

PREMCOR INC
Form 10-Q
May 05, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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 March 31, 2005

OR

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

Commission File Number	Exact Name of Registrant as Specified in its Charter, Principal Office Address and Telephone Number	State of Incorporation	I.R.S. Employer Identification No.
1-16827	Premcor Inc. 1700 East Putnam Avenue, Suite 400	Delaware	43-1851087

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Old Greenwich, Connecticut 06870

(203) 698-7500

1-11392

The Premcor Refining Group Inc.

Delaware

43-1491230

1700 East Putnam Avenue, Suite 400

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 No

The Premcor Refining Group Inc.

Yes No

Indicate by check mark if the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

Number of shares of the registrant's common stock (only one class for each registrant) outstanding as of May 2, 2005:

Premcor Inc.

89,218,510 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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March 31, 2005

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FORM 10-Q - PART I. FINANCIAL INFORMATION

This Quarterly Report on Form 10-Q represents information for two registrants, Premcor Inc. and its indirect, wholly owned subsidiary, The Premcor Refining Group Inc. Premcor Inc. owns all of the outstanding common stock of Premcor USA Inc. (Premcor USA), and Premcor USA owns all of the outstanding common stock of The Premcor Refining Group Inc. (together with its consolidated subsidiaries, PRG). The Premcor Refining Group Inc. and its indirect subsidiary, Port Arthur Coker Company L.P. (PACC), are Premcor Inc. s principal operating subsidiaries. PRG owns and operates four refineries. 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 the condensed consolidated balance sheets, statements of operations, and statements of cash flows for the applicable periods for Premcor Inc. and The Premcor Refining Group Inc. The information reflected in the condensed consolidated footnotes is equally applicable to both companies except where indicated otherwise.

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ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 March 31, 2005, and the related condensed consolidated statements of operations and of cash flows for the three-month periods ended March 31, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), 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 interim 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 the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Premcor Inc. and subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended; and in our report dated March 1, 2005, 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, 2004 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche LLP

Stamford, Connecticut

April 28, 2005

Table of Contents**Premcor Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****(unaudited, in millions, except share data)**

	March 31, 2005	December 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 177.2	\$ 233.3
Short-term investments	332.9	520.0
Restricted cash and cash equivalents	57.4	69.1
Accounts receivable, net of allowance of \$3.3 and \$3.3	554.5	708.7
Inventories	975.4	772.6
Prepaid expenses and other	201.2	155.8
Deferred income taxes	30.4	74.9
	<hr/>	<hr/>
Total current assets	2,329.0	2,534.4
Property, plant and equipment, net	3,003.7	2,908.1
Goodwill	75.0	27.6
Other assets	272.4	219.5
	<hr/>	<hr/>
	\$ 5,680.1	\$ 5,689.6
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 838.7	\$ 993.4
Accrued expenses and other	315.1	207.5
Accrued taxes other than income	47.8	70.4
Current portion of long-term debt	46.7	38.8
	<hr/>	<hr/>
Total current liabilities	1,248.3	1,310.1
Long-term debt	1,766.3	1,788.7
Deferred income taxes	221.1	275.8
Other long-term liabilities	181.5	180.6
Commitments and contingencies		
COMMON STOCKHOLDERS EQUITY:		
Common, \$0.01 par value per share, 150,000,000 authorized, 89,216,910 issued and outstanding as of March 31, 2005; 89,213,510 issued and outstanding as of December 31, 2004	0.9	0.9
Additional paid-in capital	1,704.8	1,699.7
Retained earnings	557.2	433.8
	<hr/>	<hr/>
Total common stockholders equity	2,262.9	2,134.4
	<hr/>	<hr/>
	\$ 5,680.1	\$ 5,689.6
	<hr/>	<hr/>

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

Table of Contents**Premcor Inc. and Subsidiaries****Condensed Consolidated Statements of Operations****(unaudited, in millions, except per share data)**

	For the Three Months Ended March 31,	
	2005	2004
NET SALES AND OPERATING REVENUES	\$ 4,164.3	\$ 2,551.7
EXPENSES:		
Cost of sales	3,615.8	2,234.5
Operating expenses	237.3	147.0
General and administrative expenses	41.8	22.5
Depreciation	26.4	17.9
Amortization	19.9	16.2
Refinery restructuring and other charges	4.1	4.6
	3,945.3	2,442.7
OPERATING INCOME	219.0	109.0
Interest and finance expense	(30.3)	(31.3)
Interest income	3.4	1.7
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	192.1	79.4
Income tax provision	(65.4)	(29.4)
INCOME FROM CONTINUING OPERATIONS	126.7	50.0
Loss from discontinued operations, net of income tax benefit of \$0.9 for 2005; \$0.1 for 2004	(1.5)	(0.3)
NET INCOME	\$ 125.2	\$ 49.7
NET INCOME PER COMMON SHARE:		
Basic:		
Income from continuing operations	\$ 1.42	\$ 0.67
Discontinued operations	(0.02)	
Net income	\$ 1.40	\$ 0.67
Weighted average common shares outstanding	89.2	74.2
Diluted:		
Income from continuing operations	\$ 1.38	\$ 0.66
Discontinued operations	(0.02)	
Net income	\$ 1.36	\$ 0.66
Weighted average common shares outstanding	91.8	75.7

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

Table of Contents**Premcor Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows**

(unaudited, in millions)

	For the Three Months Ended March 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 125.2	\$ 49.7
Adjustments:		
Loss from discontinued operations	1.5	0.3
Depreciation	26.4	17.9
Amortization	22.0	18.3
Deferred income taxes	(10.2)	27.7
Stock-based compensation	5.1	4.9
Refinery restructuring and other charges		(0.7)
Other, net	(2.0)	0.9
Cash provided by (reinvested in) working capital:		
Accounts receivable, prepaid expenses and other	108.8	166.3
Inventories	(202.8)	61.4
Accounts payable, accrued expenses, taxes other than income, and other	(65.0)	(259.7)
Restricted cash and cash equivalents	7.0	8.0
Net cash provided by operating activities of continuing operations	16.0	95.0
Net cash used in operating activities of discontinued operations	(0.8)	(1.0)
Net cash provided by operating activities	15.2	94.0
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(178.6)	(85.4)
Expenditures for turnaround	(68.2)	(52.9)
Net sales of short-term investments	186.7	72.3
Net cash used in investing activities	(60.1)	(66.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock		1.3
Long-term debt and capital lease payments	(14.5)	(10.0)
Dividends paid to shareholders	(1.8)	
Cash and cash equivalents restricted for debt repayment	5.1	3.7
Net cash used in financing activities	(11.2)	(5.0)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(56.1)	23.0
CASH AND CASH EQUIVALENTS, beginning of period	233.3	120.7
CASH AND CASH EQUIVALENTS, end of period	\$ 177.2	\$ 143.7



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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 March 31, 2005, and the related condensed consolidated statements of operations and of cash flows for the three-month periods ended March 31, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), 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 interim 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 the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Premcor Inc. and subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended; and in our report dated March 1, 2005, 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, 2004 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche LLP

Stamford, Connecticut

April 28, 2005

Table of Contents**The Premcor Refining Group Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****(unaudited, in millions, except share data)**

