

PREMCOR INC  
Form 10-Q  
July 28, 2003  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2003

OR

**“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

<b>Commission File Number</b>	<b>Exact Name of Registrant as Specified in its Charter, Principal Office Address and Telephone Number</b>	<b>State of Incorporation</b>	<b>I.R.S. Employer Identification No.</b>
1-16827	Premcor Inc.  1700 East Putnam Avenue, Suite 400  Old Greenwich, Connecticut 06870  (203) 698-7500	Delaware	43-1851087
1-11392	The Premcor Refining Group Inc.  1700 East Putnam Avenue, Suite 400	Delaware	43-1491230

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Old Greenwich, Connecticut 06870

(203) 698-7500

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Premcor Inc.	Yes <input type="checkbox"/>	No <input type="checkbox"/>
The Premcor Refining Group Inc.	Yes <input type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark if the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Premcor Inc.	Yes <input type="checkbox"/>	No <input type="checkbox"/>
The Premcor Refining Group Inc.	Yes <input type="checkbox"/>	No <input type="checkbox"/>

Number of shares of the registrant's common stock (only one class for each registrant) outstanding as of July 15, 2003:

Premcor Inc.	74,086,860 shares
The Premcor Refining Group Inc.	100 shares (100% owned by Premcor USA Inc., a direct wholly owned subsidiary of Premcor Inc.)

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**Form 10-Q**

**June 30, 2003**

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**FORM 10-Q PART I. FINANCIAL INFORMATION**

This Quarterly Report on Form 10-Q represents a combined report for two registrants, Premcor Inc. and its indirectly wholly owned subsidiary, The Premcor Refining Group Inc., or PRG. PRG is the principal operating company and together with its wholly owned subsidiary, Sabine River Holding Corp. and its subsidiaries, or Sabine, owns and operates three refineries. Sabine's principal operating company is Port Arthur Coker Company L.P., or PACC. The results of operations for Premcor Inc. principally reflect the results of operations of PRG, except for certain pipeline operations, general and administrative costs, interest income and interest expense at stand-alone Premcor Inc. and/or its other subsidiaries. Included in this Quarterly Report on Form 10-Q are balance sheets, statements of operations, and statements of cash flows for the applicable periods for Premcor Inc. and PRG. The information reflected in the combined, consolidated footnotes are equally applicable to both companies except where indicated otherwise.

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**ITEM 1. FINANCIAL STATEMENTS**

**INDEPENDENT ACCOUNTANTS REPORT**

To the Board of Directors of Premcor Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Premcor Inc. and subsidiaries (the Company) as of June 30, 2003, the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2003 and 2002, and the related condensed consolidated statements of cash flows for the six-month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 14, 2003 (March 6, 2003 as to Note 22) (which report includes an explanatory paragraph relating to the Company's change in its method of accounting for stock based compensation issued to employees as described in Note 2), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche LLP

St. Louis, Missouri

July 23, 2003

**Table of Contents****PREMCOR INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions, except share data)

	June 30, 2003	December 31, 2002
	(unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 446.0	\$ 167.4
Short-term investments	5.9	4.9
Cash and cash equivalents restricted for debt service	66.9	61.7
Accounts receivable, net of allowance of \$3.5 and \$3.2	437.1	269.1
Inventories	582.5	287.3
Prepaid expenses	57.0	45.9
Assets held for sale	40.2	49.3
	<u>1,635.6</u>	<u>885.6</u>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>1,610.1</b>	<b>1,262.6</b>
<b>DEFERRED INCOME TAXES</b>	<b>23.8</b>	<b>57.5</b>
<b>OTHER ASSETS</b>	<b>121.6</b>	<b>117.3</b>
	<u>\$ 3,391.1</u>	<u>\$ 2,323.0</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 549.6	\$ 466.2
Accrued expenses and other	96.4	57.2
Accrued taxes other than income	46.4	26.3
Current portion of long-term debt	21.2	15.0
	<u>713.6</u>	<u>564.7</u>
<b>LONG-TERM DEBT</b>	<b>1,439.9</b>	<b>909.9</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>148.6</b>	<b>144.4</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>COMMON STOCKHOLDERS EQUITY:</b>		
Common, \$0.01 par value per share, 150,000,000 authorized, 74,085,860 issued and outstanding in 2003; 58,043,935 issued and outstanding in 2002	0.7	0.6
Paid-in capital	1,177.4	862.3
Accumulated deficit	(89.1)	(158.9)
	<u>1,089.0</u>	<u>704.0</u>
<b>Total common stockholders equity</b>	<b>1,089.0</b>	<b>704.0</b>
	<u>\$ 3,391.1</u>	<u>\$ 2,323.0</u>

The accompanying notes are an integral part of these financial statements.



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## PREMCOR INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in millions, except per share data)

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2003	2002	2003	2002
NET SALES AND OPERATING REVENUES	\$ 2,619.9	\$ 1,679.0	\$ 4,996.2	\$ 2,907.3
EXPENSES:				
Cost of sales	2,354.6	1,523.4	4,463.5	2,585.0
Operating expense	134.4	114.1	251.6	228.6
General and administrative expenses	15.7	14.4	27.4	28.9
Stock-based compensation	4.4	3.8	8.7	5.7
Depreciation	16.0	11.8	30.6	24.2
Amortization	9.1	10.1	18.6	19.9
Refinery restructuring and other charges	0.7	16.6	15.7	158.6
	<u>2,534.9</u>	<u>1,694.2</u>	<u>4,816.1</u>	<u>3,050.9</u>
OPERATING INCOME (LOSS)	85.0	(15.2)	180.1	(143.6)
Interest and finance expense	(30.4)	(32.9)	(57.3)	(67.4)
Loss on extinguishment of long-term debt	(3.4)	(19.3)	(10.4)	(19.3)
Interest income	1.3	2.9	2.9	6.4
	<u>52.5</u>	<u>(64.5)</u>	<u>115.3</u>	<u>(223.9)</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST				
Income tax (provision) benefit	(18.0)	23.5	(39.0)	84.9
Minority interest		0.9		1.7
	<u>34.5</u>	<u>(40.1)</u>	<u>76.3</u>	<u>(137.3)</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS				
Loss from discontinued operations, net of income tax benefit of \$1.3 and \$4.0	(2.2)		(6.5)	
	<u>32.3</u>	<u>(40.1)</u>	<u>69.8</u>	<u>(137.3)</u>
NET INCOME (LOSS)				
Preferred stock dividends				(2.5)
	<u>\$ 32.3</u>	<u>\$ (40.1)</u>	<u>\$ 69.8</u>	<u>\$ (139.8)</u>
Basic net income (loss) per common share:				
Income (loss) from continuing operations	\$ 0.47	\$ (0.82)	\$ 1.07	\$ (3.47)
Discontinued operations	(0.03)		(0.09)	
	<u>\$ 0.44</u>	<u>\$ (0.82)</u>	<u>\$ 0.98</u>	<u>\$ (3.47)</u>
Weighted average common shares outstanding	74.1	48.7	71.5	40.3
Diluted net income (loss) per common share:				



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Income (loss) from continuing operations	\$ 0.46	\$ (0.82)	\$ 1.06	\$ (3.47)
Discontinued operations	(0.03)		(0.09)	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income (loss)	\$ 0.43	\$ (0.82)	\$ 0.97	\$ (3.47)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Weighted average common shares outstanding	74.8	48.7	72.2	40.3

The accompanying notes are an integral part of these financial statements.

