PREMCOR INC
Form S-1/A
January 23, 2003
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As filed with the Securities and Exchange Commission on January 23, 2003

Registration No. 333-102087

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 2
TO

FORM S-1
REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

PREMCOR INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**2911**	**43-1851087**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

1700 East Putnam Avenue
Suite 500
Old Greenwich, Connecticut 06870
(203) 698-7500
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨
If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ _________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ __________

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ __________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The Information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)
Issued January 23, 2003

11,500,000 Shares

COMMON STOCK

Premcor Inc. is offering 11,500,000 shares of its common stock.

Our common stock is listed on the New York Stock Exchange under the symbol PCO. On January 21, 2003, the reported last sale price of our common stock on the New York Stock Exchange was $21.44 per share.

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

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 1,725,000 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 , 2003.

MORGAN STANLEY
CREDIT SUISSE FIRST BOSTON
DEUTSCHE BANK SECURITIES

GOLDMAN, SACHS & CO.

, 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

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.

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.

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. 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	11,500,000 shares
Common stock to be outstanding after this offering	69,543,935 shares
Over-allotment option	1,725,000 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	5,251.4	4,133.7	4,342.8
Gross margin	420.7	739.2	1,166.1	1,037.2	464.3
Operating expenses(1)	402.8	467.7	467.7	355.8	338.2
General and administrative expenses(1)	51.5	53.0	63.3	45.3	40.8
Stock option compensation expense					9.9
Depreciation and amortization(2)	63.1	71.8	91.9	67.7	64.9
Inventory recovery from market write-down	(105.8)				
Refinery restructuring and other charges			176.2	176.2	172.9
Operating income (loss)	9.1	146.7	367.0	392.2	(162.4)
Interest expense and finance income, net(3)	(91.5)	(82.2)	(139.5)	(106.3)	(81.5)
Gain (loss) on extinguishment of long-term debt(4)			8.7	8.7	(19.5)
Income tax (provision) benefit	12.0	25.8	(52.4)	(78.7)	99.9
Minority interest in subsidiary	1.4	(0.6)	(12.8)	(12.4)	1.7
Income (loss) from continuing operations	(69.0)	89.7	171.0	203.5	(161.8)
Discontinued operations, net of taxes(5)	32.6		(18.0)	(8.5)	
Net income (loss)	(36.4)	89.7	153.0	195.0	(161.8)
Preferred stock dividends	(8.6)	(9.6)	(10.4)	(7.9)	(2.5)
Net income (loss) available to common stockholders	$ (45.0)	$ 80.1	$ 142.6	$ 187.1	$ (164.3)
Income (loss) from continuing operations per share:					
basic	$ (3.59)	$ 2.79	$ 5.05	$ 6.15	$ (3.57)
diluted	(3.59)	2.55	4.65	5.67	(3.57)
Weighted average number of common shares outstanding:					
basic	21.6	28.8	31.8	31.8	46.0
diluted	21.6	31.5	34.5	34.5	46.0

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	Year Ended December 31,			Nine Months Ended September 30,	
	1999	2000	2001	2001	2002
	(in millions, except as noted)				
Cash flow data:					
Cash flow from operating activities	$ 85.5	$ 124.4	$ 439.2	$ 390.2	$ (42.2)
Cash flow from investing activities	(321.3)	(375.3)	(152.9)	(98.5)	(91.8)
Cash flow from financing activities	393.9	234.8	(66.3)	(68.8)	(219.8)
EBITDA(6)	72.2	218.5	458.9	459.9	(97.5)
Adjusted EBITDA(7)	(33.6)	218.5	635.1	636.1	75.4
Capital expenditures for property, plant and equipment	438.2	390.7	94.5	57.8	64.1
Capital expenditures for turnarounds	77.9	31.5	49.2	41.3	33.4
Key operating statistics:					
Production (barrels per day in thousands)	460.5	477.3	463.4	459.6	454.8
Crude oil throughput (barrels per day in thousands)	451.7	468.0	439.7	438.8	432.4
Per barrel of crude oil throughput:					
Gross margin	$ 2.55	$ 4.32	$ 7.27	$ 8.66	$ 3.93
Operating expenses	2.44	2.73	2.91	2.97	2.87

	As of September 30, 2002	
	Actual	As Adjusted
	(in millions)	
Balance sheet data:		
Cash, cash equivalents and short-term investments(8)	$ 209.9	$ 226.5
Working capital	291.7	308.3
Total assets	2,292.5	2,649.1
Total debt	925.3	1,045.2
Stockholders equity	658.6	895.4

(1) Certain reclassifications have been made to prior period amounts to conform them to current period presentation.

(2) Amortization includes amortization of turnaround costs. However, this may not be permitted under generally accepted accounting principles, or GAAP, in future periods. See Management s Discussion and Analysis of Financial Condition and Results of Operations Accounting Standards Critical Accounting Standards.

(3) Interest expense and finance income, net, includes amortization of debt issuance costs of $7.9 million, $12.4 million, $14.9 million, $10.9 million and $9.5 million for the years ended December 31, 1999, 2000 and 2001, and for the nine months ended September 30, 2001 and 2002, respectively. Interest expense and finance income, net, also includes interest on all indebtedness, net of capitalized interest and interest income.

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

(5) Discontinued operations is net of an income tax provision of $21.0 million in 1999, and income tax benefits of $11.5 million and $8.5 million in 2001 and for the nine months ended September 30, 2001, respectively.

(6) Earnings before interest, taxes, depreciation and amortization, or EBITDA, is a commonly used non-GAAP financial measure but should not be construed as an alternative to operating income or net income as an indicator of our performance, nor as an alternative to cash flow from operating activities, investing activities

or financing activities as a measure of liquidity, in each case as such measures are determined in accordance with GAAP. EBITDA is presented because we believe that it is a useful indicator of a company s ability to incur and service debt. EBITDA, as we calculate it, may not be comparable to similarly-titled measures reported by other companies.