	March 31, 2005	December 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 157.2	\$ 230.5
Short-term investments	209.6	378.7
Restricted cash and cash equivalents	57.4	69.1
Accounts receivable, net of allowance of \$3.3 and \$3.3	554.7	708.3
Receivables from affiliates	129.8	119.7
Inventories	975.4	772.6
Prepaid expenses and other	200.7	155.6
Deferred income taxes	28.5	69.5
	<u>2,313.3</u>	<u>2,504.0</u>
Total current assets	2,313.3	2,504.0
Property, plant and equipment, net	2,942.4	2,846.5
Goodwill	75.0	27.6
Other assets	272.4	219.5
	<u>\$ 5,603.1</u>	<u>\$ 5,597.6</u>
LIABILITIES AND STOCKHOLDER S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 838.0	\$ 992.8
Payables to affiliates	95.1	124.4
Accrued expenses and other	265.5	231.7
Accrued taxes other than income	47.2	70.5
Current portion of long-term debt	46.4	38.5
	<u>1,292.2</u>	<u>1,457.9</u>
Total current liabilities	1,292.2	1,457.9
Long-term debt	1,756.8	1,779.1
Deferred income taxes	225.9	277.5
Other long-term liabilities	181.4	180.6
Commitments and contingencies		
COMMON STOCKHOLDER S EQUITY:		
Common, \$0.01 par value per share, 1,000 authorized, 100 issued and outstanding		
Additional paid-in capital	1,433.2	1,237.4
Retained earnings	713.6	665.1
	<u>2,146.8</u>	<u>1,902.5</u>
Total common stockholder s equity	2,146.8	1,902.5
	<u>\$ 5,603.1</u>	<u>\$ 5,597.6</u>

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

Table of Contents**The Premcor Refining Group Inc. and Subsidiaries****Condensed Consolidated Statements of Operations****(unaudited, in millions)**

	For the Three Months Ended March 31,	
	2005	2004
NET SALES AND OPERATING REVENUES	\$ 4,161.3	\$ 2,551.1
EXPENSES:		
Cost of sales	3,621.5	2,236.4
Operating expenses	231.9	146.2
General and administrative expenses	41.4	22.1
Depreciation	25.8	17.5
Amortization	19.9	16.2
Refinery restructuring and other charges	4.1	4.6
	3,944.6	2,443.0
OPERATING INCOME	216.7	108.1
Interest and finance expense	(30.0)	(31.1)
Interest income	2.8	1.7
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	189.5	78.7
Income tax provision	(65.0)	(29.1)
INCOME FROM CONTINUING OPERATIONS	124.5	49.6
Loss from discontinued operations, net of income tax benefit of \$0.9 for 2005; \$0.1 for 2004	(1.5)	(0.3)
NET INCOME	\$ 123.0	\$ 49.3

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

Table of Contents**The Premcor Refining Group Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows****(unaudited, in millions)**

	For the Three Months Ended March 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 123.0	\$ 49.3
Adjustments:		
Loss from discontinued operations	1.5	0.3
Depreciation	25.8	17.5
Amortization	22.0	18.3
Deferred income taxes	(10.6)	25.7
Stock-based compensation	5.1	4.9
Refinery restructuring and other charges		(0.7)
Other, net	(2.2)	0.9
Cash provided by (reinvested in) working capital:		
Accounts receivable, prepaid expenses and other	108.5	166.8
Inventories	(202.8)	61.4
Accounts payable, accrued expenses, taxes other than income, and other	(139.6)	(260.4)
Affiliate receivables and payables	76.9	2.2
Restricted cash and cash equivalents	7.0	8.0
Net cash provided by operating activities of continuing operations	14.6	94.2
Net cash used in operating activities of discontinued operations	(0.8)	(1.0)
Net cash provided by operating activities	13.8	93.2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(178.3)	(85.1)
Expenditures for turnaround	(68.2)	(52.9)
Net sales of short-term investments	168.7	71.9
Net cash used in investing activities	(77.8)	(66.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term debt and capital lease payments	(14.4)	(10.0)
Cash and cash equivalents restricted for debt repayment	5.1	3.7
Net cash used in financing activities	(9.3)	(6.3)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(73.3)	20.8
CASH AND CASH EQUIVALENTS, beginning of period	230.5	118.9
CASH AND CASH EQUIVALENTS, end of period	\$ 157.2	\$ 139.7

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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)

March 31, 2005

(Tabular amounts in millions, except per share data)

1. Nature of Business and Basis of Preparation

Premcor Inc., together with its consolidated subsidiaries (the Company), is an independent petroleum refiner and supplier of unbranded transportation fuels, heating oil, petrochemical feedstocks, petroleum coke and other petroleum products. Premcor Inc. owns all of the outstanding common stock of Premcor USA Inc. (Premcor USA), and Premcor USA owns all of the outstanding common stock of The Premcor Refining Group Inc. (together with its consolidated subsidiaries, PRG). The Premcor Refining Group Inc. and its indirect subsidiary, Port Arthur Coker Company L.P. (PACC), are Premcor Inc.'s principal operating subsidiaries. PRG owns and operates four refineries with a combined total throughput capacity of approximately 800,000 barrels per day (bpd). The refineries are located in Port Arthur, Texas; Lima, Ohio; Memphis, Tennessee and Delaware City, Delaware.

All of the operations of the Company are in the United States. These operations are related to the refining of crude oil and other petroleum feedstocks into petroleum products and are all considered part of one business segment. 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 out of the Company's control can cause these commodity prices to vary, in a wide range, over a short period of time. This potential margin volatility can have a material effect on the Company's financial position, earnings, and cash flows.

The accompanying unaudited condensed consolidated financial statements of Premcor Inc., The Premcor Refining Group Inc., 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 the quarterly report on 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 months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. These unaudited condensed consolidated notes apply equally to the Company and PRG unless otherwise noted. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes included in Premcor Inc.'s and PRG's Annual Report on Form 10-K for the year ended December 31, 2004.

The statement of cash flows for the three months ended March 31, 2004 has been reclassified to conform to current period presentation for auction rate securities and expenditures for property, plant and equipment. These reclassifications have no effect on the current or previously

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reported statements of operations or balance sheet. Refer to Footnote 14 for further information.

On April 25, 2005 Valero Energy Corporation (Valero) and Premcor announced that the companies had entered into an Agreement and Plan of Merger, whereby Premcor will be merged with and into Valero, with Valero as the surviving corporation. Refer to Footnote 18 for further information.

2. Acquisitions

Effective May 1, 2004, the Company completed an agreement with Motiva Enterprises LLC (Motiva) to purchase its Delaware City refining complex located in Delaware City, Delaware. The Delaware City refinery has a rated crude unit throughput capacity of approximately 190,000 bpd. Also included in the purchase was a 2,400 tons per day petroleum coke gasification unit, a 180 megawatt cogeneration facility, 8.5 million barrels of crude oil, intermediates, blendstock, and product tankage and a 50,000 bpd truck-loading rack. The purchase price was \$800 million (\$780 million cash and \$20 million assumed liabilities), plus additional petroleum inventories valued at \$90 million and approximately \$2 million in transaction fees. In addition, Motiva will be entitled to receive contingent purchase payments of \$25 million per year up to a total of \$75 million over a three-year period depending on the amount of crude oil processed at the refinery and the level of refining margins during that period, and a \$25 million payment per year up to a total of \$50 million over a two-year period depending on the achievement of certain performance criteria at the gasification facility. Any amount the Company pays to Motiva for the contingent consideration will be recorded as goodwill and will be subject to an annual impairment measurement test.

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The Delaware City refinery is a high-conversion medium and heavy high-sulfur crude oil refinery. Major process units include a crude unit, a reformer unit, a fluid catalytic cracking unit, a fluid coking unit, a high pressure hydrocracking unit and a coke gasification unit. Primary products include regular and premium conventional and reformulated gasoline, low-sulfur diesel and home heating oil. The refinery's production is sold in the U.S. Northeast via pipeline, barge and truck distribution. The refinery's petroleum coke production is sold to third parties or gasified to fuel in the cogeneration facility, which is designed to supply electricity and steam to the refinery as well as outside electrical sales to third parties.

