

PREMCOR INC
Form 424B5
April 08, 2004
Table of Contents

Filed Pursuant to Rule 424(b)(5)

Registration No. 333-111240

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

	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to Premcor Inc.</u>
<i>Per Share</i>	\$	\$	\$
<i>Total</i>	\$	\$	\$

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

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

	<u>Page</u>
<u>Disclosure Regarding Forward-Looking Statements</u>	S-3
<u>Market Data</u>	S-3
<u>Important Notice About Information Presented in this Prospectus Supplement</u>	S-3
<u>Summary</u>	S-4
<u>The Offering</u>	S-7
<u>Summary Selected Financial Data</u>	S-8
<u>Risk Factors</u>	S-10
<u>The Acquisition of the Delaware City Refinery</u>	S-13
<u>Use of Proceeds</u>	S-17
<u>Capitalization</u>	S-18
<u>Price Range of Common Stock and Dividend Policy</u>	S-19
<u>Certain U.S. Tax Consequences to Non-U.S. Holders</u>	S-20
<u>Underwriters</u>	S-22
<u>Legal Matters</u>	S-24
<u>Experts</u>	S-24

Prospectus

	<u>Page</u>
<u>About this Prospectus</u>	2
<u>Where You Can Find More Information</u>	3
<u>Incorporation of Certain Documents by Reference</u>	3
<u>Disclosure Regarding Forward-Looking Statements</u>	4
<u>Our Business</u>	5
<u>Risk Factors</u>	6
<u>Use of Proceeds</u>	16
<u>Ratio of Earnings to Fixed Charges</u>	16
<u>Description of Debt Securities</u>	17
<u>Description of Preferred Stock</u>	26
<u>Description of Common Stock</u>	29
<u>Description of Warrants</u>	30
<u>Description of Stock Purchase Contracts</u>	31
<u>Description of Units</u>	32
<u>Plan of Distribution</u>	32
<u>Legal Matters</u>	34
<u>Experts</u>	34

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.

S-2

Table of Contents

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.

Table of Contents

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 through 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.

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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

S-4

Table of Contents

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:

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- 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.

S-5

Table of Contents

- 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.

* * * *

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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.

S-6

Table of Contents

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.

Table of Contents**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)

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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				

S-8

Table of Contents

	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