(7) Adjusted EBITDA represents EBITDA excluding refinery restructuring and other charges of $176.2 million in 2001, $176.2 million in the nine months ended September 30, 2001, and $172.9 million in the nine months ended September 30, 2002, and an inventory recovery from market write-down of $105.8 million in 1999. The $176.2 million charge in the full year of 2001 and in the nine months ended September 30, 2001 included $167.2 million related to the closure of our Blue Island refinery. For the nine months ended September 30, 2002, the charge of $172.9 million included $137.4 million related to the closure of the Hartford refinery. Adjusted EBITDA is presented because we believe it is a useful indicator to our investors of our ability to incur and service debt based on our ongoing operations. Adjusted EBITDA should not be considered by investors as an alternative to operating income or net income as an indicator of our performance, nor as an alternative to cash flow from operating activities, investing activities or financing activities as a measure of liquidity. Because all companies do not calculate EBITDA identically, this presentation of adjusted EBITDA may not be comparable to EBITDA, adjusted EBITDA or other similarly-titled measures of other companies.

(8) Cash, cash equivalents and short-term investments includes $51.9 million of cash and cash equivalents restricted for debt service as of September 30, 2002.

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RISK FACTORS

An investment in our common stock involves risk. You should consider carefully, in addition to the other information contained in this prospectus, the following risk factors before deciding to purchase any common stock.

Risks Related to our Business and our Industry

Volatile margins in the refining industry may negatively affect our future operating results and decrease our cash flow.

Our financial results are primarily affected by the relationship, or margin, between refined product prices and the prices for crude oil and other feedstocks. The cost to acquire our feedstocks and the price at which we can ultimately sell refined products depend upon a variety of factors beyond our control. Historically, refining margins have been volatile, and they are likely to continue to be volatile in the future. Future volatility may negatively affect our results of operations, since the margin between refined product prices and feedstock prices may decrease below the amount needed for us to generate net cash flow sufficient for our needs.

Specific factors, in no particular order, that may affect our refining margins include:

- accidents, interruptions in transportation, inclement weather or other events that cause unscheduled shutdowns or otherwise adversely affect our plants, machinery, pipelines or equipment, or those of our suppliers or customers;
- changes in the cost or availability to us of transportation for feedstocks and refined products;
- failure to successfully implement our planned capital projects or to realize the benefits expected for those projects;
- changes in fuel specifications required by environmental and other laws, particularly with respect to oxygenates and sulfur content;
- rulings, judgments or settlements in litigation or other legal matters, including unexpected environmental remediation or compliance costs at our facilities in excess of any reserves, and claims of product liability or personal injury; and
- aggregate refinery capacity in our industry to convert heavy sour crude oil into refined products.

Other factors that may affect our margins, as well as the margins in our industry in general, include, in no particular order:

- domestic and worldwide refinery overcapacity or undercapacity;
- aggregate demand for crude oil and refined products, which is influenced by factors such as weather patterns, including seasonal fluctuations, and demand for specific products such as jet fuel, which may themselves be influenced by acts of God, nature and acts of terrorism;
- domestic and foreign supplies of crude oil and other feedstocks and domestic supply of refined products, including from imports;
- the ability of the members of the Organization of Petroleum Exporting Countries, or OPEC, to maintain oil price and production controls;
- political conditions in oil producing regions, including the Middle East, Africa and Latin America;
- refining industry utilization rates;
- pricing and other actions taken by competitors that impact the market;

price, availability and acceptance of alternative fuels;

adoption of or modifications to federal, state or foreign environmental, taxation and other laws and regulations;

price fluctuations in natural gas and electricity; and

general economic conditions.

A significant interruption or casualty loss at either of our refineries could reduce our production, particularly if not fully covered by our insurance.

Our business currently consists of owning and operating two refineries. As a result, our operations could be subject to significant interruption if either of our refineries were to experience a major accident, be damaged by severe weather or other natural disaster, or otherwise be forced to shut down. Any such shutdown would reduce the production from that refinery. For example, in late September 2002 and early October 2002, two hurricanes, both of which had paths that brought them through the Gulf Coast region of the United States, caused crude oil delivery delays and the shutdown of various plants and businesses in the region. These hurricanes caused delays in crude oil deliveries to both of our refineries and forced a complete shutdown of the operating units at our Port Arthur refinery for approximately four days. It took several additional days to return all of the Port Arthur units to normal processing amounts. Following the startup of the Port Arthur refinery units, we discovered problems with our reformer unit that we believe were caused by the shutdown and subsequent restart. As a result, we experienced additional crude oil processing limitations and reduced production for approximately two weeks while the reformer unit was repaired. There is also risk of mechanical failure and equipment shutdowns. Further, in such situations, undamaged refinery processing units may be dependent on or interact with damaged sections of our refineries and, accordingly, are also subject to being shut down. For example, in February 2002, we shut down the coker unit at our Port Arthur refinery for ten days for unplanned maintenance and, as a result of the shutdown, we reduced crude throughput to some of the downstream units for that ten-day period. In the event any of our refineries is forced to shut down for a significant period of time, it would have a material adverse effect on our earnings, our other results of operations and our financial condition as a whole. Furthermore, if any of the above events were not fully covered by our insurance, it could have a material adverse effect on our earnings, our other results of operations and our financial condition.

Disruption of our ability to obtain crude oil could reduce our margins and our other results of operations.

Although we have one long-term crude oil supply contract, the majority of our crude oil supply is acquired under short-term contractual arrangements or in the spot market. Our short-term crude oil supply contracts are terminable on one to three months notice. Further, a significant portion of our feedstock requirements is supplied from Latin America, Africa and the Middle East (including Iraq), and we are subject to the political, geographic and economic risks attendant to doing business with suppliers located in those regions. For example, on April 8, 2002, Iraq announced that it was halting all oil exports for a 30-day period. In the event that one or more of our supply contracts is terminated, we may not be able to find alternative sources of supply. If we are unable to obtain adequate crude oil volumes or are only able to obtain such volumes at unfavorable prices, our margins and our other results of operations could be materially adversely affected.

Our Port Arthur refinery is highly dependent upon a PEMEX affiliate for its supply of heavy sour crude oil, which could be interrupted by events beyond the control of PEMEX.

For the nine months ended September 30, 2002, we sourced approximately 83% of our Port Arthur refinery s crude oil from P.M.I. Comercio Internacional, S.A. de C.V., or PMI, an affiliate of PEMEX. Therefore, a large proportion of our crude oil needs is influenced by the adequacy of PEMEX s crude oil reserves, the estimates of which are not precise and are subject to revision at any time. In the event that PEMEX s affiliate were to terminate our crude oil supply agreement or default on its supply obligations, we

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would need to obtain heavy sour crude oil from another supplier and would lose the potential benefits of the coker gross margin support mechanism contained in the supply agreement. Alternative supplies of crude oil may not be available or may not be on terms as favorable as those negotiated with PEMEX s affiliate. In addition, the processing of oil supplied by a third party may require changes to the configuration of our Port Arthur refinery, which could require significant unbudgeted capital expenditures.