The Company financed the acquisition from a portion of the proceeds from its April 2004 public common stock offering of 14.9 million shares which provided net proceeds of \$490 million; from PRG's \$400 million senior notes offering completed April 2004 of which \$200 million, due in 2011, bear interest at 6 1/8% per annum and \$200 million, due in 2014, bear interest at 6 3/4% per annum; and from available cash.

The acquisition of the Delaware City refinery assets was accounted for using the purchase method, and the results of operations of these assets have been included in our results from the date of acquisition. In the fourth quarter of 2004, we adjusted the purchase price allocation based on management's evaluation of independent appraisals and other information. The adjusted preliminary purchase price allocation, which will be finalized in the second quarter, is as follows:

Current assets	\$ 128.3
Property, plant & equipment	756.0
Other assets	4.4
Accrued expenses and other	(1.6)
Other long-term liabilities	(15.8)
	<hr/>
Total purchase price allocation	\$ 871.3

In conjunction with the acquisition of the Delaware City refinery, the Company entered into an agreement, effective May 1, 2004, with the Saudi Arabian Oil Company for the supply of 105,000 bpd of crude oil; however, due to certain quota restrictions the current supply is 85,000 bpd. The agreement has terms extending to April 30, 2005, with automatic one-year extensions thereafter unless terminated at the option of either party. The contract has been renewed effective May 1, 2005. The crude oil is priced by a market-based formula as defined in the agreement. The Company also entered into a product offtake agreement with Motiva that provides for the delivery by Premcor to Motiva of approximately 36,700 bpd of finished light petroleum products, such as gasoline and heating oil. The agreement was effective May 1, 2004, and the main portion of the offtake agreement has terms extending for six months with automatic renewals until canceled by either party. Both Premcor and Motiva have decided not to renew the contract and as of April 30, 2005, the contract will expire.

3. Inventories

The carrying value of inventories consisted of the following:

	March 31, 2005	December 31, 2004
	<hr/>	<hr/>
Crude oil	\$ 469.3	\$ 324.1
Refined products and blendstocks	469.6	411.3

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Warehouse stock and other	36.5	37.2
	<u> </u>	<u> </u>
	\$ 975.4	\$ 772.6
	<u> </u>	<u> </u>

The market value of crude oil, refined products and blendstock inventories as of March 31, 2005 was approximately \$709.8 million (December 31, 2004 - \$379.8 million) above carrying value.

Table of Contents**4. Other Assets**

Other assets consisted of the following:

	March 31, 2005	December 31, 2004
Deferred turnaround costs	\$ 211.3	\$ 160.2
Deferred financing costs	37.4	39.4
Intangible assets	7.9	10.4
Pension assets and other	15.8	9.5
	<u>\$ 272.4</u>	<u>\$ 219.5</u>

Amortization of deferred financing costs for the three months ended March 31, 2005 and 2004 was \$2.1 million and \$2.1 million, respectively, for both the Company and PRG, and is included in Interest and finance expense.

5. Goodwill and Intangible Assets

During the three months ended March 31, 2005, the Company recorded \$47.4 million to goodwill related to the earn-out agreement entered into with The Williams Companies, Inc. in conjunction with the Memphis acquisition. Such goodwill will not be amortized, but will be subject to an annual impairment evaluation.

Goodwill and intangible assets were comprised of the following as of March 31, 2005:

	Gross carrying amount	Accumulated amortization	Net amount
Goodwill	\$ 75.0	\$	\$ 75.0
Customer contract	\$ 5.4	\$ (0.3)	\$ 5.1
Environmental credits	3.1	(2.6)	0.5
Environmental permits	2.4	(0.1)	2.3
Total intangible assets	<u>\$ 10.9</u>	<u>\$ (3.0)</u>	<u>\$ 7.9</u>

Amortization expense for the three months ended March 31, 2005 and 2004 was \$2.5 million and \$0.1 million, respectively.

Table of Contents**6. Employee Benefit Plans**

The following table provides the components of net periodic benefit cost for the three months ended March 31:

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Service cost	\$ 4.8	\$ 1.9	\$ 1.2	\$ 0.8
Interest cost	0.5	0.2	1.9	1.7
Recognized actuarial loss	0.2		0.7	0.6
Expected return on plan assets	(0.4)	(0.1)		
Amortization of prior service costs		0.1	(0.1)	(0.1)
Net periodic benefit cost	5.1	2.1	3.7	3.0
Special termination benefits	1.8			
Total net periodic benefit cost	\$ 6.9	\$ 2.1	\$ 3.7	\$ 3.0

As of December 31, 2004, the Company expected to contribute a total of \$20 million to its pension plans in 2005 and this estimate has not changed as of March 31, 2005. The Company did not make any contributions to its pension plans in the quarter ended March 31, 2005.

In May 2004, the FASB issued FSP 106-2 *Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-2). The Company has applied FSP 106-2 retroactively to the date of enactment. The impact of adopting FSP 106-2 resulted in a reduction in the Company's accumulated projected benefit obligation (APBO) of \$15.5 million for 2004 and no reduction to net periodic pension cost for the three months ended March 31, 2004. The Company's actuaries have determined the plan is actuarially equivalent. The Company is currently evaluating the expected gross receipts to be received from the subsidy; no subsidies have been received as of March 31, 2005.

7. Refinery Restructuring and Other Charges

During the three months ended March 31, 2005, the Company recorded refinery restructuring and other charges of \$4.1 million. The charges relate to litigation and environmental matters at closed refineries.

During the three months ended March 31, 2004, the Company recorded refinery restructuring and other charges of \$4.6 million, which included a \$4.0 million charge related to the St. Louis administrative office closure and \$0.6 million related to legal expenses associated with litigation and environmental matters at closed refineries. Below is further discussion of the administrative function restructuring.

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Administrative Restructuring. In 2002, the Company began a restructuring of its administrative functions. 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 twelve months. The office move, which was completed in 2004, cost \$14.8 million, which included \$4.3 million of severance related benefits and \$10.5 million of other costs such as training, relocation and the movement of physical assets. The severance related costs were amortized over the future service period of the affected employees and the other costs were expensed as incurred.

Table of Contents**8. Interest and Finance Expense**

Interest and finance expense included in the Company and PRG's statements of operations consisted of the following for the three months ended March 31:

	Premcor Inc.		PRG	
	2005	2004	2005	2004
Interest expense	\$ 38.3	\$ 33.0	\$ 38.0	\$ 32.8
Financing costs	2.1	2.1	2.1	2.1
Capitalized interest	(10.1)	(3.8)	(10.1)	(3.8)
	<u>\$ 30.3</u>	<u>\$ 31.3</u>	<u>\$ 30.0</u>	<u>\$ 31.1</u>

The Company paid cash for interest for the three months ended March 31, 2005 and 2004 of \$52.1 million and \$46.1 million, respectively. PRG paid cash for interest for the three months ended March 31, 2005 and 2004 of \$51.8 million and \$45.7 million, respectively.

9. Credit Facilities

On April 13, 2004, PRG completed a \$1 billion senior secured revolving credit facility, maturing in April 2009, to replace its existing \$785 million credit facility. The facility is used primarily to secure crude oil purchase obligations for the Company's refinery operations and to provide for other working capital needs. The revolving credit facility allows for the issuance of letters of credit and direct borrowings, individually or collectively, up to the lesser of \$1 billion or the amount available under a defined borrowing base. The borrowing base includes, among other items, eligible cash and cash equivalents, eligible investments, eligible receivables, and eligible petroleum inventories. The revolving credit facility also allows for an overall increase in the principal amount of the facility of up to \$250 million under certain circumstances. The revolving credit facility is secured by a lien on substantially all of PRG's cash and cash equivalents, receivables, crude oil and refined product inventories and intellectual property and is guaranteed by Premcor Inc. The collateral also includes the capital stock of Sabine River Holding Corp. (Sabine) and certain other subsidiaries and certain PACC inventory. PRG's borrowings under this facility bear interest at a rate based on the highest of three U.S. based rate formulas, or the Eurodollar rate plus a defined margin.