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## PREMCOR INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in millions)

	For the Six Months	
	Ended June 30,	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 69.8	\$ (137.3)
Adjustments:		
Loss on discontinued operations	10.5	
Depreciation	30.6	24.2
Amortization	23.3	24.9
Deferred income taxes	33.7	(85.3)
Stock-based compensation	8.7	5.7
Minority interest		(1.7)
Refinery restructuring and other charges	13.6	103.6
Write-off of deferred financing costs	5.4	9.5
Other, net	6.7	11.8
Cash provided by (reinvested in) working capital		
Accounts receivable, prepaid expenses and other	(170.1)	(116.6)
Inventories	(129.9)	(11.5)
Accounts payable, accrued expenses, taxes other than income, and other	123.8	113.0
Cash and cash equivalents restricted for debt service	(0.3)	8.3
	<u>25.8</u>	<u>(51.4)</u>
Net cash provided by (used in) operating activities of continuing operations	25.8	(51.4)
Net cash used in operating activities of discontinued operations	(3.1)	(3.4)
	<u>22.7</u>	<u>(54.8)</u>
Net cash provided by (used in) operating activities	22.7	(54.8)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for property, plant and equipment	(60.7)	(38.5)
Expenditures for turnaround	(9.5)	(31.7)
Expenditures for refinery acquisition	(474.8)	
Purchase of short-term investments	(1.0)	
Cash and cash equivalents restricted for investment in capital additions	0.2	4.3
Other		0.2
	<u>(545.8)</u>	<u>(65.7)</u>
Net cash used in investing activities	(545.8)	(65.7)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the issuance of common stock, net	306.5	482.0
Proceeds from the issuance of long-term debt	825.0	
Long-term debt and capital lease payments	(299.6)	(637.1)
Cash and cash equivalents restricted for debt repayment	(4.9)	(42.9)
Deferred financing costs	(25.3)	(11.1)

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Net cash provided by (used in) financing activities	<u>801.7</u>	<u>(209.1)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<b>278.6</b>	<b>(329.6)</b>
CASH AND CASH EQUIVALENTS, beginning of period	<b>167.4</b>	510.1
CASH AND CASH EQUIVALENTS, end of period	<b><u>\$ 446.0</u></b>	<b><u>\$ 180.5</u></b>

The accompanying notes are an integral part of these financial statements.

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**INDEPENDENT ACCOUNTANTS REPORT**

To the Board of Directors of The Premcor Refining Group Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of The Premcor Refining Group Inc. and subsidiaries (the Company ) as of June 30, 2003, the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2003 and 2002, and the related condensed consolidated statements of cash flows for the six-month periods then ended. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2002, and the related consolidated statements of operations, stockholder s equity, and cash flows for the year then ended (not presented herein). In our report dated February 14, 2003 (March 6, 2003 as to Note 20) (which report includes an explanatory paragraph relating to the Company s change in its method of accounting for stock based compensation issued to employees and the restatement of the consolidated financial statements to give effect to the contribution of Sabine River Holding Corp. common stock owned by Premcor Inc. (the Company s parent company) to the Company, which was accounted for in a manner similar to a pooling of interests as described in Notes 2 and 3), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

St. Louis, Missouri

July 23, 2003

**Table of Contents****THE PREMCOR REFINING GROUP INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions, except share data)

	June 30, 2003 <u>(unaudited)</u>	December 31, 2002
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 398.0	\$ 119.7
Short-term investments	1.7	1.7
Cash and cash equivalents restricted for debt service	66.9	61.7
Accounts receivable, net of allowance of \$3.5 and \$3.2	436.9	269.0
Receivables from affiliates	30.3	13.1
Inventories	582.5	287.3
Prepaid expenses and other	56.7	45.7
Assets held for sale	40.2	49.3
	<u>1,613.2</u>	<u>847.5</u>
Total current assets	1,613.2	847.5
PROPERTY, PLANT AND EQUIPMENT, NET	1,584.0	1,261.7
DEFERRED INCOME TAXES		19.8
OTHER ASSETS	121.6	117.3
	<u>\$ 3,318.8</u>	<u>\$ 2,246.3</u>
<b>LIABILITIES AND STOCKHOLDER S EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 549.3	\$ 466.2
Payables to affiliates	46.4	41.0
Accrued expenses and other	97.3	55.7
Accrued taxes other than income	46.4	26.4
Current portion of long-term debt	20.9	15.0
	<u>760.3</u>	<u>604.3</u>
Total current liabilities	760.3	604.3
LONG-TERM DEBT	1,429.7	869.8
DEFERRED INCOME TAXES	9.2	
OTHER LONG-TERM LIABILITIES	148.6	144.4
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDER S EQUITY:		
Common, \$0.01 par value per share, 100 issued and outstanding		
Paid-in capital	813.7	541.4
Retained earnings	157.3	86.4
	<u>971.0</u>	<u>627.8</u>
Total common stockholder s equity	971.0	627.8
	<u>\$ 3,318.8</u>	<u>\$ 2,246.3</u>



The accompanying notes are an integral part of these financial statements.

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**THE PREMCOR REFINING GROUP INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited, in millions)

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2003	2002	2003	2002
NET SALES AND OPERATING REVENUES	\$ 2,619.3	\$ 1,679.0	\$ 4,995.1	\$ 2,907.3
EXPENSES:				
Cost of sales	2,356.7	1,526.3	4,466.3	2,588.3
Operating expenses	133.2	113.9	249.9	228.3
General and administrative expenses	15.6	14.4	27.3	28.8
Stock-based compensation	4.4	3.8	8.7	5.7
Depreciation	15.7	11.8	30.2	24.2
Amortization	9.1	10.1	18.6	19.9
Refinery restructuring and other charges	0.7	16.6	15.7	158.6
	<u>2,535.4</u>	<u>1,696.9</u>	<u>4,816.7</u>	<u>3,053.8</u>
OPERATING INCOME (LOSS)	83.9	(17.9)	178.4	(146.5)
Interest and finance expense	(29.9)	(27.5)	(56.1)	(58.0)
Loss on extinguishment of long-term debt	(3.4)	(9.3)	(8.1)	(9.3)
Interest income	1.5	2.2	2.6	4.4
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	52.1	(52.5)	116.8	(209.4)
Income tax (provision) benefit	(17.8)	19.4	(39.4)	80.0
Minority interest		0.9		1.7
INCOME (LOSS) FROM CONTINUING OPERATIONS	34.3	(32.2)	77.4	(127.7)
Loss from discontinued operations, net of income tax benefit of \$1.3 and \$4.0	(2.2)		(6.5)	
NET INCOME (LOSS)	<u>\$ 32.1</u>	<u>\$ (32.2)</u>	<u>\$ 70.9</u>	<u>\$ (127.7)</u>

The accompanying notes are an integral part of these financial statements.

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**THE PREMCOR REFINING GROUP INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited, in millions)

	For the Six Months	
	Ended June 30,	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 70.9	\$ (127.7)
Adjustments:		
Loss on discontinued operations	10.5	
Depreciation	30.2	24.2
Amortization	23.3	24.8
Deferred income taxes	29.0	(80.5)
Stock-based compensation	8.7	5.7
Minority interest		(1.7)
Refinery restructuring and other charges	13.6	103.6
Write-off of deferred financing costs	5.4	7.9
Other, net	6.9	11.5
Cash provided by (reinvested in) working capital		
Accounts receivable, prepaid expenses and other	(169.9)	(125.9)
Inventories	(129.9)	(11.5)
Accounts payable, accrued expenses, taxes other than income, and other	125.9	109.6
Affiliate receivables and payables	3.2	14.8
Cash and cash equivalents restricted for debt service	(0.3)	8.3
	<u>27.5</u>	<u>(36.9)</u>
Net cash provided by (used in) operating activities of continuing operations	27.5	(36.9)
Net cash used in operating activities of discontinued operations	(3.1)	(3.4)
	<u>24.4</u>	<u>(40.3)</u>
Net cash provided by (used in) operating activities	24.4	(40.3)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for property, plant and equipment	(60.7)	(38.5)
Expenditures for turnaround	(9.5)	(31.7)
Expenditures for refinery acquisition	(474.8)	
Cash and cash equivalents restricted for investment in capital additions	0.2	4.3
Other		0.2
	<u>(544.8)</u>	<u>(65.7)</u>
Net cash used in investing activities	(544.8)	(65.7)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term debt	825.0	
Long-term debt and capital lease payments	(259.4)	(438.6)
Capital contributions, net	263.3	234.6
Cash and cash equivalents restricted for debt repayment	(4.9)	(42.9)
Deferred financing costs	(25.3)	(11.1)
	<u>798.7</u>	<u>(258.0)</u>
Net cash provided by (used in) financing activities	798.7	(258.0)



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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>278.3</u>	<u>(364.0)</u>
CASH AND CASH EQUIVALENTS, beginning of period	<u>119.7</u>	<u>482.5</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 398.0</u>	<u>\$ 118.5</u>

The accompanying notes are an integral part of these financial statements.