Furthermore, the obligation of PEMEX s affiliate to deliver heavy sour crude oil under the agreement may be delayed or excused by the occurrence of conditions and events beyond the reasonable control of PEMEX, such as:

- extreme weather-related conditions;
- production or operational difficulties and blockades;
- embargoes or interruptions, declines or shortages of supply available for export from Mexico, including shortages due to increased domestic demand and other national or international political events; and
- certain laws, changes in laws, decrees, directives or actions of the government of Mexico.

The government of Mexico may direct a reduction in our supply of crude oil, so long as that action is taken in common with proportionately equal supply reductions under its long-term crude oil supply agreements with other parties and the amount by which it reduces the quantity of crude oil to be sold to us shall first be applied to reduce quantities of crude oil scheduled for sale and delivery to our Port Arthur refinery under any other crude oil supply agreement with us or any of our affiliates. Mexico is not a member of OPEC, but in 1998 it agreed with the governments of Saudi Arabia and Venezuela to reduce Mexico s exports of crude oil by 200,000 bpd. In March 1999, Mexico further agreed to cut exports of crude oil by an additional 125,000 bpd. As a consequence, during 1999, PEMEX reduced its supply of oil under some oil supply contracts by invoking an excuse clause based on governmental action similar to one contained in our long-term crude oil supply agreement. It is possible that PEMEX could reduce our supply of crude oil by similarly invoking the excuse provisions in the future.

Competitors who produce their own supply of feedstocks, have extensive retail outlets, make alternative fuels or have greater financial resources than we do may have a competitive advantage over us.

The refining industry is highly competitive with respect to both feedstock supply and refined product markets. We compete with numerous other companies for available supplies of crude oil and other feedstocks and for outlets for our refined products. We are not engaged in the petroleum exploration and production business and therefore do not produce any of our crude oil feedstocks. We do not have a retail business and therefore are dependent upon others for outlets for our refined products. Many of our competitors, however, obtain a significant portion of their feedstocks from company-owned production and have extensive retail outlets. Competitors that have their own production or extensive retail outlets, with brand-name recognition, are at times able to offset losses from refining operations with profits from producing or retailing operations, and may be better positioned to withstand periods of depressed refining margins or feedstock shortages. A number of our competitors also have materially greater financial and other resources than we possess. These competitors have a greater ability to bear the economic risks inherent in all phases of the refining industry. In addition, we compete with other industries that provide alternative means to satisfy the energy and fuel requirements of our industrial, commercial and individual consumers. If we are unable to compete effectively with these competitors, both within and outside of our industry, our financial condition and results of operations, as well as our business prospects, could be materially adversely affected.

Our substantial indebtedness may limit our financial flexibility.

Our substantial indebtedness has significantly affected our financial flexibility historically and may significantly affect our financial flexibility in the future. As of September 30, 2002, after giving effect to this offering and the debt financing and the use of a portion of these proceeds to refinance certain indebtedness of

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our subsidiaries, we would have had total consolidated debt, including current maturities, of $1,045.2 million and cash, short-term investments and cash restricted for debt service of $226.5 million. On the same basis, we would have had stockholders equity of $895.4 million and a total debt to total capitalization ratio of 53.9% as of September 30, 2002. In addition to the debt financings, we or our subsidiaries may incur additional indebtedness in the future, although our ability to do so will be restricted by the terms of our existing indebtedness. In addition to the Memphis refinery acquisition, we are currently evaluating several refinery acquisitions, some of which may be significant. Any future acquisition could also require us to incur additional indebtedness in order to finance all or a portion of such acquisition. The level of our indebtedness has several important consequences for our future operations, including that:

- a significant portion of our cash flow from operations will be dedicated to the payment of principal of, and interest on, our indebtedness and will not be available for other purposes;
- covenants contained in our existing debt arrangements require us to meet or maintain certain financial tests, which may affect our flexibility in planning for, and reacting to, changes in our industry, such as being able to take advantage of acquisition opportunities when they arise;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes may be limited;
- we may be at a competitive disadvantage to those of our competitors that are less leveraged; and
- we may be more vulnerable to adverse economic and industry conditions.

Restrictive covenants in our subsidiaries debt instruments limit our ability to move funds and assets among our subsidiaries and may limit our ability to undertake certain types of transactions.

Various covenants in our subsidiaries debt instruments and other financing arrangements may restrict our and our subsidiaries financial flexibility in a number of ways. Our indebtedness subjects our subsidiaries to significant financial and other restrictive covenants, including restrictions on their ability to incur additional indebtedness, place liens upon assets, pay dividends or make certain other restricted payments and investments, consummate certain asset sales or asset swaps, enter into certain transactions with affiliates, make certain payments to us, enter into sale and leaseback transactions, conduct businesses other than their current businesses, merge or consolidate with any other person or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of their assets. Some of our subsidiaries debt instruments also require them to satisfy or maintain certain financial condition tests. Our subsidiaries ability to meet these financial condition tests can be affected by events beyond our control and they may not meet such tests.

We have significant principal payments under our indebtedness coming due in the next several years; we may be unable to repay or refinance such indebtedness.

We have significant principal payments due under our debt instruments. After giving effect to this offering and the debt financing and the use of a portion of these proceeds to refinance certain indebtedness of our subsidiaries, we will be required to make the following principal payments on our long-term debt: $14.9 million in 2003; $25.6 million in 2004; $38.5 million in 2005; $46.4 million in 2006; $318.4 million in 2007; and $601.9 million in the aggregate thereafter. In addition to the Memphis refinery acquisition, we are currently evaluating several refinery acquisitions, some of which may be significant. Any future acquisition could also require us to incur additional indebtedness in order to finance all or a portion of such acquisition, and therefore may increase our principal payments coming due in the next several years.

Our ability to meet our principal obligations will be dependent upon our future performance, which in turn will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. Our business may not continue to generate sufficient cash

flow from operations to repay our substantial indebtedness. If we are unable to generate sufficient cash flow from operations, we may be required to sell assets, to refinance all or a portion of our indebtedness or to obtain additional financing. Refinancing may not be possible and additional financing may not be available on commercially acceptable terms, or at all.

Compliance with, and changes in, environmental laws could adversely affect our results of operations and our financial condition.