The covenants and conditions under the \$1 billion credit facility are generally less restrictive than the covenants contained in the agreement governing PRG's terminated \$785 million facility. The \$1 billion credit facility contains covenants and conditions that, among other things, limit dividends, indebtedness, liens, investments, restricted payments as defined, and the sale of assets. The covenants also provide that in the event PRG does not maintain certain availability within the facility, additional restrictions and a cumulative cash flow test will apply. PRG was in compliance with these covenants as of March 31, 2005.

As of March 31, 2005, the borrowing base for the \$1 billion credit facility was \$1,986.2 million, with \$410.1 million of the facility utilized for letters of credit. As of December 31, 2004, the borrowing base for the \$1 billion credit facility was \$1,853.1 million with \$484.1 million of the facility utilized for letters of credit. There were no direct borrowings under the \$1 billion credit facility as of March 31, 2005 or December 31, 2004.

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PRG also has a \$40 million cash-collateralized credit facility which was renewed effective June 1, 2004 for one year. This facility was initially arranged in support of lower interest rates on the Series 2001 Ohio Bonds. In addition, this facility can be utilized for other non-hydrocarbon purposes. As of March 31, 2005, \$39.7 million (December 31, 2004 \$39.7 million) of the line of credit was utilized for letters of credit.

PRG entered into a \$100 million cash-collateralized credit facility in February 2005. The \$100 million facility has a three year term and was arranged primarily for the issuance of letters of credit. As of March 31, 2005, \$55.4 million of the line of credit was utilized for letters of credit.

Table of Contents**10. Long-term Debt**

Long-term debt consisted of the following:

	March 31, 2005	December 31, 2004
12 1/2% Senior Notes due January 15, 2009 (12 1/2% Senior Notes) (1)	\$ 183.2	\$ 197.6
9 1/4% Senior Notes due February 1, 2010 (9 1/4% Senior Notes) (2)	175.0	175.0
6 3/4% Senior Notes due February 1, 2011 (6 3/4% 2011 Senior Notes) (2)	210.0	210.0
6 1/8% Senior Notes due February 1, 2011 (6 1/8% Senior Notes) (2)	200.0	200.0
7 3/4% Senior Subordinated Notes due February 1, 2012 (7 3/4% Senior Subordinated Notes) (2)	175.0	175.0
9 1/2% Senior Notes due February 1, 2013 (9 1/2% Senior Notes) (2)	350.0	350.0
6 3/4% Senior Notes due February 1, 2014 (6 3/4% 2014 Senior Notes) (2)	200.0	200.0
7 1/2% Senior Notes due June 15, 2015 (7 1/2% Senior Notes) (2)	300.0	300.0
Ohio Water Development Authority Environmental Facilities Revenue Bonds due December 1, 2031 (Series 2001 Ohio Bonds) (2)	10.0	10.0
Obligation under capital leases (3)	9.8	9.9
	<u>1,813.0</u>	<u>1,827.5</u>
Less current portion	(46.7)	(38.8)
Total long-term debt	\$ 1,766.3	\$ 1,788.7

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

PRG's long-term debt, including current maturities, as of March 31, 2005 was \$1,803.2 million and is the same as Premcor Inc.'s long-term debt as noted in the table above except that it excludes the \$9.8 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, 2004 was \$1,817.6 million and is the same as Premcor Inc.'s long-term debt as noted in the table above except that it excludes the \$9.9 million of capital lease obligations.

11. Income Taxes

Our effective tax rate was 34.0% for the three months ended March 31, 2005 as compared to 37.0% in the corresponding period in 2004. Our subsidiaries are subject to different statutory tax rates. These differing tax rates and the differing amount of taxable income or loss recognized by each subsidiary impact our consolidated effective tax rate. The decrease in our 2005 consolidated effective tax rate as compared to 2004 resulted from a higher percentage of our 2005 consolidated income being recognized by Sabine, which has a lower effective tax rate than other subsidiaries.

The Company and PRG made net cash income tax payments of \$1.9 million for the three months ended March 31, 2005 (March 31, 2004 nil).

12. Discontinued Operations

In connection with the 1999 sale of PRG's retail assets to Clark Retail Enterprises, Inc. (CRE), PRG assigned certain leases and subleases of retail stores to CRE. Subject to certain defenses, 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 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 July 2004, the CRE bankruptcy estate was liquidated and the case dismissed. As

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of March 31, 2005, PRG was subleasing 39 operating stores, the leases on 29 stores had either been terminated or expired, the leases on 81 operating stores were held by third parties, and PRG is in the process of buying out the leases on the remaining two stores. For the three months ended March 31, 2005 and 2004, PRG recorded an after-tax charge of \$1.5 million and \$0.3 million, respectively. These charges represent the estimated net present value of its remaining liability under the current operating stores that were subleased, net of estimated sublease income, and other direct costs. The following table reconciles the activity and balance of the liability for the lease obligations as well as the Company's environmental liability for previously owned and leased retail sites:

	Lease Obligations	Environmental Obligations of Previously Owned and Leased Sites	Total Discontinued Operations
Balance, December 31, 2003	\$ 7.4	\$ 21.2	\$ 28.6
Accretion and other expenses	9.1		9.1
Net cash outlays	(4.1)	0.4	(3.7)
Ending balance, December 31, 2004	\$ 12.4	\$ 21.6	\$ 34.0
Accretion and other expenses	2.4		2.4
Net cash outlays	(0.6)	(0.2)	(0.8)
Ending balance, March 31, 2005	\$ 14.2	\$ 21.4	\$ 35.6

13. Earnings per Share

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

	For the Three Months Ended March 31,	
	2005	2004
Weighted average common shares outstanding	89.2	74.2
Dilutive effect of stock options	2.6	1.5
Weighted average common shares outstanding, assuming dilution	91.8	75.7

Outstanding stock options totaling 3.7 million and 3.8 million common shares for the three months ended March 31, 2005 and 2004, respectively, were excluded from the diluted earnings per share calculation because they did not have a dilutive effect under the treasury stock method.

14. Financial Instruments

Short-term Investments

As of March 31, 2005, the Company maintained short-term investments totaling \$332.9 million (December 31, 2004 \$520 million), of which \$1.7 million was pledged as collateral for self-insured workers' compensation programs at PRG and \$100 million of these short-term investments was used as collateral for both of the Company's \$100 million and \$40 million credit facilities at PRG. As of March 31, 2005, a wholly owned subsidiary of Premcor Inc. held \$5.9 million in investments to provide additional directors and officers liability coverage for claims made against them in their respective capacities as directors and officers of the Company. The subsidiary's assets are restricted to payment of directors' and officers' liability defense costs and claims. The cost of short-term investments approximates fair value. Accordingly, unrealized gains and losses are not material.

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In December 2004, the Company began to classify its investments in auction rate securities as short-term investments. For all periods presented herein, investments in auction rate securities have been reclassified from cash and cash equivalents to short-term investments on the condensed consolidated balance sheets. The amount of the investments in auction rate securities as of March 31, 2005 and December 31, 2004, was \$326 million and \$513 million, respectively. The reclassification was made because the certificates had stated maturities beyond three months. The reclassification resulted in changes in the condensed consolidated statements of cash flows within the cash and cash equivalent balances and investing activities. This change had no impact on total assets, current assets, cash flow from operations or net income of the Company.