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**FORM 10-Q PART I**

**ITEM 1. FINANCIAL STATEMENTS (continued)**

**PREMCOR INC. AND SUBSIDIARIES**

**THE PREMCOR REFINING GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**June 30, 2003**

(Tabular amounts in millions, except per share data)

**1. Nature of Business and Basis of Preparation**

Premcor Inc., together with its subsidiaries, (the Company) is an independent petroleum refiner and supplier of unbranded transportation fuels, heating oil, petrochemical feedstocks, petroleum coke and other petroleum products. The Company owns and operates three refineries with a combined crude oil throughput capacity of 610,000 barrels per day ( bpd ). The refineries are located in Port Arthur, Texas; Memphis, Tennessee; and Lima, Ohio. The Premcor Refining Group Inc., together with its subsidiaries, ( PRG ) is an indirect, wholly owned subsidiary of Premcor Inc. and together with its indirect subsidiary, Port Arthur Coker Company LP ( PACC ) is the principal operating subsidiary of Premcor Inc. PACC owns and operates a heavy oil processing facility, which is operated in conjunction with PRG's Port Arthur refinery.

The Company's earnings and cash flows from operations are primarily dependent upon processing crude oil and selling quantities of refined petroleum products at margins sufficient to cover operating expenses. Crude oil and refined petroleum products are commodities, and factors largely out of the Company's control can cause prices to vary, in a wide range, over a short period of time. This potential margin volatility can have a material effect on the financial position, current period earnings, and cash flows.

The accompanying unaudited condensed consolidated financial statements of Premcor Inc. and PRG and their respective subsidiaries are presented pursuant to the rules and regulations of the United States Securities and Exchange Commission in accordance with the disclosure requirements for Form 10-Q. In the opinion of the management of the Company, the unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary to fairly state the results for the interim periods presented. Operating results for the three-month and six-month periods ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. These combined consolidated notes apply equally to the Company and PRG, unless otherwise noted. These unaudited condensed financial statements should be read in conjunction with the audited financial statements and notes included in Premcor Inc.'s and PRG's combined Annual Report on Form 10-K for the year ended December 31, 2002.

**2. New Accounting Standards**

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In July 2001, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires fair value recognition of legal obligations to retire long-lived assets at the time the obligations are incurred. The initial recording of a liability for an asset retirement obligation will require the recording of a corresponding asset. The liability will be adjusted for accretion due to the passage of time and the asset will be depreciated. The Company has asset retirement obligations based on its legal obligations at its refinery sites. The Company considers the settlement date of the obligations indeterminable at this time due to uncertainty about the timing of the retirement of the long-lived assets. Accordingly, the Company cannot calculate an associated asset retirement liability at this time. The Company adopted this standard in the first quarter of 2003, but the initial adoption did not have a material impact on the Company's financial position or results of operations. The Company will measure and recognize the fair value of its asset retirement obligations at such time as a settlement date is determinable.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation requires expanded disclosure of a guarantor's obligation under certain guarantees that it has issued. It also requires that a

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guarantor recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements are effective for interim and annual financial statements issued for periods ending after December 15, 2002. The provisions for the recognition of a liability are effective prospectively for guarantees issued or modified after December 31, 2002. The Company has adopted the recognition provisions in the first quarter of 2003 with no material impact on its financial statements.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*. This interpretation clarifies consolidation requirements for variable interest entities. It establishes additional factors beyond ownership of a majority voting interest to indicate that a company has a controlling financial interest in an entity (or a relationship sufficiently similar to a controlling financial interest that it requires consolidation). This interpretation applies immediately to variable interest entities created or obtained after January 31, 2003 and must be retroactively applied to holdings in variable interest entities acquired before February 1, 2003 in interim and annual financial statements issued for periods beginning after June 15, 2003. The adoption of this interpretation did not have a material impact on the Company's financial statements.

In April 2003, the agenda committee of the Emerging Issues Task Force (EITF) of the FASB placed the discussion of Issue No. 02-L, *Reporting Gains and Losses on Derivative Instruments That are Subject to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes*, on the agenda for its future meetings. It is anticipated the EITF will address Issue No. 02-L which deals with certain aspects of EITF 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*. EITF 02-3 currently requires that gains and losses on all derivative instruments within the scope of SFAS No. 133 be shown net in the income statement, whether or not settled physically, if the derivative instruments are held for trading purposes. The EITF is expected to address the income statement classification of gains and losses on energy contracts within the scope of SFAS No. 133 that are not held for trading purposes and the applicability of EITF 99-19 to such transactions. Energy contract arrangements that are settled physically qualify for gross reporting pursuant to EITF 99-19. Any consensus reached by the EITF on this issue may require changes in the Company's presentation of revenue and cost of sales. The Company does not expect that any such changes will have an impact on its gross margin.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts. More specifically, SFAS No. 149, among other things, clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative, clarifies when a derivative contains a financing component, and amends the definition of an underlying to conform to recently issued standards. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except for certain aspects of the standard that relate to previously issued guidance, which should continue to be applied in accordance with the previously set effective dates. Also, this standard is effective for existing and new contracts entered into after June 30, 2003 as they relate to forward purchases or sales of when-issued securities or other securities that do not yet exist. The Company does not expect the adoption of this standard will have a material impact on its financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires classification of a financial instrument that is within its scope as a liability, or an asset in some circumstances. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and shall otherwise be effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of a nonpublic entity. For instruments created before the issuance of SFAS No. 150 and still existing at the beginning of the interim period of adoption, this standard shall be implemented by reporting the cumulative effect of a change in an accounting principle. The adoption of this standard did not have a material impact on the Company's financial statements.

### **3. Memphis Refinery Acquisition**

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Effective March 3, 2003, the Company completed the acquisition of the Memphis, Tennessee refinery and related supply and distribution assets from The Williams Companies, Inc. and certain of its subsidiaries ( Williams ) at a purchase price of \$310 million plus approximately \$159 million for crude and product inventories,

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and approximately \$6 million in transaction fees. 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. The transfer of certain of these assets remains subject to obtaining certain third party consents. No portion of the purchase price was held back relative to this delayed transfer, and the Company is able to utilize the assets based on interim agreements.

The acquisition of the Memphis refinery and related supply and distribution assets was accounted for using the purchase method, and the results of operations of these assets have been included in the Company's year-to-date results from the date of acquisition. The preliminary purchase price allocation, which is subject to change pending completion of independent appraisals and other evaluations including the assessment of any asset retirement obligations, is as follows:

Current assets	\$ 174.3
Property, plant, and equipment	321.9
Accrued liabilities (including current portion of long-term debt)	(11.2)
Long-term debt (capital leases)	(10.2)
	<hr/>
	\$ 474.8
	<hr/>

As part of the purchase agreement, the Company assumed liabilities of \$11.2 million that primarily related to cancellation fees for contracts entered into by Williams for Tier II technology that will not be utilized by the Company and environmental remediation of a recently closed land farm. Williams assigned several leases to the Company including two capitalized leases that relate to the leasing of crude oil and product pipelines that are within the Memphis refinery system connecting the refinery to storage facilities and other third party pipelines. Both capital leases have 15-year terms with approximately 14 years of the term remaining.

