to establish a new $1 billion senior secured revolving credit facility for PRG which would replace PRG s existing $785 million credit facility. This new facility will be secured by substantially the same assets as the existing facility, will extend the maturity date to April 2009 and will modify certain covenant requirements. There are no assurances that PRG will enter into this new facility or be able to obtain the necessary waivers and approvals under its existing facility.

(3) Guaranteed by Premcor Inc.

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PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our common stock began trading on the NYSE on April 30, 2002 under the symbol PCO. Before that date, no public market for our common stock existed. Set forth below are the high and low closing sales prices per share of our common stock as reported on the NYSE Composite Tape.

	High	Low
Fiscal Year 2002		
Second Quarter (commencing April 30, 2002)	$ 28.25	$ 24.52
Third Quarter	24.95	15.65
Fourth Quarter	22.93	13.40
Fiscal Year 2003		
First Quarter	$ 26.00	$ 19.28
Second Quarter	25.70	20.84
Third Quarter	24.50	21.30
Fourth Quarter	26.00	22.06
Fiscal Year 2004		
First Quarter	$ 31.75	$ 25.55
Second Quarter (through April 7, 2004)	31.08	29.71

We do not anticipate paying cash dividends on our common stock in the foreseeable future. We currently intend to retain our future earnings to finance the improvement and expansion of our business. In addition, our ability to pay dividends is effectively limited by the terms of the debt instruments of our subsidiaries, which significantly restrict their ability to pay dividends directly or indirectly to us. Future dividends on our common stock, if any, will be at the discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements and surplus, financial condition, contractual restrictions and other factors that our board of directors may deem relevant.

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CERTAIN U.S. TAX CONSEQUENCES TO NON-U.S. HOLDERS

General

The following summary describes the material U.S. federal income and estate tax consequences of the ownership and disposition of common stock by a Non-U.S. Holder (as defined below) as of the date hereof. This discussion does not address all aspects of U.S. federal income and estate taxes and does not deal with foreign, state and local tax consequences that may be relevant to Non-U.S. Holders in light of their personal circumstances. Special rules may apply to certain Non-U.S. Holders that are subject to special treatment under the Internal Revenue Code of 1986, as amended, or the Code, such as controlled foreign corporations, passive foreign investment companies, foreign personal holding companies, individuals who are U.S. expatriates and corporations that accumulate earnings to avoid U.S. federal income tax. Those individuals or entities should consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them. Furthermore, all Non-U.S. Holders should consult their U.S. tax advisors regarding the appropriate documentation and certifications described below. The discussion below is based upon the provisions of the Code and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified, possibly with retroactive effect, so as to result in U.S. federal income tax consequences different from those discussed below. If a partnership holds common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A holder that is a partner in a partnership holding the common stock should consult its own tax advisor. Persons considering the purchase, ownership or disposition of common stock should consult their own tax advisors concerning the U.S. federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.

As used herein, a Non-U.S. Holder of common stock means a beneficial owner that is an individual or entity other than (1) a citizen or resident of the United States, (2) a corporation or partnership (or other entity properly classified as a corporation or partnership for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (4) a trust (A) that is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons as described in section 7701(a)(30) of the Code or (B) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Dividends

Dividends paid to a Non-U.S. Holder of common stock generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by the Non-U.S. Holder within the United States and, where a tax treaty applies, are attributable to United States permanent establishment of the Non-U.S. Holder, are not subject to the withholding tax, but instead are subject to U.S. federal income tax on a net income basis at applicable graduated individual or corporate rates as if the Non-U.S. Holder were a U.S. resident. Certain certification and disclosure requirements must be complied with in order for effectively connected income to be exempt from withholding. Any such effectively connected dividends received by a foreign corporation may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or a lower rate as may be specified by an applicable income tax treaty.

A Non-U.S. Holder of common stock who wishes to claim an exemption from, or reduction in, withholding under the benefit of an applicable treaty rate (and avoid backup withholding as discussed below) for dividends, will be required to provide us or their paying agent with an Internal Revenue Service Form W-8BEN (generally required for persons that are not partnerships or trusts) and satisfy certain certification requirements of applicable U.S. Treasury regulations. Where dividends are paid to a Non-U.S. Holder that is a partnership or other pass-through entity, persons holding an interest in the entity may also be required to provide the certification.

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A Non-U.S. Holder of common stock eligible for a reduced rate of U.S. withholding tax under an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service, or the IRS.

Gain on Disposition of Common Stock

A Non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale or other disposition of common stock unless (1) the gain is effectively connected with a trade or business in the United States of the Non-U.S. Hol