Derivative Financial Instruments

The Company enters into derivative financial instruments, such as fixed purchase and sale commitments and futures contracts, which are treated as derivative financial instruments and are marked-to-market. The fixed purchase and sale commitments generally are entered into at a fixed price one to several weeks in advance of receiving and processing the crude oil or producing and delivering the product. The Company uses futures contracts to manage the price risk on its fixed commitments and to manage the price risk on a portion of refinery feed stock and refined product inventories. All gains and losses from fixed commitments and futures contracts are recorded to cost of sales.

During the three months ended March 31, 2005, the Company recognized a net gain of \$2 million related to its price risk management activities. During the three months ended March 31, 2004, the Company recognized a net loss of \$6 million related to its price risk management activities. The net gain of \$2 million for the three months ended March 31, 2005 was comprised of the following:

	Unrealized and realized (gains) / losses
Net Fixed Commitments:	
Crude	\$ (79)
Product	(2)
Net Futures Contracts:	
Crude	75
Product	4
	\$ (2)

At March 31, 2005, the Company had recorded its unrealized gains and losses on outstanding fixed commitments of \$43.9 million in prepaid expenses and other and \$61.9 million in accrued expenses and other. All of the outstanding fixed commitments at quarter end are expected to mature within the next few months. At March 31, 2005, the Company had outstanding futures contracts of \$2.6 million recorded in prepaid and other and \$13.9 million recorded in accrued expenses and other. All of the outstanding futures contracts at the quarter end are expected to mature within the next few months. At March 31, 2005, the Company also had \$6.1 million and \$6.7 million recorded to accounts receivable and accounts payable, respectively. These amounts primarily related to energy swap agreements which had expired but settlement had not yet occurred.

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As of March 31, 2005, the Company had the following derivative positions outstanding:

	Purchases /(sales)
	<u>in barrels</u>
Net Fixed Commitments:	
Crude	7.9
Product	(0.7)
Net Futures Contracts:	
Crude	(9.7)
Product	(1.0)
	<u>(3.5)</u>

At December 31, 2004, the Company recorded \$33 million in current assets and \$51 million in current liabilities, related to its price risk management activities. The majority of the balance in both current assets and current liabilities related to the unrealized gains and losses on the Company's fixed commitments.

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

Presented below are the PRG condensed consolidating balance sheets, statements of operations, and statements of cash flows as required by Rule 3-10 of the Securities Exchange Act of 1934, as amended. PRG along with PACC, Sabine, and various other subsidiaries of Sabine are full and unconditional guarantors of Port Arthur Finance Corp's (PAFC) 12½% Senior Notes. Sabine indirectly owns PACC through its 100% ownership of PACC's general and limited partners. PAFC is a wholly owned subsidiary of PACC. Under Rule 3-10, the condensed consolidating balance sheets, statements of operations, and statements of 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 on a joint and several basis.

Table of Contents**The Premcor Refining Group Inc. and Subsidiaries****Condensed Consolidating Balance Sheet**

As of March 31, 2005

(unaudited, in millions)

	PRG	PAFC	Other Guarantor Subsidiaries	Eliminations	Consolidated PRG
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 157.2	\$	\$	\$	\$ 157.2
Short-term investments	209.6				209.6
Restricted cash and cash equivalents	0.4		57.0		57.4
Accounts receivable, net	554.4		0.6	(0.3)	554.7
Receivable from affiliates	102.9	51.5		(24.6)	129.8
Inventories	972.4		3.0		975.4
Prepaid expenses and other	193.0		7.7		200.7
Deferred income taxes	28.5				28.5
Total current assets	2,218.4	51.5	68.3	(24.9)	2,313.3
Property, plant and equipment, net	2,366.2		576.2		2,942.4
Deferred income taxes	15.6			(15.6)	
Investments in affiliates	112.2			(112.2)	
Goodwill	75.0				75.0
Other assets	248.6		23.8		272.4
Notes receivable from affiliate		148.4		(148.4)	
	\$ 5,036.0	\$ 199.9	\$ 668.3	\$ (301.1)	\$ 5,603.1
LIABILITIES AND STOCKHOLDER S EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$ 637.5	\$	\$ 200.5	\$	\$ 838.0
Payables to affiliates	20.6		52.7	21.8	95.1
Accrued expenses and other	258.5	5.1	2.3	(0.4)	265.5
Accrued taxes other than income	45.2		2.0		47.2
Current portion of long-term debt		46.4			46.4
Current portion of notes payable to affiliate			46.4	(46.4)	
Total current liabilities	961.8	51.5	303.9	(25.0)	1,292.2
Long-term debt	1,620.0	148.4		(11.6)	1,756.8
Deferred income taxes	127.3		114.2	(15.6)	225.9
Other long-term liabilities	180.1		1.3		181.4
Notes payable to affiliate			148.4	(148.4)	
Commitments and contingencies					
COMMON STOCKHOLDER S EQUITY:					
Common stock			0.1	(0.1)	
Additional paid-in capital	1,433.2		395.9	(395.9)	1,433.2
Retained earnings	713.6		(295.5)	295.5	713.6

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Total common stockholder s equity	<u>2,146.8</u>	<u> </u>	<u>100.5</u>	<u>(100.5)</u>	<u>2,146.8</u>
	<u>\$ 5,036.0</u>	<u>\$ 199.9</u>	<u>\$ 668.3</u>	<u>\$ (301.1)</u>	<u>\$ 5,603.1</u>

Table of Contents**The Premcor Refining Group Inc. and Subsidiaries****Condensed Consolidating Statement of Operations****For the Three Months Ended March 31, 2005****(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	\$ 4,183.5	\$	\$ 723.2	\$ (745.4)	\$ 4,161.3
Equity in earnings of affiliates	120.2			(120.2)	
Expenses:					
Cost of sales	3,880.4		477.2	(736.1)	3,621.5
Operating expenses	190.9		50.2	(9.2)	231.9
General and administrative expenses	40.6		0.8		41.4
Depreciation	20.3		5.5		25.8
Amortization	19.3		0.6		19.9
Refinery restructuring and other charges	4.1				4.1
	<u>4,155.6</u>		<u>534.3</u>	<u>(745.3)</u>	<u>3,944.6</u>
Operating income	148.1		188.9	(120.3)	216.7
Interest and finance expense	(23.5)	(6.2)	(6.9)	6.6	(30.0)
Interest income	2.9	6.2	0.2	(6.5)	2.8
	<u>127.5</u>		<u>182.2</u>	<u>(120.2)</u>	<u>189.5</u>
Income from continuing operations before income taxes	127.5		182.2	(120.2)	189.5
Income tax provision	(3.0)		(62.0)		(65.0)
	<u>124.5</u>		<u>120.2</u>	<u>(120.2)</u>	<u>124.5</u>
Income from continuing operations	124.5		120.2	(120.2)	124.5
Loss from discontinued operations, net of tax	(1.5)				(1.5)
	<u>(1.5)</u>				<u>(1.5)</u>
Net income	<u>\$ 123.0</u>	<u>\$</u>	<u>\$ 120.2</u>	<u>\$ (120.2)</u>	<u>\$ 123.0</u>

Table of Contents**The Premcor Refining Group Inc. and Subsidiaries****Condensed Consolidating Statement of Cash Flows****For the Three Months Ended March 31, 2005****(unaudited, in millions)**