The purchase agreement also provides for contingent participation, or earn-out, payments up to a maximum aggregate of \$75 million to Williams over the next seven years, depending on the level of industry refining margins during that period. The earn-out payments will be calculated annually at the end of the seven 12-month periods beginning on April 1, 2003. The annual earn-out calculation will be equal to one-half of the excess of the actual daily value of the Gulf Coast 2/1/1 crack spread over a stipulated margin, at a crude oil throughput rate of 167,123 bpd. The stipulated margin is \$3.25 per barrel for the first year and increases by \$0.10 per barrel for each year thereafter. The actual daily value of the Gulf Coast 2/1/1 crack spread, as defined by the agreement, averaged \$2.88 per barrel for the three-month period from April 1, 2003 through June 30, 2003. Any amounts the Company pays to Williams as a result of the earn-out agreement will be recorded as additional refinery purchase price on the calculation date, and depreciated or amortized accordingly.

PRG acquired the refinery and related assets utilizing a portion of the proceeds from the issuance of \$525 million in senior notes and utilizing capital contributions from Premcor Inc., which were funded from the proceeds of a public and private offering of common stock. See Note 8, Long-term Debt and Note 9, Stockholders' Equity for more details of these transactions. Concurrently, PRG amended and restated its credit agreement to permit the acquisition as described in Note 7, Credit Agreement.

**4. Refinery Restructuring and Other Charges**

In 2003, the Company recorded refinery restructuring and other charges of \$15.7 million, of which \$0.7 million was recorded in the second quarter. The second quarter charge related to the Company's plans to close the St. Louis administrative office. The year-to-date charge also

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included a \$1.6 million reversal in restructuring charge related to the administrative restructuring which began in 2002 and a \$16.6 million charge related to a proposed sale of certain Hartford refinery assets. These activities and transactions are described more fully below.

In 2002, the Company recorded refinery restructuring and other charges of \$158.6 million, of which \$16.6 million was recorded in the second quarter. The second quarter charge consisted of \$6.2 million related to the then anticipated Hartford refinery shutdown, \$6.5 million related to the 2002 restructuring of management and administrative functions, \$2.5 million related to the termination of certain guarantees at PACC, and \$1.4 million related to the write-down of idled assets held for sale. The year-to-date charge consisted of \$137.4 million related to

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the anticipated Hartford refinery shutdown, \$22.3 million related to the 2002 restructuring of management and administrative functions, \$2.5 million related to the termination of certain guarantees at PACC, and \$1.4 million related to the write-down of idled assets held for sale, partially offset by income of \$5.0 million related to the unanticipated sale of a portion of previously written-off Blue Island refinery assets.

*Hartford Refinery Closure and Proposed Sale.* In September 2002, the Company ceased refining operations at its Hartford, Illinois refinery and as of December 31, 2002, had written down the long-lived refining assets to their estimated fair value of \$49.0 million in anticipation of a sale or lease of the refining assets. The Company continues to operate the storage and distribution facility at the refinery site. In the first quarter of 2003, the Company signed a memorandum of understanding with ConocoPhillips for a sale of refining assets and certain storage and distribution assets at the Hartford refinery for \$40 million. The \$16.6 million charge in 2003 related to the sale transaction, which included the write-down of the refining assets held for sale and certain storage and distribution assets included in property, plant and equipment and certain other costs of the sale.

As of December 31, 2002, the Company had a \$1.0 million reserve for employee severance and plant closure/equipment remediation related to the shutdown of the refining operations at the Hartford refinery. The final cash outlays related to the Hartford refinery shutdown were completed in the first quarter of 2003.

*Administrative Restructuring.* As of December 31, 2002, the Company had a \$4.9 million reserve for plans announced in the third quarter of 2002 to reduce staff at the St. Louis administrative office in early 2003. As a result of the Memphis refinery acquisition, the number of positions to be eliminated had been reduced by 25 and the Company recorded a reduction in the restructuring reserve of \$1.6 million in the first quarter of 2003. In May 2003, the Company announced that it would be closing the St. Louis office and moving the administrative functions to the Connecticut office over the next six to twelve months. The office move is expected to cost approximately \$12.8 million, which includes \$6.9 million of severance related benefits and \$5.9 million of other costs such as training, relocation, and the movement of physical assets. The severance related costs will be amortized over the future service period of the affected employees and the other costs will be expensed as incurred.

The following table summarizes the expected costs associated with the administrative restructuring and provides a reconciliation of the administrative restructuring reserve as of June 30, 2003:

	<b>Severance</b>	<b>Other Costs</b>	<b>Total Costs</b>
	<u>        </u>	<u>        </u>	<u>        </u>
<b>Summary of Expected Costs:</b>			
Expected total cost	\$ 6.9	\$ 5.9	\$ 12.8
Costs incurred this quarter	0.7		0.7
Cumulative costs incurred to date	0.7		0.7
<b>Reserve Activity:</b>			
Beginning balance, December 31, 2002	\$ 4.9	\$	\$ 4.9
Costs incurred	0.7		0.7
Adjustments	(1.6)		(1.6)
Net cash outlays	(2.2)		(2.2)
	<u>        </u>	<u>        </u>	<u>        </u>
Ending balance, June 30, 2003	\$ 1.8	\$	\$ 1.8
	<u>        </u>	<u>        </u>	<u>        </u>



**5. Inventories**

The carrying value of inventories consisted of the following:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2003</b>	<b>2002</b>
	<u>          </u>	<u>          </u>
Crude oil	\$ 226.2	\$ 63.8
Refined products and blendstocks	330.2	204.5
Warehouse stock and other	26.1	19.0
	<u>          </u>	<u>          </u>
	<b>\$ 582.5</b>	<b>\$ 287.3</b>
	<u>          </u>	<u>          </u>

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The market value of crude oil, refined products and blendstock inventories at June 30, 2003 was approximately \$126 million (December 31, 2002 \$188 million) above carrying value.

**6. Other Assets**

Other assets consisted of the following:

	June 30,	December 31,
	2003	2002
Deferred turnaround costs	\$ 77.2	\$ 86.3
Deferred financing costs	39.5	24.2
Cash restricted for investment in capital additions		2.6
Other	4.9	4.2
	<b>\$ 121.6</b>	<b>\$ 117.3</b>

Amortization of deferred financing costs for the three-month and six-month periods ended June 30, 2003 was \$2.3 million (2002 \$2.5 million) and \$4.6 million (2002 \$5.0 million), respectively, for the Company and was included in Interest and finance expense. Amortization of deferred financing costs for the three-month and six-month periods ended June 30, 2003 was \$2.3 million (2002 \$2.4 million) and \$4.6 million (2002 \$4.9 million), respectively, for PRG. In 2003, the Company incurred deferred financing costs of \$25.3 million related to the amendment of its credit agreement and the issuance of \$825 million in senior notes under two separate offerings. In 2003, the Company wrote-off \$5.4 million of unamortized deferred financing costs related to the purchase of a portion of its 12 1/2% Senior Notes due January 15, 2009, early repayment of the Floating Rate Term Loan due November 15, 2003 and 2004, and the amendment of its credit agreement.