We are subject to extensive federal, state and local environmental laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention, remediation of contaminated sites and the characteristics and composition of gasoline and diesel fuels. In addition, some of these laws and regulations require our facilities to operate under permits that are subject to renewal or modification. These laws and regulations and permits can often require expensive pollution control equipment or operational changes to limit impacts or potential impacts on the environment and/or health and safety. A violation of these laws and regulations or permit conditions can result in substantial fines, criminal sanctions, permit revocations and/or facility shutdowns. Compliance with environmental laws and regulations significantly contributes to our operating costs. In addition, we have made and expect to make substantial capital expenditures on an ongoing basis to comply with environmental laws and regulations.

In addition, new laws, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments could require us to make additional unforeseen expenditures. These expenditures or costs for environmental compliance could have a material adverse effect on our financial condition, results of operations and cash flow. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Cash Flow from Investing Activities. For example, the United States Environmental Protection Agency, or EPA, has promulgated regulations under the federal Clean Air Act that establish stringent sulfur content specifications for gasoline and low-sulfur highway, or on-road , diesel fuel designed to reduce air emissions from the use of these products.

In February 2000, the EPA promulgated the Tier 2 Motor Vehicle Emission Standards Final Rule for all passenger vehicles mandating that the average sulfur content of gasoline for highway use produced at any refinery not exceed 30 parts per million, or ppm, during any calendar year by January 1, 2006 with a phase in of these requirements beginning on January 1, 2004. We currently expect to produce gasoline under the new sulfur standards at the Port Arthur refinery prior to January 1, 2004 and, as a result of the corporate pool averaging provisions of the regulations, will not be required to meet the new sulfur standards at the Lima refinery until July 1, 2004, a six month deferral. A further delay in the requirement to meet the new sulfur standards at the Lima refinery through 2005 may be possible through the purchase of sulfur allotments and credits which arise from a refiner producing gasoline with a sulfur content below specified levels prior to the end of 2005, the end of the phase-in period. There can be no assurances that sufficient allotments or credits to defer investment at the Lima refinery will be available, or if available, at what cost. We believe, based on current estimates and on a January 1, 2004 compliance date for both the Port Arthur and Lima refineries, that compliance with the new Tier 2 gasoline specifications will require capital expenditures for the Lima and Port Arthur refineries in the aggregate through 2005 of approximately $255 million. More than 95% of the total investment to meet the Tier 2 gasoline specifications is expected to be incurred during 2002 through 2004, with the greatest concentration of spending occurring in 2003.

In January 2001, the EPA promulgated its on-road diesel regulations, which will require a 97% reduction in the sulfur content of diesel fuel sold for highway use by June 1, 2006, with full compliance by January 1, 2010. We estimate capital expenditures in the aggregate through 2006 required to comply with the diesel standards at our Port Arthur and Lima refineries of approximately $245 million. More than 95% of the projected investment is expected to be incurred during 2004 through 2006 with the greatest concentration of spending occurring in 2005. Since the Lima refinery does not currently produce diesel fuel to on-road specifications, we are considering an acceleration of the low-sulfur diesel investment at the Lima refinery in order to capture this incremental

product value. If the investment is accelerated, production of the low-sulfur fuel may begin by the first quarter of 2005. Regulations regarding the sulfur content of off-road diesel are pending. See Business Environmental Matters Environmental Compliance Fuel Regulations.

In addition, on April 11, 2002, the EPA promulgated regulations to implement Phase II of the petroleum refinery Maximum Achievable Control Technology rule under the federal Clean Air Act, referred to as MACT II, which regulates emissions of hazardous air pollutants from certain refinery units. Based on currently available information, we expect to spend approximately $45 million over the next three years, with the greatest concentration of spending evenly spread out over 2003 and 2004.

Based on currently available information, we expect our acquisition of the Memphis refinery to increase our costs of complying with Tier 2 gasoline standards and low sulfur diesel standards by approximately $80 million and $100 million, respectively. The estimated $80 million in spending for Tier 2 gasoline compliance would be incurred during 2003 and 2004. The estimated $100 million in spending for low sulfur diesel compliance would be incurred between 2004 and 2006, with the greatest concentration of spending in 2005. No capital expenditures are expected to be required for MACT II compliance at the Memphis refinery. Any future acquisition could require us to make significant capital expenditures to comply with environmental laws and regulations. There can be no assurances that our internally generated cash flow will be sufficient to support each of the foregoing capital expenditures at all of the facilities.

Environmental clean-up and remediation costs of our sites and environmental litigation could decrease our cash flow, reduce our results of operations and impair our financial condition.

We are subject to liability for the investigation and clean-up of environmental contamination at each of the properties that we own or operate, at certain properties we formerly owned or operated and at off-site locations where we arranged for the disposal of hazardous substances. We are involved in several proceedings or other projects relating to our liability for the investigation and clean-up of such sites. We may become involved in further litigation or other proceedings. If we were to be held responsible for damages in any existing or future litigation or proceedings, such costs may not be covered by insurance and may be material. For example, there is extensive contamination at our Port Arthur refinery site and contamination at our Lima refinery site. Chevron Products Company, the former owner of the Port Arthur refinery, has retained environmental remediation obligations regarding pre-closing contamination for all areas of the refinery except those under or within 100 feet of active processing units, and BP has retained liability for certain environmental costs relating to operations of, or associated with, the Lima refinery site prior to our acquisition of that facility. However, if either of these parties fails to satisfy its obligations for any reason, or if significant liabilities arise in the areas in which we assumed liability, we may become responsible for the remediation. If we are forced to assume liability for the cost of this remediation or other remediation relating to our current or former facilities, such liability could have a material adverse effect on our financial condition. As a result, in addition to making capital expenditures or incurring other costs to comply with environmental laws, we also may be liable for significant environmental litigation or remediation costs and other liabilities arising from the ownership or operation of these assets by prior owners, which could materially adversely affect our financial condition, results of operations and cash flow.

In connection with the closure of our Blue Island, Illinois and Hartford, Illinois refineries, we are required to conduct environmental remediation at those facilities. We are currently assessing our remedial obligations at these closed facilities and have an aggregate reserve of $49.6 million as of September 30, 2002. Also, in connection with our sale of certain retail properties and product terminals in 1999, we agreed to indemnify the purchasers for certain environmental conditions arising during our ownership and operation of these assets. Clean-up costs with respect to any of these matters may exceed our estimates, which could, in turn, have a material adverse effect on our financial condition, results of operations and cash flow. In particular, we sold the majority of our former retail properties to Clark Retail Enterprises, Inc., or CRE, which, together with its parent company, Clark Retail Group, has recently filed for Chapter 11 bankruptcy protection. In addition to our obligations under the indemnities, we may be jointly and severally liable for CRE s obligations under leases for

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these retail locations, including payment of rent and environmental cleanup responsibilities for releases of petroleum occurring during the term of the leases. We may also incur other significant liabilities for environmental obligations at these sites.