	<u>PRG</u>	<u>PAFC</u>	<u>Other Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated PRG</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	\$ 123.0	\$	\$ 120.2	\$ (120.2)	\$ 123.0
Adjustments:					
Loss from discontinued operations	1.5				1.5
Depreciation	20.3		5.5		25.8
Amortization	20.7		1.3		22.0
Deferred income taxes	(25.3)		14.7		(10.6)
Stock-based compensation	5.1				5.1
Refinery restructuring and other charges					
Equity in earnings of affiliates	(120.2)			120.2	
Other, net	(2.4)		0.2		(2.2)
Cash provided by (reinvested in) working capital :					
Accounts receivable, prepaid expenses and other	115.1		(6.2)	(0.4)	108.5
Inventories	(224.8)		22.0		(202.8)
Accounts payable, accrued expenses, taxes other than income, and other	(211.2)	(7.0)	78.2	0.4	(139.6)
Affiliate receivables and payables	292.4	22.3	(236.9)	(0.9)	76.9
Restricted cash and cash equivalents			7.0		7.0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash (used in) provided by operating activities of continuing operations	(5.8)	15.3	6.0	(0.9)	14.6
Net cash used in operating activities of discontinued operations	(0.8)				(0.8)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash (used in) provided by operating activities	(6.6)	15.3	6.0	(0.9)	13.8
CASH FLOWS FROM INVESTING ACTIVITIES:					
Expenditures for property, plant and equipment	(177.8)		(0.5)		(178.3)
Expenditures for turnaround	(57.6)		(10.6)		(68.2)
Purchases and maturities of investments, net	168.7				168.7
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities	(66.7)		(11.1)		(77.8)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Long-term debt and capital lease payments		(15.3)		0.9	(14.4)
Cash and cash equivalent restricted for debt repayment			5.1		5.1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash (used in) provided by financing activities		(15.3)	5.1	0.9	(9.3)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(73.3)				(73.3)
CASH AND CASH EQUIVALENTS, beginning of period	230.5				230.5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS, end of period	\$ 157.2	\$	\$	\$	\$ 157.2
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Table of Contents**The Premcor Refining Group Inc. and Subsidiaries****Condensed Consolidating Balance Sheet**

As of December 31, 2004

(in millions)

	<u>PRG</u>	<u>PAFC</u>	<u>Other Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated PRG</u>
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 230.5	\$	\$	\$	\$ 230.5
Short-term investments	378.7				378.7
Restricted cash and cash equivalents			69.1		69.1
Accounts receivable, net	708.0		0.9	(0.6)	708.3
Receivable from affiliates	191.4	50.6	0.3	(122.6)	119.7
Inventories	747.6		25.0		772.6
Prepaid expenses and other	154.4		1.2		155.6
Deferred income taxes	69.5				69.5
Total current assets	2,480.1	50.6	96.5	(123.2)	2,504.0
Property, plant and equipment, net	2,265.2		581.3		2,846.5
Deferred income taxes	15.6			(15.6)	
Investments in affiliates	65.1			(65.1)	
Goodwill	27.6				27.6
Other assets	205.0		14.5		219.5
Note receivable from affiliate		171.6		(171.6)	
	\$ 5,058.6	\$ 222.2	\$ 692.3	\$ (375.5)	\$ 5,597.6
LIABILITIES AND STOCKHOLDER'S EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$ 873.9	\$	\$ 118.9	\$	\$ 992.8
Payable to affiliates	6.2		202.3	(84.1)	124.4
Accrued expenses and other	218.3	12.1	2.0	(0.7)	231.7
Accrued taxes other than income	64.8		5.7		70.5
Current portion of long-term debt		38.5			38.5
Current portion of notes payable to affiliate			38.5	(38.5)	
Total current liabilities	1,163.2	50.6	367.4	(123.3)	1,457.9
Long-term debt	1,619.9	171.6		(12.4)	1,779.1
Deferred income taxes	193.6		99.5	(15.6)	277.5
Other long-term liabilities	179.4		1.2		180.6
Note payable to affiliate			171.6	(171.6)	
Commitments and contingencies					
COMMON STOCKHOLDER'S EQUITY:					
Common stock			0.1	(0.1)	
Additional paid-in capital	1,237.4		206.0	(206.0)	1,237.4
Retained earnings	665.1		(153.5)	153.5	665.1

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Total common stockholder s equity	1,902.5		52.6	(52.6)	1,902.5
	\$ 5,058.6	\$ 222.2	\$ 692.3	\$ (375.5)	\$ 5,597.6

Table of Contents**The Premcor Refining Group Inc. and Subsidiaries****Condensed Consolidating Statement of Operations****For the Three Months Ended March 31, 2004****(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	\$ 2,572.4	\$	\$ 633.4	\$ (654.7)	\$ 2,551.1
Equity in earnings of affiliates	26.3			(26.3)	
Expenses:					
Cost of sales	2,343.6		539.2	(646.4)	2,236.4
Operating expenses	115.2		39.3	(8.3)	146.2
General and administrative expenses	21.1		1.0		22.1
Depreciation	12.0		5.5		17.5
Amortization	16.0		0.2		16.2
Refinery restructuring and other charges	4.6				4.6
	<u>2,512.5</u>		<u>585.2</u>	<u>(654.7)</u>	<u>2,443.0</u>
Operating income	86.2		48.2	(26.3)	108.1
Interest and finance expense	(23.7)	(7.1)	(7.8)	7.5	(31.1)
Interest income	2.0	7.1	0.1	(7.5)	1.7
	<u>64.5</u>		<u>40.5</u>	<u>(26.3)</u>	<u>78.7</u>
Income from continuing operations before income taxes	64.5		40.5	(26.3)	78.7
Income tax provision	(14.9)		(14.2)		(29.1)
	<u>49.6</u>		<u>26.3</u>	<u>(26.3)</u>	<u>49.6</u>
Income from continuing operations	49.6		26.3	(26.3)	49.6
Loss from discontinued operations, net of tax	(0.3)				(0.3)
	<u>(0.3)</u>				<u>(0.3)</u>
Net income	<u>\$ 49.3</u>	<u>\$</u>	<u>\$ 26.3</u>	<u>\$ (26.3)</u>	<u>\$ 49.3</u>

Table of Contents**The Premcor Refining Group Inc. and Subsidiaries****Condensed Consolidating Statement of Cash Flows****For the Three Months Ended March 31, 2004****(unaudited, in millions)**

	<u>PRG</u>	<u>PAFC</u>	<u>Other Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated PRG</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	\$ 49.3	\$	\$ 26.3	\$ (26.3)	\$ 49.3
Adjustments:					
Loss from discontinued operations	0.3				0.3
Depreciation	12.0		5.5		17.5
Amortization	17.5		0.8		18.3
Deferred income taxes	21.0		4.7		25.7
Stock-based compensation	4.9				4.9
Refinery restructuring and other charges	(0.7)				(0.7)
Equity in earnings of affiliates	(26.3)			26.3	
Other, net	0.7		0.2		0.9
Cash (reinvested in) provided by working capital:					
Accounts receivable, prepaid expenses and other	166.4		0.4		166.8
Inventories	56.3		5.1		61.4
Accounts payable, accrued expenses, taxes other than income, and other	(256.5)	(7.6)	3.7		(260.4)
Affiliate receivables and payables	40.6	18.1	(56.5)		2.2
Restricted cash and cash equivalents			8.0		8.0
Net cash provided by operating activities of continuing operations	85.5	10.5	(1.8)		94.2
Net cash used in operating activities of discontinued operations	(1.0)				(1.0)
Net cash provided by operating activities	84.5	10.5	(1.8)		93.2
CASH FLOWS FROM INVESTING ACTIVITIES:					
Expenditures for property, plant and equipment	(83.6)		(1.5)		(85.1)
Expenditures for turnaround	(52.7)		(0.2)		(52.9)
Purchases and maturities of investments, net	72.5			(0.6)	71.9
Net cash (used in) provided by investing activities	(63.8)		(1.7)	(0.6)	(66.1)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Long-term debt and capital lease payments	(0.1)	(10.5)		0.6	(10.0)
Cash and cash equivalent restricted for debt repayment			3.7		3.7
Net cash provided by (used in) financing activities	(0.1)	(10.5)	3.7	0.6	(6.3)
NET INCREASE IN CASH AND CASH EQUIVALENTS	20.6		0.2		20.8
CASH AND CASH EQUIVALENTS, beginning of period	118.9				118.9