**7. Credit Agreement**

PRG's credit agreement, which was amended and restated in February 2003, provides for letter of credit issuances of up to the lesser of \$750 million or an amount available under a defined borrowing base, less outstanding borrowings. The facility may be increased to \$800 million under certain circumstances. PRG utilizes this facility primarily for the issuance of letters of credit to secure crude oil purchase obligations. The borrowing base includes PRG's unrestricted cash and eligible cash equivalents, eligible investments, eligible receivables, eligible petroleum inventories, paid but unexpired letters of credit, net obligations on swap contracts and PACC's eligible hydrocarbon inventory. The credit agreement expires in February 2006. As of June 30, 2003, the borrowing base was \$1,130.9 million (December 31, 2002 \$815.3 million), with \$463.7 million (December 31, 2002 \$597.1 million) of the facility utilized for letters of credit.

The credit agreement provides for direct cash borrowings of up to, but not exceeding, in the aggregate \$200 million, subject to sublimits of \$75 million for working capital and general corporate purposes and \$150 million for acquisition-related working capital. Acquisition-related borrowings are subject to a defined repayment provision. Borrowings under the credit agreement are secured by a lien on substantially all of PRG's unrestricted cash and cash equivalents, receivables, crude oil and refined product inventories and trademarks and PACC's hydrocarbon inventory. PRG's interest rate for any borrowings under this agreement would bear interest at a rate based on either the U.S. prime lending rate or

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the Eurodollar rate plus a defined margin, at PRG's option, based on certain restrictions. As of June 30, 2003 and December 31, 2002, there were no direct cash borrowings under the credit agreement.

The credit agreement contains covenants and conditions that, among other things, limit PRG's dividends, indebtedness, liens, investments and contingent obligations. PRG is also required to comply with certain financial covenants, including the maintenance of minimum working capital of \$150 million and the maintenance of minimum tangible net worth of \$650 million. The covenants also provide for a cumulative cash flow test that from January 1, 2003 must not be less than zero.

**Table of Contents****8. Long-term Debt**

Long-term debt consisted of the following:

	June 30, 2003	December 31, 2002
12½% Senior Notes due January 15, 2009 ( 12 ½% Senior Notes ) (1)	\$ 231.6	\$ 250.7
8 <sup>3</sup> / <sub>8</sub> % Senior Notes due November 15, 2007  ( 8 <sup>3</sup> / <sub>8</sub> % Senior Notes ) (2)	 99.7	 99.7
8 <sup>5</sup> / <sub>8</sub> % Senior Notes due August 15, 2008  ( 8 <sup>5</sup> / <sub>8</sub> % Senior Notes ) (2)	 109.9	 109.8
9¼% Senior Notes due February 1, 2010 ( 9¼% Senior Notes ) (2)	175.0	
9½% Senior Notes due February 1, 2013 ( 9½% Senior Notes ) (2)	350.0	
7½% Senior Notes due June 15, 2015 ( 7½% Senior Notes ) (2)	300.0	
8 <sup>7</sup> / <sub>8</sub> % Senior Subordinated Notes due November 15, 2007  ( 8 <sup>7</sup> / <sub>8</sub> % Senior Subordinated Notes ) (2)	 174.4	 174.4
Floating Rate Term Loan due November 15, 2003 and 2004  ( Floating Rate Loan ) (2)		240.0
11½% Subordinated Debentures due October 1, 2009  ( 11½% Subordinated Debentures ) (3)		40.1
Ohio Water Development Authority Environmental Facilities		
Revenue Bonds due December 1, 2031 (2)	10.0	10.0
Obligation under capital leases (4)	10.5	0.2
	<u>1,461.1</u>	<u>924.9</u>
Less current portion	21.2	15.0
Total long-term debt at Premcor Inc.	<u>\$ 1,439.9</u>	<u>\$ 909.9</u>

- (1) Issued or borrowed by Port Arthur Finance Corp., a subsidiary of PACC  
(2) Issued or borrowed by stand-alone PRG  
(3) Issued or borrowed by Premcor USA Inc., a subsidiary of Premcor Inc.  
(4) Assumed by The Premcor Pipeline Co., a subsidiary of Premcor USA Inc.

In February 2003, PRG completed an offering of senior notes, of which \$350 million, due in 2013, bear interest at 9½% per annum and \$175 million, due in 2010, bear interest at 9¼% per annum. In June 2003, PRG completed a private placement offering of \$300 million of 7½% Senior Notes due in 2015.

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In February 2003, the Company redeemed the \$40.1 million principal balance of Premcor USA Inc. s 11½% Subordinated Debentures at a \$2.3 million premium and repaid PRG s Floating Rate Term Loan at par with a portion of the proceeds from the common stock offerings described in Note 9, Stockholders Equity and the senior notes issued in February 2003. In May 2003, PRG purchased \$14.7 million in face value of the 12½% Senior Notes at a \$2.7 million premium.

PRG s long-term debt, including current maturities, as of June 30, 2003 was \$1,450.6 million and is the same as the Premcor Inc. long-term debt as noted in the table above except that it excludes the \$10.5 million of capital lease obligations. The Premcor Pipeline Co. assumed these lease obligations as part of the Memphis acquisition. PRG s long-term debt, including current maturities, as of December 31, 2002 was \$884.8 million and is the same as the Premcor Inc. long-term debt as noted in the table above except that it excludes the \$40.1 million in 11½% Subordinated Debentures issued by Premcor USA.

**Table of Contents***Loss on Extinguishment of Long-term Debt*

For the three-month and six-month periods ended June 30, 2003, the Company recorded a loss on extinguishment of long-term debt of \$3.4 million and \$10.4 million (PRG \$3.4 million and \$8.1 million), respectively, related to the early redemption and purchase of long-term debt described above and credit agreement amendment. In the three months ended June 30, 2003, the loss included cash premiums of \$2.7 million and a write-off of unamortized deferred financing costs of \$0.7 million. In the six months ended June 30, 2003, the loss included a cash premium of \$5.0 million (PRG \$2.7 million) and a write-off of unamortized deferred financing costs of \$5.4 million.

For the three-month and six-month periods ended June 30, 2002, the Company recorded a loss on extinguishment of long-term debt of \$19.3 million (PRG \$9.3 million) primarily related to the early redemption and repurchase of portions of its long-term debt. The loss included cash premiums of \$9.2 million (PRG \$0.9 million), a write-off of unamortized deferred financing costs of \$9.5 million (PRG \$7.8 million), and the write-off of a prepaid debt guarantee fee of \$0.6 million.

**9. Stockholders Equity**

On January 30, 2003, Premcor Inc. completed a public offering of 12.5 million shares of common stock and a private placement of 2.9 million shares of common stock with Blackstone Capital Partners III Merchant Banking Fund L.P. and its affiliates, a subsidiary of Occidental Petroleum Corporation, and certain Premcor executives. On February 5, 2003, Premcor Inc. sold an additional 0.6 million shares of common stock pursuant to the underwriters' over-allotment option. Premcor Inc. received net proceeds of approximately \$306 million from these transactions.

**10. Stock-based Compensation Expense**

As of June 30, 2003, the Company had outstanding stock awards accounted for under the intrinsic value method of APB Opinion No. 25, *Accounting for Stock Issued to Employee* (awards granted prior to January 1, 2002). The following table illustrates the effect on net income and earnings per share if the fair value based method of SFAS No. 123 had been applied to all outstanding awards in each period as opposed to only the awards granted or modified after January 1, 2002.

