PREMCOR INC
Form 424B1
January 24, 2003
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Filed pursuant to Rule 424 (b)(1)
Registration No. 333-102087

PROSPECTUS

12,500,000 Shares

COMMON STOCK

Premcor Inc. is offering 12,500,000 shares of its common stock.

Our common stock is listed on the New York Stock Exchange under the symbol PCO. On January 23, 2003, the reported last sale price of our common stock on the New York Stock Exchange was $20.32 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 11.

PRICE $20 A SHARE

	Price to Public	***Underwriting Discounts and Commissions***	***Proceeds to Premcor Inc.***
Per Share	*$20.00*	*$0.80*	*$19.20*
Total	*$250,000,000*	*$10,000,000*	*$240,000,000*

We have granted the underwriters the right to purchase up to an additional 1,875,000, 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 is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the shares of common stock to purchasers on January 29, 2003.

MORGAN STANLEY
CREDIT SUISSE FIRST BOSTON
DEUTSCHE BANK SECURITIES

GOLDMAN, SACHS & CO.

January 23, 2003

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[Inside front cover artwork and graphics:

At the top of the page is a heading with the words Premcor Inc. Refining Assets Base . At the center of the page is a map showing the location of our two refineries and our terminal, and four third-party owned pipelines we use. In the upper right corner, there is a photograph of our Lima, Ohio refinery accompanied by the caption Lima refinery complex Lima, Ohio ; in the lower left corner, there is a photograph of our Port Arthur, Texas refinery accompanied by the caption Port Arthur refinery complex Port Arthur, Texas ; in the lower right corner, there is a photograph of a portion of our Port Arthur, Texas refinery accompanied by the caption Port Arthur heavy oil upgrade project Port Arthur, Texas . Below this photograph, in the extreme lower right hand corner, is the legend for the map which contains the following text: Premcor Refineries , Premcor Terminal and Third-party owned Pipelines .]

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock.

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PROSPECTUS SUMMARY

This summary may not contain all the information that may be important to you. You should read the entire prospectus, including the Risk Factors section and our financial statements and notes to those statements, before deciding whether to buy our common stock. As used in this prospectus, the terms we, our, or us refer to Premcor Inc. and its consolidated subsidiaries, taken as a whole, and our predecessors, unless the context otherwise indicates. Premcor Inc. should be distinguished from its subsidiaries, including Premcor USA Inc., The Premcor Refining Group Inc. and Port Arthur Finance Corp., each of which has publicly traded debt outstanding. Because of the technical nature of our industry, we have included a Glossary of Selected Terms that explains many of the terms we use in this prospectus.

PREMCOR INC.

Overview

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. We currently own and operate refineries in Port Arthur, Texas and Lima, Ohio with a combined crude oil volume processing capability, known as throughput capacity, of approximately 420,000 barrels per day, or bpd. In late September 2002, we ceased refining operations at our Hartford, Illinois refinery and we are currently pursuing all strategic options with respect to the refinery. 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 750 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.

Our Port Arthur refinery has the capacity to process substantial volumes of low-cost high-sulfur and high-density crude oil, known as sour and heavy sour crude oil. This results in lower feedstock costs and creates a distinct competitive advantage. For the nine months ended September 30, 2002, light products accounted for approximately 90% 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 40% of our total product volume.

We had revenue of $6.4 billion in 2001, a decrease of 12% compared to 2000. During 2001, our net income available to common stockholders was $142.6 million, an increase of $62.5 million compared to 2000, and our adjusted EBITDA was $635.1 million, an increase of $416.6 million compared to 2000. Adjusted EBITDA for 2001 represents EBITDA excluding $167.2 million of charges related to the closure of our Blue Island, Illinois refinery and $9.0 million of other charges. We had revenue of $4.8 billion for the nine months ended September 30, 2002, a 7% decrease compared to the corresponding period in the previous year. For the nine months ended September 30, 2002, our net loss to common stockholders was $164.3 million compared to net income available to common stockholders of $187.1 million in the corresponding period in the previous year. For the nine months ended September 30, 2002, our adjusted EBITDA was $75.4 million compared to $636.1 million in the corresponding period in the previous year. Adjusted EBITDA excluded charges of $172.9 million and $176.2 million for the nine months ended September 30, 2002 and 2001, respectively, principally related to the closure of the Hartford and Blue Island refineries. For further detail on our results of operations, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