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CASH AND CASH EQUIVALENTS, end of period	\$ 139.5	\$	\$ 0.2	\$	\$ 139.7
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16. Condensed Consolidating Financial Statements of Premcor Inc. as Guarantor of PRG's Senior Notes

Presented below are the Premcor Inc. condensed consolidating balance sheets, statements of operations, and statements of cash flows as required by Rule 3-10 of the Securities Exchange Act of 1934, as amended. Premcor Inc. is a full and unconditional guarantor of PRG's 6⁷/₈% 2011 Senior Notes and 6³/₄% 2014 Senior Notes. Premcor Inc. indirectly owns PRG through its 100% ownership of Premcor USA. PRG is a wholly owned subsidiary of Premcor USA. Under Rule 3-10, the condensed consolidating balance sheets, statements of operations, and statements of cash flows presented below meet the requirements for financial statements of the issuer and the guarantor of the notes, and all guarantees are full and unconditional on a joint and several basis.

Table of Contents**Premcor Inc. and Subsidiaries****Condensed Consolidating Balance Sheet**

As of March 31, 2005

(unaudited, in millions)

	<u>Premcor</u>	<u>Consolidated PRG</u>	<u>Other Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Premcor</u>
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 17.9	\$ 157.2	\$ 2.1	\$	\$ 177.2
Short-term investments	118.0	209.6	5.3		332.9
Restricted cash and cash equivalents		57.4			57.4
Accounts receivable, net	0.2	554.7	(0.4)		554.5
Receivable from affiliates	124.2	129.8	31.6	(285.6)	
Inventories		975.4			975.4
Prepaid expenses and other		200.7	1.1	(0.6)	201.2
Deferred income taxes		28.5	1.9		30.4
	<u>260.3</u>	<u>2,313.3</u>	<u>41.6</u>	<u>(286.2)</u>	<u>2,329.0</u>
Total current assets					
Property, plant and equipment, net		2,942.4	61.3		3,003.7
Investments in affiliates	2,192.0		2,118.0	(4,310.0)	
Goodwill		75.0			75.0
Other assets		272.4			272.4
	<u>\$ 2,452.3</u>	<u>\$ 5,603.1</u>	<u>\$ 2,220.9</u>	<u>\$ (4,596.2)</u>	<u>\$ 5,680.1</u>
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$	\$ 838.0	\$ 0.7	\$	\$ 838.7
Payable to affiliates	140.9	95.1	49.7	(285.7)	
Accrued expenses and other	49.9	265.5	0.3	(0.6)	315.1
Accrued taxes other than income		47.2	0.6		47.8
Current portion of long-term debt		46.4	0.3		46.7
	<u>190.8</u>	<u>1,292.2</u>	<u>51.6</u>	<u>(286.3)</u>	<u>1,248.3</u>
Total current liabilities					
Long-term debt		1,756.8	9.5		1,766.3
Deferred income taxes	(1.4)	225.9	(3.4)		221.1
Other long-term liabilities		181.4	0.1		181.5
Commitments and contingencies					
COMMON STOCKHOLDERS EQUITY:					
Common stock	0.9		0.1	(0.1)	0.9
Additional paid-in capital	1,704.8	1,433.2	1,639.0	(3,072.2)	1,704.8
Retained earnings	557.2	713.6	524.0	(1,237.6)	557.2
	<u>2,262.9</u>	<u>2,146.8</u>	<u>2,163.1</u>	<u>(4,309.9)</u>	<u>2,262.9</u>
Total common stockholders equity					

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\$ 2,452.3	\$ 5,603.1	\$ 2,220.9	\$ (4,596.2)	\$ 5,680.1
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Table of Contents**Premcor Inc. and Subsidiaries****Condensed Consolidating Statement of Operations****For the Three Months Ended March 31, 2005****(unaudited, in millions)**

	<u>Premcor</u>	<u>Consolidated PRG</u>	<u>Other Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Premcor</u>
Net sales and operating revenues	\$	\$ 4,161.3	\$ 10.5	\$ (7.5)	\$ 4,164.3
Equity in earnings of affiliates	124.8		124.2	(249.0)	
Expenses:					
Cost of sales		3,621.5		(5.7)	3,615.8
Operating expenses		231.9	7.2	(1.8)	237.3
General and administrative expenses		41.4	0.4		41.8
Depreciation		25.8	0.6		26.4
Amortization		19.9			19.9
Refinery restructuring and other charges		4.1			4.1
		3,944.6	8.2	(7.5)	3,945.3
Operating income	124.8	216.7	126.5	(249.0)	219.0
Interest and finance expense		(30.0)	(0.3)		(30.3)
Interest income	0.6	2.8			3.4
Income from continuing operations before income taxes	125.4	189.5	126.2	(249.0)	192.1
Income tax provision	(0.2)	(65.0)	(0.2)		(65.4)
Income from continuing operations	125.2	124.5	126.0	(249.0)	126.7
Loss from discontinued operations, net of tax		(1.5)			(1.5)
Net income	\$ 125.2	\$ 123.0	\$ 126.0	\$ (249.0)	\$ 125.2

Table of Contents**Premcor Inc. and Subsidiaries****Condensed Consolidating Statement of Cash Flows****For the Three Months Ended March 31, 2005****(unaudited, in millions)**

	<u>Premcor</u>	<u>Consolidated PRG</u>	<u>Other Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Premcor</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	\$ 125.2	\$ 123.0	\$ 126.0	\$ (249.0)	\$ 125.2
Adjustments:					
Loss from discontinued operations		1.5			1.5
Depreciation		25.8	0.6		26.4
Amortization		22.0			22.0
Deferred income taxes		(10.6)	0.4		(10.2)
Stock-based compensation		5.1			5.1
Refinery restructuring and other charges					
Equity in earnings of affiliates	(124.8)		(124.2)	249.0	
Other, net		(2.2)	0.2		(2.0)
Cash provided by (reinvested in) working capital:					
Accounts receivable, prepaid expenses and other		108.5	2.1	(1.8)	108.8
Inventories		(202.8)			(202.8)
Accounts payable, accrued expenses, taxes other than income and other	74.6	(139.6)	(1.8)	1.8	(65.0)
Affiliate receivables and payables	(74.2)	76.9	(2.7)		
Restricted cash and cash equivalents		7.0			7.0
Net cash provided by operating activities of continuing operations	0.8	14.6	0.6		16.0
Net cash used in operating activities of discontinued operations		(0.8)			(0.8)
Net cash provided by operating activities	0.8	13.8	0.6		15.2
CASH FLOWS FROM INVESTING ACTIVITIES:					
Expenditures for property, plant and equipment		(178.3)	(0.3)		(178.6)
Expenditures for turnaround		(68.2)			(68.2)
Net sales of short-term investments	18.0	168.7			186.7
Net cash provided by (used in) investing activities	18.0	(77.8)	(0.3)		(60.1)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Long-term debt and capital lease payments		(14.4)	(0.1)		(14.5)
Dividends paid to shareholders	(1.8)				(1.8)
Cash and cash equivalent restricted for debt repayment		5.1			5.1
Net cash provided by (used in) financing activities	(1.8)	(9.3)	(0.1)		(11.2)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17.0	(73.3)	0.2		(56.1)
CASH AND CASH EQUIVALENTS, beginning of year	0.9	230.5	1.9		233.3