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2003	2002	2003	2002
Net income (loss), as reported	\$ 32.3	\$ (40.1)	\$ 69.8	\$ (139.8)
Add: Stock-based compensation expense included in reported net income, net of tax effect	2.9	2.4	5.7	7.2
Deduct: Stock-based compensation expense determined under fair value based	(2.9)	(2.6)	(5.7)	(7.5)

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method for all options, net of tax effect				
	—	—	—	—
Pro forma net income (loss)	<b>\$ 32.3</b>	\$ (40.3)	<b>\$ 69.8</b>	\$ (140.1)
Earnings per share:				
Basic-as reported	<b>\$ 0.44</b>	\$ (0.82)	<b>\$ 0.98</b>	\$ (3.47)
Basic-pro forma	<b>\$ 0.44</b>	\$ (0.83)	<b>\$ 0.98</b>	\$ (3.48)
Diluted-as reported	<b>\$ 0.43</b>	\$ (0.82)	<b>\$ 0.97</b>	\$ (3.47)
Diluted-pro forma	<b>\$ 0.43</b>	\$ (0.83)	<b>\$ 0.97</b>	\$ (3.48)

**Table of Contents****11. Interest and Finance Expense**

Interest and finance expense for the Company included in the statements of operations consisted of the following:

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2003	2002	2003	2002
Interest expense	\$ 31.4	\$ 30.7	\$ 58.2	\$ 62.8
Financing costs	2.3	3.5	4.7	7.7
Capitalized interest	(3.3)	(1.3)	(5.6)	(3.1)
	<b>\$ 30.4</b>	<b>\$ 32.9</b>	<b>\$ 57.3</b>	<b>\$ 67.4</b>

Interest and finance expense for PRG included in the statements of operations consisted of the following:

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2003	2002	2003	2002
Interest expense	\$ 30.9	\$ 25.3	\$ 57.0	\$ 53.5
Financing costs	2.3	3.5	4.7	7.6
Capitalized interest	(3.3)	(1.3)	(5.6)	(3.1)
	<b>\$ 29.9</b>	<b>\$ 27.5</b>	<b>\$ 56.1</b>	<b>\$ 58.0</b>

Cash paid for interest for the three-month and six-month periods ended June 30, 2003 was \$13.1 million (2002 \$33.3 million) and \$38.2 million (2002 \$71.2 million), respectively, for the Company. Cash paid for interest for the three-month and six-month periods ended June 30, 2003 was \$12.7 million (2002 \$25.2 million) and \$35.8 million (2002 \$63.0 million), respectively, for PRG.

**12. Income Taxes**

The Company made net cash income tax payments of \$2.3 million in both the three-month and six-month periods ended June 30, 2003. The Company received net cash income tax refunds during the three-month and six-month periods ended June 30, 2002 of \$0.7 million and \$12.4



million, respectively. PRG made net cash income tax payments of \$0.2 million in both the three-month and six-month periods ended June 30, 2003. PRG received net cash income tax refunds during the three-month and six-month periods ended June 30, 2002 of \$0.7 million and \$12.4 million, respectively.

### 13. Discontinued Operations

In connection with the 1999 sale of PRG's retail assets to Clark Retail Enterprises, Inc. ( CRE ), PRG assigned approximately 170 leases and subleases of retail stores to CRE. PRG remains jointly and severally liable for CRE's obligations under approximately 150 of these leases, including payment of rent and taxes. PRG may also be contingently liable for environmental obligations at these sites. In October 2002, CRE and its parent company, Clark Retail Group, Inc., filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In bankruptcy hearings throughout the first and second quarter of 2003, CRE rejected approximately 30 of these leases. The Company recorded an after-tax charge of \$2.2 million and \$6.5 million for the three-month and six-month periods ended June 30, 2003, respectively, representing the estimated net present value of its remaining liability under these rejected leases, net of estimated sub-lease income, and other direct costs. The future lease payments on the remaining properties is currently estimated as follows: (in million) 2003 \$9.8, 2004 \$10.1, 2005 \$10.5, 2006 \$10.9, 2007 \$11.3, and in the aggregate thereafter \$84.2. In May 2003, CRE announced that it would conduct an orderly sale of its retail assets, including the lease sites that have not been rejected. In efforts to mitigate

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any losses the Company might incur as a result of the CRE bankruptcy, the Company is participating in the marketing of CRE's subleases and discussing alternatives with representatives of CRE's interests and with certain landlords. It is possible that the Company may incur additional liability for CRE lease obligations or other costs as CRE finalizes the disposition of the properties; however, the amounts are not estimable at this time and could be material. Should any additional leases revert to the Company, it will attempt to reduce the potential liability by subletting or reassigning the leases. The following table reconciles the activity and balance of the reserve for the lease obligations as well as the Company's environmental liability for previously owned retail sites:

	Lease Obligations	Environmental Obligations of Previously Owned Sites	Total Discontinued Operations
Beginning balance, December 31, 2002	\$ 8.6	\$ 23.0	\$ 31.6
Net present value of lease obligations	8.6		8.6
Accretion and other expenses	2.0		2.0
Net cash outlays	(2.5)	(0.6)	(3.1)
Ending balance, June 30, 2003	<u>\$ 8.1</u>	<u>\$ 22.4</u>	<u>\$ 30.5</u>

**14. Earnings per Share**

The common stock shares used to compute the Company's basic and diluted earnings per share were as follows:

	For the Three Months		For the Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Weighted average common shares outstanding	74.1	48.7	71.5	40.3
Dilutive effect of stock options	0.7		0.7	
Weighted average common shares outstanding, assuming dilution	<u>74.8</u>	48.7	<u>72.2</u>	40.3

Stock options for 4.4 million common shares for both the three-month and six-month periods ended June 30, 2003, were excluded from the diluted earnings per share calculation because they were anti-dilutive. Stock options and warrants representing common stock equivalents of 6.2 million and 6.6 million shares were excluded from diluted shares outstanding for the three-month and six-month periods ended June 30, 2002 due to their anti-dilutive effect as a result of the Company's net loss.



**Table of Contents****15. Condensed Consolidating Financial Statements of PRG as Co-guarantor of PAFC's Senior Notes**

Presented below are the PRG condensed consolidating balance sheets, statement of operations, and cash flows as required by Rule 3-10 of the Securities Exchange Act of 1934. PRG along with PACC, PRG's wholly owned subsidiary, Sabine River Holding Corp. (Sabine), and various other subsidiaries of Sabine are full and unconditional guarantors of Port Arthur Finance Corp.'s (PAFC) 12½% Senior Notes. PAFC is a wholly owned subsidiary of PACC. Under Rule 3-10, the condensed consolidating balance sheets, statement of operations, and cash flows presented below meet the requirements for financial statements of the issuer and each guarantor of the notes since the issuer and guarantors are all direct or indirect wholly owned subsidiaries of PRG, and all guarantees are full and unconditional and joint and several.

**THE PREMCOR REFINING GROUP INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET**

As of June 30, 2003

(unaudited, in millions)

	<u>PRG</u>	<u>PAFC</u>	<u>Other Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated PRG</u>
<b>ASSETS</b>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 398.0	\$	\$	\$	\$ 398.0
Short-term investments	1.7				1.7
Cash and cash equivalents restricted for debt service			66.9		66.9
Accounts receivable	437.4		0.3	(0.8)	436.9
Receivable from affiliates	90.6	35.1	40.0	(135.4)	30.3
Inventories	538.5		44.0		582.5
Prepaid expenses and other	51.3		5.4		56.7
Assets held for sale	40.2				40.2
	<u>1,557.7</u>	<u>35.1</u>	<u>156.6</u>	<u>(136.2)</u>	<u>1,613.2</u>
PROPERTY, PLANT AND EQUIPMENT, NET	980.6		603.4		1,584.0
DEFERRED INCOME TAXES	48.5			(48.5)	
INVESTMENT IN AFFILIATE	276.4			(276.4)	
OTHER ASSETS	105.6		16.0		121.6
NOTE RECEIVABLE FROM AFFILIATE		225.4		(225.4)	
	<u>\$ 2,968.8</u>	<u>\$ 260.5</u>	<u>\$ 776.0</u>	<u>\$ (686.5)</u>	<u>\$ 3,318.8</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>					
CURRENT LIABILITIES:					
Accounts payable	\$ 426.3	\$	\$ 123.0	\$	\$ 549.3
Payable to affiliates	77.8		80.6	(112.0)	46.4
Accrued expenses and other	83.2	14.2	0.7	(0.8)	97.3
Accrued taxes other than income	43.4		3.0		46.4
Current portion of long-term debt		20.9			20.9
Current portion of notes payable to affiliate			23.4	(23.4)	