We may also face liability arising from current or future claims alleging personal injury or property damage due to exposure to chemicals or other hazardous substances, such as asbestos and benzene, at or from our facilities. We may also face liability for personal injury, property damage, natural resource damage or clean-up costs for the alleged migration of contamination or hazardous substances from our facilities. A significant increase in the number or success of these claims could materially adversely affect our financial condition, results of operations and cash flow. See Business Environmental Matters and Business Legal Proceedings for a description of some of these claims.

We have additional capital needs for which our internally generated cash flow may not be adequate; we may have insufficient liquidity to meet those needs.

In addition to the capital expenditures we will make to comply with Tier 2 gasoline standards, on-road diesel regulations and MACT II regulations, we have additional short-term and long-term capital needs. Our short-term working capital needs are primarily crude oil purchase requirements, which fluctuate with the pricing and sourcing of crude oil. Our internally generated cash flow and availability under our working capital facilities may not be sufficient to meet these needs. We also have significant long-term needs for cash. We estimate that mandatory capital and turnaround expenditures, excluding the non-recurring capital expenditures required to comply with Tier 2 gasoline standards, on-road diesel regulations and MACT II regulations described above, will be approximately $105 million per year from 2003 through 2006. Based on currently available information, we expect that our acquisition of the Memphis refinery will increase this amount to approximately $153 million annually through 2006 and any other significant acquisition could require us to make additional capital expenditures in this regard. Our internally generated cash flow may not be sufficient to support such capital expenditures.

We may not be able to implement successfully our discretionary capital expenditure projects.

We could undertake a number of discretionary capital expenditure projects designed to increase the productivity and profitability of our refineries. Many factors beyond our control may prevent or hinder our undertaking of some or all of these projects, including compliance with or liability under environmental regulations, a downturn in refining margins, technical or mechanical problems, lack of availability of capital and other factors. Failure to successfully implement these profit-enhancing strategies may adversely affect our business prospects and competitive position in the industry.

A substantial portion of our workforce is unionized and we may face labor disruptions that would interfere with our refinery operations.

As of December 1, 2002, we employed 1,413 people, approximately 60% of whom were covered by collective bargaining agreements. The collective bargaining agreement covering employees at our Port Arthur refinery expires in January 2006 and the agreement covering employees at our Lima refinery expires in April 2006. The Memphis refinery employs approximately 320 people, including support personnel. Approximately 50% of those employees are covered by a collective bargaining agreement which expires in January 2006. Our relationships with the relevant unions at our current facilities have been good and we have never experienced a work stoppage as a result of labor disagreements. However, we cannot assure you that this situation will continue. A labor disturbance at any of our refineries could have a material adverse effect on that refinery s operations.

We are controlled by a limited number of stockholders, and in the future there may be conflicts of interest between these stockholders and our other stockholders, who will have less ability to influence our business.

After this offering and assuming no shares are sold pursuant to the private equity commitment, Blackstone will beneficially own 40.0% of our common stock, or 39.0% if the underwriters exercise their over-allotment

option in full, and Occidental will own 11.1% of our common stock, or 10.8% if the underwriters exercise their over-allotment option in full. As a result, each of these stockholders, individually or in conjunction with other stockholders, may be able to control the election of our directors and determine our corporate policies and business strategy, including the approval of potential mergers or acquisitions, asset sales and other significant corporate transactions. Each of these stockholders interests may not coincide with the interests of the other holders of our common stock.

We have not fully developed or implemented a disaster recovery plan for our information systems, which could adversely affect business operations should a major physical disaster occur.

We are dependent upon functioning information systems to conduct our business. A system failure or malfunction may result in an inability to process transactions or lead to a disruption of operations. Although we regularly backup our programs and data, we do not currently have a comprehensive disaster recovery plan providing a hot site facility for immediate system recovery should a major physical disaster occur at our general office, our executive office or at one of our refineries. A comprehensive disaster recovery plan is currently being developed, with completion targeted in 2003.

Our federal income tax carryforward attributes could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

We had consolidated federal income tax net operating loss carryforwards of approximately $245.9 million at December 31, 2001, and have incurred an additional net operating loss during the nine months ended September 30, 2002. Our net operating loss carryforwards will begin to terminate with the year ending December 31, 2012, to the extent they have not been used to reduce taxable income prior to such time. Our ability to use our net operating loss carryforwards to reduce taxable income and to utilize other losses and certain tax credits is dependent upon, among other things, our not experiencing an ownership change of more than 50% during any three-year testing period as defined in the Internal Revenue Code. We have had significant changes in the ownership of our common stock in the three-year testing period immediately prior to this offering. We expect that as a result of this offering we will be very close to experiencing an ownership change of more than 50%. Accordingly, future changes, even slight changes, in the ownership of our common stock (including, among other things, the exercise of compensatory options) could result in an aggregate change in ownership of more than 50% as defined in the Internal Revenue Code, which could substantially limit the availability of our net operating loss carryforwards, other losses and tax credits.

Risks Related to the Memphis Refinery Acquisition and Future Acquisitions

We may not realize the anticipated benefits of the Memphis refinery acquisition.

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

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

Although the information in this prospectus assumes the consummation of the Memphis refinery acquisition, the consummation is subject to the satisfaction of certain conditions precedent, and may be terminated by Williams if the acquisition has not been completed by March 31, 2003. Our failure to acquire the Memphis refinery and related supply and distribution assets from Williams would result in our asset base being smaller than what has been described in this prospectus. Accordingly, we would not realize the anticipated benefits we discuss in this prospectus which are based on our completion of this acquisition. Additionally, if the Memphis 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 debt financing and may not be able to effectively deploy them.