The Transformation of Premcor

Beginning in early 1995 and continuing after Blackstone Capital Partners III Merchant Banking Fund L.P. and its affiliates, or Blackstone, acquired its controlling interest in us in 1997, we completed several strategic

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initiatives that have significantly enhanced our competitive position, the quality of our assets, and our financial and operating performance. For example:

- We divested non-core assets during 1998 and 1999, generating net proceeds of approximately $325 million, which we reinvested into our refining business.
- We increased our net crude oil throughput capacity from approximately 130,000 bpd to 420,000 bpd after closing two refineries by acquiring our Lima and Port Arthur refineries and subsequently upgrading our Port Arthur refinery.
- We implemented capital projects to increase throughput and premium product yields and to reduce operating expenses within our refining asset base. These projects, together with our acquisitions, increased our coking capacity from 18,000 bpd to 113,000 bpd, increased our cracking capacity from 70,000 bpd to 178,000 bpd, and increased our capacity to process heavy sour crude oil from 45,000 bpd to 200,000 bpd.
- We implemented a number of programs which increased the reliability of our operations and improved our safety performance, resulting in a reduction of our recordable injury rate from 3.12 to 1.14 per 200,000 hours worked.
- We expanded and enhanced our capabilities to supply fuels, on an unbranded basis, to include the Midwest, Gulf Coast, eastern and southeastern United States.
- We reduced our operating costs, which resulted in a reduction of our ratio of refining employees per thousand barrels from 7.2 to 3.4.

In February 2002, we recruited Mr. Thomas D. O Malley, a chief executive officer with a proven track record of successfully operating businesses and growing and enhancing shareholder value. Since then, Mr. O Malley has assembled a management team of energy and refining industry veterans to lead our company and our competitive position has continued to improve as a result of the following:

- We raised $481.7 million in an initial public offering of 20.7 million shares of our common stock and a concurrent private placement of 850,000 shares of our common stock in May 2002.
- We repaid $579.0 million of our subsidiaries long-term debt.
- We completed an internal restructuring in June 2002, which resulted in Sabine River Holding Corp. becoming our wholly-owned subsidiary.
- We ceased refining operations at our Hartford, Illinois refinery in late September 2002 after concluding it was uneconomical to reconfigure the refinery to meet new federally mandated fuel specification standards.
- We entered into an agreement with The Williams Companies, Inc. and certain of its subsidiaries in November 2002 for the purchase of their Memphis, Tennessee refinery and related supply and distribution assets.
- We have taken, and are continuing to take, steps to reduce our operating and general and administrative costs.

For further detail on our transformation, see Business The Transformation of Premcor.

Market Trends

We believe that the 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.

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- 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.
- Products meeting new and 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.
- The continuing consolidation in the refining industry should create further attractive opportunities to acquire competitive refining capacity.

For further detail on market trends, see Business Market Trends.

Competitive Strengths

As a result of our transformation, we have developed 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 supply our products to markets having the greatest profit potential and to focus our management attention and capital solely on refining.
- Our Port Arthur and Lima 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 refinery has 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 heavy sour crude oil supply agreement with an affiliate of Petroleos Mexicanos, or PEMEX, the Mexican state oil company, that contains a mechanism intended to provide us with a minimum average coker gross margin and to moderate fluctuations in coker gross margins.
- We have an experienced and committed management team led by Thomas D. O Malley, a refining industry veteran with a proven track record of growing businesses and shareholder value through acquisitions.

For further detail on our competitive strengths, see Business Competitive Strengths.

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:

- We intend to grow through timely and cost-effective acquisitions and by undertaking discretionary capital projects to improve, upgrade and potentially expand our refineries.
- We will continue to promote excellence in safety and reliability at our operations.
- We intend to create an organization in which employees are highly motivated to enhance earnings and improve return on capital.

For further detail on our business strategies, see Business Business Strategies.

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Memphis Refinery Acquisition

On November 25, 2002, we executed an agreement with The Williams Companies, Inc. and certain of its subsidiaries to purchase their Memphis, Tennessee refinery and related supply and distribution assets. The purchase price for the refinery and the other assets is $315 million, plus the value of inventories at closing. At current price levels, the value of the inventories is estimated to be $200 million. The agreement also provides for contingent participation, or earn-out, payments that could result in additional payments of $75 million by us to Williams over the next seven years, depending on the level of industry refining margins during that period.