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Total current liabilities	630.7	35.1	230.7	(136.2)	760.3
LONG-TERM DEBT	1,219.0	225.4		(14.7)	1,429.7
DEFERRED INCOME TAXES			57.7	(48.5)	9.2
OTHER LONG-TERM LIABILITIES	148.1		0.5		148.6
NOTE PAYABLE TO AFFILIATE			225.4	(225.4)	
COMMON STOCKHOLDER S EQUITY:					
Common stock			0.1	(0.1)	
Paid-in capital	813.7		206.0	(206.0)	813.7
Retained earnings	157.3		55.6	(55.6)	157.3
Total common stockholder s equity	971.0		261.7	(261.7)	971.0
	\$ 2,968.8	\$ 260.5	\$ 776.0	\$ (686.5)	\$ 3,318.8

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**THE PREMCOR REFINING GROUP INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

**For the Three Months Ended June 30, 2003**

(unaudited, in millions)

	<u>PRG</u>	<u>PAFC</u>	<u>Other Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated PRG</u>
NET SALES AND OPERATING REVENUES	\$ 2,730.1	\$	\$ 580.0	\$ (690.8)	\$ 2,619.3
EQUITY IN EARNINGS OF AFFILIATE	43.2			(43.2)	
<b>EXPENSES:</b>					
Cost of sales	2,582.1		456.8	(682.2)	2,356.7
Operating expenses	100.5		41.3	(8.6)	133.2
General and administrative expenses	14.7		0.9		15.6
Stock-based compensation	4.4				4.4
Depreciation	10.2		5.5		15.7
Amortization	9.1				9.1
Refinery restructuring and other charges	0.7				0.7
	<u>2,721.7</u>		<u>504.5</u>	<u>(690.8)</u>	<u>2,535.4</u>
OPERATING INCOME	51.6		75.5	(43.2)	83.9
Interest and finance expense	(21.6)	(7.7)	(8.6)	8.0	(29.9)
Loss on extinguishment of long-term debt	(2.7)		(0.7)		(3.4)
Interest income	1.5	7.7	0.3	(8.0)	1.5
	<u>INCOME FROM CONTINUING OPERATIONS BEFORE</u>				
INCOME TAXES	28.8		66.5	(43.2)	52.1
Income tax (provision) benefit	5.5		(23.3)		(17.8)
	<u>INCOME FROM CONTINUING OPERATIONS</u>		<u>43.2</u>	<u>(43.2)</u>	<u>34.3</u>
Loss from discontinued operations, net of income tax benefit of \$1.3	(2.2)				(2.2)
	<u>NET INCOME</u>	<u>\$ 32.1</u>	<u>\$ 43.2</u>	<u>\$ (43.2)</u>	<u>\$ 32.1</u>

**THE PREMCOR REFINING GROUP INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

**For the Six Months Ended June 30, 2003**

(unaudited, in millions)

PRG                      PAFC                      Eliminations

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			Other Guarantor Subsidiaries		Consolidated PRG
NET SALES AND OPERATING REVENUES	\$ 5,243.9	\$	\$ 1,284.3	\$ (1,533.1)	\$ 4,995.1
EQUITY IN EARNINGS OF AFFILIATE	105.5			(105.5)	
EXPENSES:					
Cost of sales	4,974.8		1,007.7	(1,516.2)	4,466.3
Operating expenses	182.9		83.9	(16.9)	249.9
General and administrative expenses	25.4		1.9		27.3
Stock-based compensation	8.7				8.7
Depreciation	19.3		10.9		30.2
Amortization	18.6				18.6
Refinery restructuring and other charges	15.7				15.7
	5,245.4		1,104.4	(1,533.1)	4,816.7
OPERATING INCOME	104.0		179.9	(105.5)	178.4
Interest and finance expense	(39.1)	(15.4)	(17.3)	15.7	(56.1)
Loss on extinguishment of long-term debt	(7.4)		(0.7)		(8.1)
Interest income	2.5	15.4	0.4	(15.7)	2.6
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	60.0		162.3	(105.5)	116.8
Income tax (provision) benefit	17.4		(56.8)		(39.4)
INCOME FROM CONTINUING OPERATIONS	77.4		105.5	(105.5)	77.4
Loss from discontinued operations, net of income tax benefit of \$4.0	(6.5)				(6.5)
NET INCOME	\$ 70.9	\$	\$ 105.5	\$ (105.5)	\$ 70.9

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**THE PREMCOR REFINING GROUP INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

For the Six Months Ended June 30, 2003

(unaudited, in millions)

	<u>PRG</u>	<u>PAFC</u>	<u>Other Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated PRG</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income	\$ 70.9	\$	\$ 105.5	\$ (105.5)	\$ 70.9
Adjustments:					
Loss on discontinued operations	10.5				10.5
Depreciation	19.3		10.9		30.2
Amortization	21.4		1.9		23.3
Deferred income taxes	18.5		10.5		29.0
Stock-based compensation	8.7				8.7
Refinery restructuring and other charges	13.6				13.6
Write-off of deferred financing costs	4.7		0.7		5.4
Equity in earnings of affiliate	(105.5)			105.5	
Other, net	6.5	0.1	0.3		6.9
Cash provided by (reinvested in) working capital:					
Accounts receivable, prepaid expenses and other	(167.3)		(3.4)	0.8	(169.9)
Inventories	(113.5)		(16.4)		(129.9)
Accounts payable, accrued expenses, taxes other than income, and other	129.2	(0.2)	(2.3)	(0.8)	125.9
Affiliate receivables and payables	(80.2)	4.5	78.9		3.2
Cash and cash equivalents restricted for debt service			(0.3)		(0.3)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) operating activities of continuing operations	(163.2)	4.4	186.3		27.5
Net cash used in operating activities of discontinued operations	(3.1)				(3.1)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) operating activities	(166.3)	4.4	186.3		24.4
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Expenditures for property, plant and equipment	(56.8)		(3.9)		(60.7)
Expenditures for turnaround	(9.1)		(0.4)		(9.5)
Expenditures for refinery acquisition	(474.8)				(474.8)
Purchase of investments	(14.7)			14.7	
Cash and cash equivalents restricted for investment in capital additions	2.6		(2.4)		0.2
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash used in investing activities	(552.8)		(6.7)	14.7	(544.8)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Proceeds from issuance of long-term debt	825.0				825.0
Long-term debt and capital lease payments	(240.3)	(4.4)		(14.7)	(259.4)
Capital contributions	263.3				263.3
Dividends received	174.7		(174.7)		



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Cash and cash equivalents restricted for debt repayment			(4.9)		(4.9)
Deferred financing costs	(25.3)				(25.3)
Net cash provided by (used in) financing activities	997.4	(4.4)	(179.6)	(14.7)	798.7
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS,</b>	<b>278.3</b>				<b>278.3</b>
Beginning of period	119.7				119.7
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 398.0</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 398.0</b>

**Table of Contents****THE PREMCOR REFINING GROUP INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET**

As of December 31, 2002

(in millions)