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

The Memphis refinery acquisition agreement provides that the sellers will indemnify us for certain unknown and undisclosed environmental liabilities. The maximum potential amount we can recover for environmental liabilities is limited to $50 million from the sellers under the indemnity plus $50 million under an insurance policy. We are responsible for all other environmental liabilities, including various pending cleanup and compliance matters that we estimate will cost between $9 million and $16 million. Accordingly, we may be responsible for significant environmental related liabilities and costs relating to the acquisition of the Memphis refinery and the related assets. See Compliance with, and changes in, environmental laws could adversely affect our results of operations and our financial condition for a description of capital expenditures we expect to incur with respect to the Memphis refinery. 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 financial condition, results of operations and cash flow.

We may not be able to consummate future acquisitions or successfully integrate the Memphis 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 businesses 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, or to issue additional equity, which could result in further dilution of the ownership interest of existing shareholders.

In connection with the Memphis 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 Memphis 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 liabilities.

Risks Related to this Offering

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 in response to factors such as those listed in Risks Related to our Business and our Industry Volatile margins in the refining industry may negatively affect our future operating results and decrease our cash flow, and the following, 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;

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- 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;
- 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, particularly following the terrorist attacks of September 2001.

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, also might 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 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, Blackstone and Occidental, owning an aggregate of 36,469,406 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, subject to certain exceptions. Sales of a substantial number of shares of our common stock following the expiration of these lock-up periods could cause our stock price to fall. In addition, in connection with the Memphis refinery acquisition, under certain circumstances, we may pay up to $100 million of the purchase price through the issuance of our shares instead of cash. These shares of common stock would be valued at the lesser of (1) $15.00 per share less an underwriting discount or (2) $, the net proceeds per share received by us in this offering. See The Acquisition of the Memphis Refinery Overview of the Acquisition. We are also currently evaluating several other refinery acquisitions, some of which may be significant. 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. Additionally, we have granted registration rights to certain of our stockholders and, if the sellers receive shares of common stock under the circumstances described above, to the sellers of the Memphis refinery. See Shares Eligible for Future Sale Registration Rights.

In addition, 4,589,480 shares of our common stock are issuable upon the exercise of presently outstanding stock options granted to our directors, employees and former employees under our 1999 Stock Incentive Plan, 2002 Equity Incentive Plan and our 2002 Special Stock Incentive Plan. An additional 1,967,575 shares have been reserved for future issuance under our stock incentive plans and other agreements. We have registered on Form S-8 under the Securities Act all shares of common stock subject to outstanding stock options issuable under our stock incentive plans and shares of certain of our officers and directors. Sales of a substantial number of shares of our common stock following the vesting of these options could cause our stock price to fall.

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Our governing documents and applicable laws include provisions that may discourage a takeover attempt.

Provisions contained in our certificate of incorporation and by-laws and Delaware law could make it difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders. For example, our certificate of incorporation precludes stockholders from taking action by consent, which inhibits stockholders ability to replace board members. Further, only the board of directors or our chairman of the board or chief executive officer may call special meetings of stockholders, which prevents stockholders from calling special meetings to vote on corporate actions. Stockholders who wish to nominate a director or present a matter for consideration at an annual meeting are required to give us notice of such proposal, which gives us time to respond. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock and may have the effect of delaying or preventing a change in control.

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FORWARD-LOOKING STATEMENTS

Some of the matters discussed under the captions Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere in this prospectus include forward-looking statements based on current expectations, estimates, forecasts and projections, beliefs and assumptions made by management. You can identify these forward-looking statements by the use of words like strategy, expects, plans, believes, will, estimates, intends, projects, goals, targets and othe meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

Even though we believe our expectations regarding future events are based on reasonable assumptions, forward-looking statements are not guarantees of future performance. Important factors that could cause actual results to differ materially from those contained in our forward-looking statements include those discussed under Risk Factors Risks Related to our Business and our Industry and The Acquisition of the Memphis Refinery Impact of the Acquisition. Because of these uncertainties and others, you should not place undue reliance on our forward-looking statements.

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THE ACQUISITION OF THE MEMPHIS REFINERY

Overview of the Acquisition

On November 25, 2002, we executed an agreement with The Williams Companies and certain of its subsidiaries to purchase their Memphis refinery and related supply and distribution assets located in and around Memphis, Tennessee. The purchase price 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. In addition, the sellers will be entitled to receive from us earn-out payments over the next seven years, up to a maximum of $75 million, based on the excess of a specified average industry refining margin per barrel over a specified margin per barrel, multiplied by a specified throughput volume at the refinery.

The Memphis refinery has a rated crude oil throughput capacity of 190,000 bpd, but typically processes approximately 170,000 bpd. Also included in the acquisition are two truck-loading racks, three petroleum terminals located in the area, pipeline infrastructure that transports both crude oil and refined products, crude oil tankage in Louisiana and an 80 megawatt power plant adjacent to the refinery.

We intend to finance the acquisition with the proceeds from this offering and the other financing transactions. See Use of Proceeds. Additionally, we have received a financing commitment letter from Morgan Stanley Senior Funding, Inc. to provide a portion of the financing to consummate the acquisition, if necessary.

Consummation of the acquisition is conditioned upon us securing the requisite financing. If we are unable to secure this financing, the sellers may elect, under certain circumstances, to receive up to $100 million of the purchase price through the issuance of shares of our common stock instead of cash. These shares would be valued at the lesser of (a) $15.00 per share less an underwriting discount or (b) $, the net proceeds per share received by us in this offering. If we fail to consummate the transaction, we may be obligated to pay the sellers $30 million in cash as liquidated damages. If the sellers elect to receive our common stock under the circumstances described above, they will also have the right, from time to time, to require us to register their stock for resale and to include their shares in future registration statements filed by us.

We also intend to enter into a two-year crude oil supply and product off-take agreement with Morgan Stanley Capital Group Inc., or MSCG, under which MSCG will purchase the Memphis refinery petroleum inventories at closing. Under this agreement, MSCG will (1) lease from us the Memphis refinery tankage, (2) receive, via assignment or sublease, Southcap Capline pipeline storage and historic shipping capacity associated with the Memphis refinery operations, and (3) assign or sub-lease for storage capacity at various product terminals supporting the Memphis refinery operations. Over the term of the agreement, we will purchase crude oil from MSCG delivered into the crude unit and will sell products to MSCG delivered into refinery tankage. Among other things, this transaction will reduce our need to issue standby letters of credit in order to support purchases of crude oil inventory for the Memphis refinery. We intend to enter into a commitment to purchase the petroleum inventories acquired by MSCG upon termination of the agreement with them at then current market prices, as adjusted by certain predetermined contract provisions. There are no assurances that we will enter into this agreement or on these terms.