The Memphis refinery has a rated crude oil throughput capacity of 190,000 bpd but typically processes approximately 170,000 bpd. The related assets include two truck-loading racks; three petroleum terminals in the area; supporting pipeline infrastructure that transports both crude oil and refined products; crude oil tankage at St. James, Louisiana; and an 80 megawatt power plant adjacent to the refinery.

We believe we are acquiring a quality refinery at an attractive price that will produce operating and economic synergies and that should be accretive to our earnings per share and generate positive cash flow from operations. Completion of the acquisition is subject to our obtaining the requisite financing and the satisfaction of customary conditions, including regulatory approvals. We intend to finance the acquisition with the proceeds from this offering and the other financing transactions described below. We expect the acquisition to close during the first quarter of 2003.

Other Financing Transactions

Debt Financing. Concurrently with this offering, our subsidiary, The Premcor Refining Group Inc., or PRG, is offering $400 million aggregate principal amount of senior notes due 2010 and 2013. The senior notes are being offered in an offering that is exempt from the registration requirements of the Securities Act. This prospectus 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 debt financing is contingent on the other or upon the closing of the Memphis refinery acquisition. However, the debt financing is contingent upon us obtaining various waivers and approvals under, and extending the maturity date of, our credit agreement. See Description of Indebtedness The Premcor Refining Group Credit Agreement.

Private Equity Commitment. We have the right to sell in a private placement up to $65 million of our common stock to Blackstone, to an affiliate of Occidental Petroleum Corporation, and to Mr. O Malley, our chairman of the board and chief executive officer, or other executive officers designated by Mr. O Malley who agree to participate, at a price per share equal to the public offering price in this offering, less the underwriting discount and commission per share. We expect that we will exercise this right and sell a substantial portion of such common stock. Any shares sold in the private equity commitment will be sold without registration under the securities laws. Unless we indicate otherwise, the information in this prospectus does not give effect to the sale of any shares of common stock in the private equity commitment.

Risks Relating to Our Business

As part of your evaluation of our company, you should take into account the risks we face in our business and not solely our outlook for the refining industry, our competitive strengths or our business strategies. For example, our position as a pure-play refiner exposes us to volatility in refining industry margins; our long-term heavy sour crude oil supply agreement renders us highly dependent upon that supply, which could be interrupted by events beyond the control of us or the supplier; and our strategy of growing through acquisitions and by undertaking discretionary capital projects involves many factors beyond our control. See Risk Factors for a more detailed discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

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Fourth Quarter and Year-end Results (Unaudited)

The following table is a summary of our unaudited financial results for the quarter and year ended December 31, 2002 as compared to the same periods in 2001:

	Three months ended December 31,		Year ended December 31,	
	2001	2002	2001	2002
	(in millions, except per share data, unaudited)			
Financial Results				
Income (loss) from continuing operations before income taxes and minority interest	$ (58.4)	$ 53.3	$ 236.2	$ (210.1)
Income tax benefit (provision)	26.3	(18.6)	(52.4)	81.3
Minority interest	(0.4)		(12.8)	1.7
Income (loss) from continuing operations	(32.5)	34.7	171.0	(127.1)
Discontinued operations, net of tax benefit	(9.5)		(18.0)	
Preferred stock dividends	(2.5)		(10.4)	(2.5)
Net income (loss) available to common stockholders	$ (44.5)	$ 34.7	$ 142.6	$ (129.6)
Net income (loss) per common share (fully diluted):				
Income (loss) from continuing operations	$ (1.10)	$ 0.60	$ 4.65	$ (2.65)
Discontinued operations	(0.30)		(0.52)	
Net income (loss)	$ (1.40)	$ 0.60	$ 4.13	$ (2.65)
Weighted average common shares outstanding (in millions)	31.8	58.1	34.5	49.0
Selected Operational Data				
Crude oil throughput (in thousands of barrels per day)	443.3	354.9	439.7	412.8
Per barrel of throughput (in dollars):				
Gross margin	$ 3.16	$ 6.33	$ 7.27	$ 4.45
Operating expenses	2.74	2.88	2.91	2.87
Market Indicators				
(dollars per barrel, except as noted)				
West Texas Intermediate (WTI) crude oil	$ 20.32	$ 28.30	$ 25.96	$ 26.13
Crack Spreads:				
Gulf Coast 3/2/1	1.94	3.72	4.22	3.13
Gulf Coast 2/1/1	2.08	3.61	3.92	2.72
Chicago 3/2/1	4.49	6.24	7.90	5.00
Crude Oil Differentials:				
WTI less WTS (sour)	1.91	1.72	2.81	1.38
WTI less Maya (heavy sour)	6.33	6.14	8.76	5.21
WTI less Dated Brent (foreign)	0.87	1.46	1.48	1.12
Natural Gas (per million btus)	2.17	3.92	4.22	3.17