	<u>PRG</u>	<u>PAFC</u>	<u>Other Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated PRG</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 119.7	\$	\$	\$	\$ 119.7
Short-term investments	1.7				1.7
Cash and cash equivalents restricted for debt service			61.7		61.7
Accounts receivable	268.7		0.3		269.0
Receivable from affiliates	32.9	29.2	50.7	(99.7)	13.1
Inventories	259.7		27.6		287.3
Prepaid expenses and other	43.7		2.0		45.7
Assets held for sale	49.3				49.3
	<u>775.7</u>	<u>29.2</u>	<u>142.3</u>	<u>(99.7)</u>	<u>847.5</u>
Total current assets	775.7	29.2	142.3	(99.7)	847.5
PROPERTY, PLANT AND EQUIPMENT, NET	651.3		610.4		1,261.7
DEFERRED INCOME TAXES	67.0			(47.2)	19.8
INVESTMENT IN AFFILIATE	330.9			(330.9)	
OTHER ASSETS	101.4		15.9		117.3
NOTE RECEIVABLE FROM AFFILIATE	2.3	235.9		(238.2)	
	<u>\$ 1,928.6</u>	<u>\$ 265.1</u>	<u>\$ 768.6</u>	<u>\$ (716.0)</u>	<u>\$ 2,246.3</u>
<b>LIABILITIES AND STOCKHOLDER S EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$ 342.9	\$	\$ 123.3	\$	\$ 466.2
Payable to affiliates	117.7		20.1	(96.8)	41.0
Accrued expenses and other	40.9	14.4	0.4		55.7
Accrued taxes other than income	21.1		5.3		26.4
Current portion of long-term debt	0.2	14.8			15.0
Current portion of notes payable to affiliate			2.9	(2.9)	
	<u>522.8</u>	<u>29.2</u>	<u>152.0</u>	<u>(99.7)</u>	<u>604.3</u>
Total current liabilities	522.8	29.2	152.0	(99.7)	604.3
LONG-TERM DEBT	633.9	235.9			869.8
DEFERRED INCOME TAXES			47.2	(47.2)	
OTHER LONG-TERM LIABILITIES	144.1		0.3		144.4
NOTE PAYABLE TO AFFILIATE			238.2	(238.2)	
COMMITMENTS AND CONTINGENCIES					
<b>COMMON STOCKHOLDER S EQUITY:</b>					
Common stock			0.1	(0.1)	
Paid-in capital	541.4		206.0	(206.0)	541.4
Retained earnings	86.4		124.8	(124.8)	86.4
	<u>627.8</u>		<u>330.9</u>	<u>(330.9)</u>	<u>627.8</u>
Total common stockholder s equity	627.8		330.9	(330.9)	627.8

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<u>\$ 1,928.6</u>	<u>\$ 265.1</u>	<u>\$ 768.6</u>	<u>\$ (716.0)</u>	<u>\$ 2,246.3</u>
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**THE PREMCOR REFINING GROUP INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

**For the Three Months Ended June 30, 2002**

(unaudited, in millions)

	PRG	PAFC	Other Guarantor Subsidiaries	Eliminations and Minority Interest	Consolidated PRG
NET SALES AND OPERATING REVENUES	\$ 1,793.4	\$	\$ 468.2	\$ (582.6)	\$ 1,679.0
EQUITY IN EARNINGS OF AFFILIATE	(19.2)			19.2	
EXPENSES:					
Cost of sales	1,660.2		440.8	(574.7)	1,526.3
Operating expenses	92.8		29.0	(7.9)	113.9
General and administrative expenses	13.1		1.3		14.4
Stock-based compensation	3.8				3.8
Depreciation	6.5		5.3		11.8
Amortization	10.1				10.1
Refinery restructuring and other charges	14.1		2.5		16.6
	<u>1,800.6</u>		<u>478.9</u>	<u>(582.6)</u>	<u>1,696.9</u>
OPERATING LOSS	(26.4)		(10.7)	19.2	(17.9)
Interest and finance expense	(15.0)	(10.8)	(12.6)	10.9	(27.5)
Loss on extinguishment of long-term debt	(1.0)		(8.3)		(9.3)
Interest income	1.4	10.8	0.9	(10.9)	2.2
LOSS BEFORE INCOME TAXES AND MINORITY INTEREST	(41.0)		(30.7)	19.2	(52.5)
Income tax benefit	8.8		10.6		19.4
Minority interest				0.9	0.9
NET LOSS	<u>\$ (32.2)</u>	<u>\$</u>	<u>\$ (20.1)</u>	<u>\$ 20.1</u>	<u>\$ (32.2)</u>

**THE PREMCOR REFINING GROUP INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

**For the Six Months Ended June 30, 2002**

(unaudited, in millions)

PRG	PAFC	Other Guarantor	Eliminations	Consolidated PRG
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			Subsidiaries	and Minority Interest	
NET SALES AND OPERATING REVENUES	\$ 3,049.3	\$	\$ 888.9	\$ (1,030.9)	\$ 2,907.3
EQUITY IN EARNINGS OF AFFILIATE	(26.5)			26.5	
EXPENSES:					
Cost of sales	2,783.3		820.4	(1,015.4)	2,588.3
Operating expenses	181.1		62.7	(15.5)	228.3
General and administrative expenses	26.4		2.4		28.8
Stock-based compensation	5.7				5.7
Depreciation	13.7		10.5		24.2
Amortization	19.9				19.9
Refinery restructuring and other charges	156.1		2.5		158.6
	<u>3,186.2</u>		<u>898.5</u>	<u>(1,030.9)</u>	<u>3,053.8</u>
OPERATING LOSS	(163.4)		(9.6)	26.5	(146.5)
Interest and finance expense	(31.0)	(22.8)	(27.2)	23.0	(58.0)
Loss on extinguishment of long-term debt	(1.0)		(8.3)		(9.3)
Interest income	2.8	22.8	1.8	(23.0)	4.4
LOSS BEFORE INCOME TAXES AND MINORITY INTEREST					
INTEREST	(192.6)		(43.3)	26.5	(209.4)
Income tax benefit	64.9		15.1		80.0
Minority interest				1.7	1.7
NET LOSS	<u>\$ (127.7)</u>	<u>\$</u>	<u>\$ (28.2)</u>	<u>\$ 28.2</u>	<u>\$ (127.7)</u>

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**THE PREMCOR REFINING GROUP INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

**For the Six Months Ended June 30, 2002**

(unaudited, in millions)

	PRG	PAFC	Other Guarantor Subsidiaries	Eliminations And Minority Interest	Consolidated PRG
	<u>PRG</u>	<u>PAFC</u>	<u>Other Guarantor Subsidiaries</u>	<u>Eliminations And Minority Interest</u>	<u>Consolidated PRG</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net loss	\$ (127.7)	\$	\$ (28.2)	\$ 28.2	\$ (127.7)
Adjustments:					
Depreciation	13.7		10.5		24.2
Amortization	23.1		1.7		24.8
Deferred income taxes	(65.2)		(15.3)		(80.5)
Stock-based compensation	5.7				5.7
Minority interest				(1.7)	(1.7)
Refinery restructuring and other charges	103.6				103.6
Write-off of deferred financing costs	1.1		6.8		7.9
Equity in earnings of affiliate	26.5			(26.5)	
Other, net	11.1		0.4		11.5
Cash provided by (reinvested in) working capital:					
Accounts receivable, prepaid expenses and other	(133.8)		7.9		(125.9)
Inventories	(15.7)		4.2		(11.5)
Accounts payable, accrued expenses, taxes other than income, and other	101.5	(4.7)	12.8		109.6
Affiliate receivables and payables	(20.2)	292.3	(257.3)		14.8
Cash and cash equivalents restricted for debt service			8.3		8.3
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) operating activities of continued operations	(76.3)	287.6	(248.2)		(36.9)
Net cash used in operating activities of discontinued operations	(3.4)				(3.4)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) operating activities	(79.7)	287.6	(248.2)		(40.3)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Expenditures for property, plant and equipment	(40.4)		1.9		(38.5)
Expenditures for turnaround	(31.7)				(31.7)
Cash and cash equivalents restricted for investment in capital additions	4.3				4.3
Other	0.2				0.2
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) investing activities	(67.6)		1.9		(65.7)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					