In the event that the gross proceeds from this offering and the other financing transactions exceed $650 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 gross proceeds to pay for the purchase of inventory at closing or fund our investment in accounts receivable that will result as refinery operations commence. Any inventory purchased by us at closing would not be part of the proposed crude oil supply and product offtake agreement with MSCG.

The sellers have agreed, subject to the limitations described below, to indemnify us against all environmental liabilities incurred by us as a result of a breach of their environmental representations and as a result of environmental related matters (1) known by them prior to the closing but not disclosed to us and (2) not

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known by them prior to the closing. We are responsible for all other environmental liabilities, including various pending cleanup and compliance matters that we estimate will cost between $9 million and $16 million. Any claims made by us against the sellers for environmental liabilities must be made within seven years. The sellers, as a condition to closing, will be required to obtain, at their expense, a ten-year fully pre-paid $50 million environmental insurance policy in support of this obligation covering unknown and undisclosed liabilities for the period of time prior to the acquisition. The maximum amount we can recover for environmental liabilities is limited to $50 million from the sellers plus any amounts provided under the insurance policy. The sellers have also agreed to indemnify us against breaches of their representations and from liabilities arising from the ownership and operation of the assets (other than environmental liabilities) prior to the closing, but the liability of the sellers will be subject to a $5 million deductible and a maximum liability of $50 million.

Completion of the acquisition is also subject to the satisfaction of customary conditions, including regulatory approvals. Pursuant to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, we filed a Notification and Report Form with respect to the Memphis acquisition with the Antitrust Division of the Department of Justice and the Federal Trade Commission on December 10, 2002. As a result, the waiting period applicable to the Memphis refinery acquisition expired at 11:59 p.m., New York City time, on January 9, 2003. The acquisition is expected to close in the first quarter of 2003.

The Memphis Refinery

The Memphis refinery was originally constructed in 1941 and is located on 223 acres along the Mississippi River s Lake McKellar in Memphis, Tennessee. According to the sellers, approximately $400 million has been invested in the refinery over the past four years creating a modern, highly-efficient facility with a 190,000 bpd crude oil throughput capacity. The refinery processes light, sweet crude oil delivered via the Capline pipeline system and distributes its products primarily in the Memphis area and the Mississippi River and lower Ohio River valleys, with occasional market-driven distribution in other markets.

The Memphis refinery s major processing units and associated capacity are listed below:

Unit	Capacity (in barrels per day, except as noted)	Year Built	Most Recent Modification
West crude	80,000	1941	2002
East crude	110,000	1980	1999
Naptha desulfurizer	60,000	1974	2000
Isomerization	4,000	1987	1999
Reformer	36,000	2000	
Distillate desulfurizer	51,000	1980	1993
Fluid catalytic cracking	68,000	1980	1999
Alkylation	12,000	1968	1999
C3/C4 (propane/butane) splitter	8,000	1998	
Sulfur recovery	15-50 tons per day	1982	
Cryogenic unit	300-700	1989	2002
Saturates gas plant	12,000	1996	

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

Feedstocks. The Memphis refinery processes predominantly light, sweet crude oil and draws its crude supply (both domestic and foreign) from the Capline pipeline system. It can also receive crude oil via barge. Capline is a 1,140,000 bpd common carrier crude oil pipeline that originates at St. James, Louisiana and terminates at Patoka, Illinois. The refinery is linked to Capline via a 28-mile proprietary pipeline, which connects to Capline near Collierville, Tennessee and has a capacity of 200,000 bpd.

Product Offtake. The Memphis refinery is the sole supplier of jet fuel to the Memphis International Airport, a major air cargo thoroughfare and a central hub for Federal Express. Federal Express is, and we expect will continue to be, a significant customer of the refinery. The Memphis refinery supplies Federal Express pursuant to a long-term supply agreement which represents approximately 12% of the refinery s total output. In addition to Federal Express, the refinery has a number of supply agreements with terms in excess of one year representing an aggregate of approximately 13% of the refinery s total output. Other than the agreement with Federal Express, no other supply agreement accounts for 10% or more of the refinery s total output.

The refinery s position along the Mississippi River provides a cost advantage in serving numerous upriver markets due to the superior economics of shipping crude oil for refining and subsequent product distribution versus shipping refined products from the Gulf Coast to Memphis. It is also well situated to meet demand for refined products in Nashville, Tennessee, which the Gulf Coast market cannot economically satisfy. The refinery s close proximity to several major electric power plants also provides access to increased distillate demand associated with peaking plants and fuel switching.

Products of the refinery include: premium, mid-grade and regular grades of unleaded gasoline; commercial Jet-A; kerosene; military JP8; diesel; No. 6 fuel oil; propane; refinery grade propylene and sulfur. The Memphis refinery is capable of distributing its products through facilities with nominal capacities as follows: (1) a 120,000 bpd truck-loading rack at the refinery; (2) a 50,000 bpd truck-loading rack at the West Memphis, Arkansas products terminal; (3) a 30,000 bpd jet fuel pipeline to the Memphis International Airport; (4) a 96,000 bpd barge dock at the refinery; (5) a 108,000 bpd barge dock connected to the West Memphis terminal; (6) a two-lane LPG truck-loading rack and (7) a 24-spot LPG rail car-loading rack. Refinery production can also be distributed via barge to markets in Henderson, Owensboro, and Paducah, Kentucky; Nashville, Tennessee; Evansville, Indiana; Cape Girardeau, Missouri; and Greenville, Mississippi.

Energy. The sellers recently completed construction of an 80 megawatt power plant adjacent to the refinery to provide a reliable source of power and to reduce power costs.

Employees. The sellers have indicated that the refinery employs approximately 320 employees, of which approximately one-half is represented by a union. We have agreed to recognize and enter into a contract with the union and intend to offer employment to qualified represented personnel and intend to consider the non-represented employees as candidates for employment.

Impact of the Acquisition

We understand that the sellers historically operated the Memphis refinery as a component of their integrated energy services with a corresponding emphasis on the trading and hedging of energy and energy-related commodities. We believe that decisions such as those relating to crude slate, yield, total throughput, marketing, distribution, risk management and capital expenditures were likely made to optimize an integrated energy commodities system, as opposed to that of the Memphis refinery specifically. As a result of this and various other factors, we believe we have purchased an asset, rather than a business, from the sellers. 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 with an emphasis on the production and sale of the refinery s petroleum products.