Our net income (loss) available to common stockholders improved from a loss of $44.5 million, or $1.40 per share, for the fourth quarter ended December 31, 2001 to income of $34.7 million, or $.60 per share, for the 2002 fourth quarter. This improvement was due primarily to improved crack spreads in both the Gulf Coast and Chicago markets, partially offset by lower crude oil throughput rates as a result of refinery disruptions due to hurricanes, scheduled and unscheduled maintenance, and the closure of our Hartford, Illinois refinery at the

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beginning of the quarter. Additionally, our earnings improved as a result of reductions in non-energy related operating expenses and our general and administrative expenses, and a decline in our interest expense due to the application of proceeds from our initial public offering to retire long-term debt.

Net income (loss) available to common stockholders for the year ended December 31, 2002 was a loss of $129.6 million, or $2.65 per share, compared to earnings of $142.6 million, or $4.13 per share, for the year ended December 31, 2001. Our operating results declined from the prior year due primarily to a decline in crack spreads and a substantial narrowing of the heavy sour crude oil differential. Our pretax results included restructuring and other charges totaling $172.9 million and $176.2 million for the years ended December 31, 2002 and 2001, respectively. For 2002, these charges included $137.4 million related to the closure of the Hartford refinery, $27.4 million primarily for severance and other charges related to the restructuring of our Port Arthur, Texas and Lima, Ohio refineries and our St. Louis general and administrative operations, $2.5 million related to the restructuring of two of our subsidiaries, $1.4 million for idled equipment, and $4.2 million related to the write-off of an equity investment. For 2001, restructuring charges included $167.2 million for the closure of our Blue Island, Illinois refinery and $9.0 million for idled equipment.

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Our principal executive offices are located at 1700 E. Putnam Avenue, Suite 500, Old Greenwich, CT 06870 and our telephone number is (203) 698-7500.

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THE OFFERING

Common stock offered	12,500,000 shares
Common stock to be outstanding after this offering	70,543,935 shares
Over-allotment option	1,875,000 shares
Use of proceeds	We expect to receive net proceeds from the sale of shares of our common stock in this offering of approximately $239.0 million, or $275.0 million if the underwriters exercise their over-allotment option in full. We intend to use the net proceeds from this offering and the other financing transactions to finance the Memphis refinery acquisition and to refinance certain indebtedness of our subsidiaries.
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 58,043,935 shares outstanding as of December 31, 2002 and, unless we indicate otherwise, excludes:

4,589,480 shares issuable upon the exercise of stock options held by our directors, employees and former employees which were outstanding as of December 31, 2002, with exercise prices ranging from $9.90 to $24.95 per share;

an additional 1,967,575 shares authorized and reserved for issuance to our directors or employees under our stock incentive plans and other agreements; and

shares that the underwriters have the option to purchase from us solely to cover over-allotments.

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SUMMARY FINANCIAL DATA

The following table presents summary financial and other data about us. The summary statement of earnings and cash flow data for the years ended December 31, 1999, 2000 and 2001 are derived from our audited consolidated financial statements, including the notes thereto, appearing elsewhere in this prospectus. The summary statement of earnings and cash flow data for the nine months ended September 30, 2001 and 2002, and the balance sheet data as of September 30, 2002, are derived from our unaudited condensed consolidated financial statements, including the notes thereto, appearing elsewhere in this prospectus. The interim information was prepared on a basis consistent with that used in preparing our audited financial statements with only such recurring adjustments as are necessary, in management s opinion, for a fair statement of the results for the periods presented. The as adjusted balance sheet data give effect to this offering, the debt financing and the use of proceeds as if each had occurred on September 30, 2002. This table should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements, including the notes thereto, appearing elsewhere in this prospectus.

	Year Ended December 31,			Nine Months Ended September 30,	
	1999	2000	2001	2001	2002
	(in millions, except per share data)				
Statement of earnings data:					
Net sales and operating revenues	$ 4,520.5	$ 7,301.7	$ 6,417.5	$ 5,170.9	$ 4,807.1
Cost of sales	4,099.8	6,562.5			