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CASH AND CASH EQUIVALENTS, end of year	\$ 17.9	\$ 157.2	\$ 2.1	\$	\$ 177.2
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Table of Contents**Premcor Inc. and Subsidiaries****Condensed Consolidating Balance Sheet**

As of December 31, 2004

(in millions)

	<u>Premcor</u>	<u>Consolidated PRG</u>	<u>Other Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Premcor</u>
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 0.9	\$ 230.5	\$ 1.9	\$	\$ 233.3
Short-term investments	136.0	378.7	5.3		520.0
Restricted cash and cash equivalents		69.1			69.1
Accounts receivable	0.2	708.3	0.2		708.7
Receivable from affiliates	268.3	119.7	65.6	(453.6)	
Inventories		772.6			772.6
Prepaid expenses and other		155.6	2.6	(2.4)	155.8
Deferred income taxes		69.5	5.4		74.9
	<u>405.4</u>	<u>2,504.0</u>	<u>81.0</u>	<u>(456.0)</u>	<u>2,534.4</u>
Total current assets					
Property, plant and equipment, net		2,846.5	61.6		2,908.1
Investments in affiliates	1,986.8		1,875.5	(3,862.3)	
Goodwill		27.6			27.6
Other assets		219.5			219.5
	<u>\$ 2,392.2</u>	<u>\$ 5,597.6</u>	<u>\$ 2,018.1</u>	<u>\$ (4,318.3)</u>	<u>\$ 5,689.6</u>
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$	\$ 992.8	\$ 0.6	\$	\$ 993.4
Payable to affiliates	283.9	124.4	45.2	(453.5)	
Accrued expenses and other	(24.7)	231.7	2.9	(2.4)	207.5
Accrued taxes other than income		70.5	(0.1)		70.4
Current portion of long-term debt		38.5	0.3		38.8
	<u>259.2</u>	<u>1,457.9</u>	<u>48.9</u>	<u>(455.9)</u>	<u>1,310.1</u>
Total current liabilities					
Long-term debt		1,779.1	9.6		1,788.7
Deferred income taxes	(1.4)	277.5	(0.3)		275.8
Other long-term liabilities		180.6			180.6
Commitments and contingencies					
COMMON STOCKHOLDERS EQUITY:					
Common stock	0.9		0.1	(0.1)	0.9
Additional paid-in capital	1,699.7	1,237.4	1,516.8	(2,754.2)	1,699.7
Retained earnings	433.8	665.1	443.0	(1,108.1)	433.8
	<u>2,134.4</u>	<u>1,902.5</u>	<u>1,959.9</u>	<u>(3,862.4)</u>	<u>2,134.4</u>
Total common stockholders equity					

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\$ 2,392.2	\$ 5,597.6	\$ 2,018.1	\$ (4,318.3)	\$ 5,689.6
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Table of Contents**Premcor Inc. and Subsidiaries****Condensed Consolidating Statement of Operations****For the Three Months Ended March 31, 2004****(unaudited, in millions)**

	<u>Premcor</u>	<u>Consolidated PRG</u>	<u>Other Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Premcor</u>
Net sales and operating revenues	\$ 49.8	\$ 2,551.1	\$ 2.5	\$ (1.9)	\$ 2,551.7
Equity in earnings of affiliates	49.8		51.1	(100.9)	
Expenses:					
Cost of sales		2,236.4		(1.9)	2,234.5
Operating expenses		146.2	2.3	(1.5)	147.0
General and administrative expenses	0.1	22.1	0.1	0.2	22.5
Depreciation		17.5	0.4		17.9
Amortization		16.2			16.2
Refinery restructuring and other charges		4.6			4.6
	<u>0.1</u>	<u>2,443.0</u>	<u>2.8</u>	<u>(3.2)</u>	<u>2,442.7</u>
Operating income	49.7	108.1	50.8	(99.6)	109.0
Interest and finance expense	(0.2)	(31.1)	(0.3)	0.3	(31.3)
Interest income	0.1	1.7		(0.1)	1.7
	<u>49.6</u>	<u>78.7</u>	<u>50.5</u>	<u>(99.4)</u>	<u>79.4</u>
Income from continuing operations before income taxes	49.6	78.7	50.5	(99.4)	79.4
Income tax provision		(29.1)	(0.3)		(29.4)
	<u>49.6</u>	<u>49.6</u>	<u>50.2</u>	<u>(99.4)</u>	<u>50.0</u>
Income from continuing operations	49.6	49.6	50.2	(99.4)	50.0
Loss from discontinued operations, net of tax		(0.3)			(0.3)
	<u>\$ 49.6</u>	<u>\$ 49.3</u>	<u>\$ 50.2</u>	<u>\$ (99.4)</u>	<u>\$ 49.7</u>
Net income	\$ 49.6	\$ 49.3	\$ 50.2	\$ (99.4)	\$ 49.7

Table of Contents**Premcor Inc. and Subsidiaries****Condensed Consolidating Statement of Cash Flows****For the Three Months Ended March 31, 2004****(unaudited, in millions)**

	<u>Premcor</u>	<u>Consolidated PRG</u>	<u>Other Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Premcor</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	\$ 49.6	\$ 49.3	\$ 50.2	\$ (99.4)	\$ 49.7
Adjustments:					
Loss from discontinued operations		0.3			0.3
Depreciation		17.5	0.4		17.9
Amortization		18.3			18.3
Deferred income taxes		25.7	2.0		27.7
Stock-based compensation		4.9			4.9
Refinery restructuring and other charges		(0.7)			(0.7)
Equity in earnings of affiliates	(49.8)		(51.1)	100.9	
Other, net	(0.1)	0.9	(0.2)	0.3	0.9
Cash provided by (reinvested in) working capital:					
Accounts receivable, prepaid expenses and other		166.8	0.9	(1.4)	166.3
Inventories		61.4			61.4
Accounts payable, accrued expenses, taxes other than income and other	1.4	(260.4)	(1.9)	1.2	(259.7)
Affiliate receivables and payables	(1.0)	2.2	(1.3)	0.1	
Restricted cash and cash equivalents		8.0			8.0
Net cash provided by (used in) operating activities of continuing operations	0.1	94.2	(1.0)	1.7	95.0
Net cash used in operating activities of discontinued operations		(1.0)			(1.0)
Net cash provided by (used in) operating activities	0.1	93.2	(1.0)	1.7	94.0
CASH FLOWS FROM INVESTING ACTIVITIES:					
Expenditures for property, plant and equipment		(85.1)	(0.1)	(0.2)	(85.4)
Expenditures for turnaround		(52.9)			(52.9)
Net (purchases) sales of short-term investments	0.4	71.9			72.3
Net cash provided by (used in) investing activities	0.4	(66.1)	(0.1)	(0.2)	(66.0)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from issuance of common stock	1.3				1.3
Long-term debt and capital lease payments		(10.0)			(10.0)
Cash and cash equivalent restricted for debt repayment		3.7			3.7
Net cash provided by (used in) financing activities	1.3	(6.3)			(5.0)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1.8	20.8	(1.1)	1.5	23.0

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CASH AND CASH EQUIVALENTS, beginning of year		118.9	1.8		120.7
CASH AND CASH EQUIVALENTS, end of year	\$ 1.8	\$ 139.7	\$ 0.7	\$ 1.5	\$ 143.7