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

We expect to achieve growth through the acquisition of a high quality refinery in a niche market. The Memphis refinery is a modern facility and the only refinery in Tennessee. It is strategically located on the Mississippi River, which gives it more immediate access to numerous mid-continent markets with steadily growing demand. We can easily adapt the product slate to meet changing demand patterns in an extensive market

area. The refinery s location should provide us with a cost advantage over other refiners because it is typically less expensive to ship crude oil to Memphis for refining and subsequent product distribution than to transport refined products to the market area by barge or the TEPPCO pipeline system.

We believe we are acquiring the refinery at an attractive purchase price based on recent refinery transactions. The $315 million purchase price for the refinery assets equates to $1,658 per barrel per day of crude oil throughput capacity, which we believe compares very favorably to the average price paid in recent U.S. refinery asset acquisitions.

We believe the acquisition will be accretive to our earnings per share and will generate positive cash flow from operations. We plan to operate the Memphis refinery at a daily crude oil throughput of approximately 170,000 bpd, which is consistent with its historical operating rate. We also expect that the operating results from the refinery s production will track a Gulf Coast 2/1/1 benchmark crack spread and that we will be able to realize a gross margin benefit over the Gulf Coast 2/1/1 benchmark crack spread resulting from location premiums for refined products, partially offset by crude oil transportation costs. See Management s Discussion and Analysis of Financial Condition and Results of Operations Outlook . 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 Memphis refinery s operations. There can be no assurances that we will achieve our expected results.

We expect that the acquisition will allow us to realize operating and economic synergies with our existing Midwestern refining system. Both the Memphis and Lima refineries process light, sweet crude oil and can be supplied via the Capline pipeline system. We believe we can realize greater efficiencies by acquiring larger water-borne cargoes of foreign crude oils at lower prices. We also believe we will be able to use our Mid-continent terminal system to distribute product that is not marketed in the immediate Memphis area, enabling us to reach markets not currently served by the Memphis refinery, including customers that had previously relied on our recently shut down Hartford refinery.

We expect increased flexibility and cost savings in implementing our plan to comply with new clean fuels regulations. The Memphis refinery should provide us with additional flexibility in complying with Tier 2 gasoline specifications utilizing the corporate pool averaging provision of the regulation. While there can be no assurances, this provision and others set forth in the regulations could allow us to defer a significant portion of the investment required for compliance until the end of 2005 for one or both of the Lima and Memphis refineries. Without the acquisition, our Lima refinery would be required to comply by July 1, 2004.

The sellers estimated that the Memphis refinery s cost for complying with Tier 2 gasoline specifications will be $80 million based on an implementation date of the first quarter of 2004. We are reviewing this estimate and believe there may be opportunities for significant cost savings based on a revised project design and deferral of compliance to 2005. Based on currently available information, we estimate that the cost of complying with low sulfur diesel standards for the Memphis refinery will be approximately $100 million, which would be incurred between 2004 and 2006, with the greatest concentration of spending in 2005. We also do not anticipate the need to spend any capital for MACT II compliance at the Memphis refinery.

The acquisition should enhance and diversify our asset base. With the acquisition of the Memphis refinery, we will increase the number of our operating refineries from two to three and our combined crude oil throughput capacity from 420,000 bpd to 610,000 bpd. The acquisition increases our presence in the attractive PADD II market, where demand has historically exceeded production, creating a strong market environment for refiners. We believe the location advantage of the Memphis refinery will also complement our Port Arthur refinery, which is located in the more competitive PADD III market, but benefits from its significant capacity to process lower-cost heavy sour crude oil.

USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of the shares of our common stock in this offering, after deducting underwriting discounts and commissions and estimated expenses payable by us, will be approximately $239.0 million, or $275.0 million if the underwriters exercise their over-allotment option in full. We expect to receive proceeds of $400.0 million from the issuance of the senior notes in the debt financing. Further, we may receive proceeds of up to $65.0 million from the private equity commitment.

We intend to use a portion of the total net proceeds to finance the Memphis refinery acquisition. However, neither the consummation of this offering nor the consummation of the debt financing is contingent on the other or on the completion of the Memphis refinery acquisition. We will retain broad discretion as to the use of the net proceeds currently allocated to the Memphis refinery acquisition if it is not completed.

In addition, we intend to use approximately $42.4 million of the net proceeds to redeem all of the outstanding 11 1/2% subordinated debentures issued by Premcor USA Inc. and $240.0 million to repay principal under the floating rate notes due 2003 and 2004 issued by PRG. The 11 1/2% subordinated debentures are due in December 2009 and are currently redeemable by Premcor USA at a redemption price equal to 105.75%. As of September 30, 2002, $240.0 million principal amount of floating rate notes due 2003 and 2004 was outstanding, which may be repaid by us at any time at par. See Description of Indebtedness.

In the event that the gross proceeds from this offering and the other financing transactions exceed $650 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 gross proceeds to pay for the purchase of inventory at closing or fund our investment in accounts receivable that will result as refinery operations commence. Any inventory purchased by us at closing would not be part of the proposed crude oil supply and product offtake agreement with MSCG.

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 proceeds of this offering and the debt financing:

	Amount
	(in millions)
Sources:	
Proceeds from this offering	$ 250.0
Proceeds from the debt financing	400.0
Total sources	$ 650.0
Uses:	
Purchase of the Memphis refinery and related assets	$ 315.0
Redemption of the 11 1/2% subordinated debentures	42.4
Repayment of the floating rate notes	240.0
General corporate purposes	16.6
Fees and expenses	36.0
Total uses	$ 650.0

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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

On January 21, 2003, the last reported sales price of our common stock on the NYSE was $21.44 per share. As of January 21, 2003, there were 15 shareholders of record.

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. See Description of Indebtedness. 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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CAPITALIZATION

The following table sets forth our cash, cash equivalents and short-term investments and capitalization as of September 30, 2002:

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

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

	As of September 30, 2002	
	Actual	**As Adjusted**
	(in millions)	
Cash, cash equivalents and short-term investments (1)	$ 209.9	$ 226.5
Debt (2):		
Port Arthur Finance Corp.:		
12 1/2% Senior Secured Notes due 2009	$ 250.7	$ 250.7
Premcor Refining Group:		
Floating Rate Loans due 2003 and 2004	240.0	
8 3/8% Senior Notes due 2007	99.6	99.6
8 5/8% Senior Notes due 2008	109.8&nbs	