

PLAINS RESOURCES INC  
Form DEFA14A  
May 04, 2004

## **SCHEDULE 14A**

**(Rule 14a-101)**

### **INFORMATION REQUIRED IN PROXY STATEMENT**

#### **SCHEDULE 14A INFORMATION**

#### **Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under Rule 14a-12

**PLAINS RESOURCES INC.**

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(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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Fee paid previously with preliminary materials.

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(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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On May 4, 2004 Plains Resources Inc. issued the following press release:

700 Milam St, Suite 3100

Houston, TX 77002

**NEWS RELEASE**

**Contact:** Stephen A. Thorington  
Executive Vice President and Chief Financial Officer  
(832) 239-6096 or (800) 934-6083

**FOR IMMEDIATE RELEASE**

**PLAINS RESOURCES REPORTS 2004**

**FIRST QUARTER RESULTS**

Houston, Texas May 4, 2004 - Plains Resources Inc. (NYSE:PLX) today reported net income of \$13.3 million, or \$0.55 per diluted share for the first quarter of 2004 compared to net income of \$7.3 million, or \$0.28 per diluted share for the first quarter of 2003.

Net income in the first quarter of 2004 includes a non-cash pre-tax gain of \$23.9 million related to the conversion of 75% of the Company's subordinated units of Plains All American Pipeline, L.P. (NYSE:PAA) into common units. After this conversion, all of the Company's 12.4 million PAA units consist of common units.

The Company reported equity in earnings from its ownership in PAA of \$7.0 million compared to \$6.3 million in the first quarter of 2003. The Company's cash distribution from PAA was \$8.2 million in the first quarter of 2004, a 9% increase from the first quarter 2003 distribution of \$7.5 million.

Oil production volumes were 2,308 barrels per day in the first quarter of 2004 compared to 2,578 barrels per day in the prior year quarter. In accordance with SEC Staff Accounting Bulletin 101, the Company's results reflect revenue from oil production in the period it is sold as opposed to when it is produced. The location of the Company's Florida properties and the timing of the barges that transport the oil to market cause reported sales volumes to differ from production volumes. The Company reported sales of 1,275 barrels of oil per day in the first quarter of 2004 compared to 3,067 barrels per day in the first quarter of 2003. In the first quarter of 2004, the Company had only one barge delivery of crude oil causing sales volumes to be significantly less than produced volumes.

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Unit gross margin before hedging and derivative cash settlements was \$13.27 in the first quarter of 2004 versus \$14.12 in the first quarter of 2003. The decrease is primarily due

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to increased production expenses resulting from higher workover, electricity and fuel costs. During the first quarter of 2004, the Company recorded \$4.4 million of derivative losses consisting of \$1.4 million of cash settlements and \$3.0 million reflecting the decrease in the fair value of the Company's crude oil swaps.

General and administrative expense was \$4.1 million in the first quarter of 2004 compared to \$1.8 million in the first quarter of 2003. The increase is primarily attributable to expenses related to the proposed buy-out of the Company and to a much lesser extent, accounting system conversion costs.

Plains Resources is an independent energy company engaged in the acquisition, development and exploitation of crude oil and natural gas. Through its ownership in Plains All American Pipeline, L.P., Plains Resources has interests in the midstream activities of marketing, gathering, transportation, terminaling and storage of crude oil. Plains Resources is headquartered in Houston, Texas.

Except for the historical information contained herein, the matters discussed in this news release are forward-looking statements that involve certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties include, among other things, economic conditions, oil and gas price volatility, uncertainties inherent in the exploration for and development and production of oil and gas and in estimating reserves, regulatory changes and other factors discussed in Plains Resources' filings with the Securities and Exchange Commission.

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**Plains Resources Inc.****Consolidated Statements of Income**

(Amounts in thousands, except per share data)

|   | Three Months Ended |               |
|---|--------------------|---------------|
|   | March 31,          |               |
|   | 2004               | 2003          |
| <b>Revenues</b>   |                    |               |
| Oil sales   | \$ 3,264           | \$ 7,277      |
| Hedging   |                    | (307)         |
|   | <u>3,264</u>       | <u>6,970</u>  |
| <b>Costs and Expenses</b>                                     |                    |               |
| Lease operating expenses                                      | 1,039              | 1,858         |
| Production and ad valorem taxes                               | 187                | 404           |
| Oil transportation expenses                                   | 499                | 1,118         |
| General and administrative                                    | 4,056              | 1,812         |
| Depreciation, depletion, amortization and accretion           | 727                | 1,461         |
|   | <u>6,508</u>       | <u>6,653</u>  |
| <b>Other Income (Expense)</b>                                 |                    |               |
| Equity in earnings of Plains All American Pipeline, L.P.      | 7,026              | 6,325         |
| Gains on Plains All American Pipeline, L.P. unit transactions | 23,873             | 6,108         |
| Gain (loss) on derivatives                                    | (4,404)            | (66)          |
| Interest expense  | (508)              | (501)         |
| Interest and other income                                     | 15                 | 75            |
|   | <u>26,002</u>      | <u>11,941</u> |
| <b>Income Before Income Taxes</b>                             | 22,758             | 12,258        |
| Income tax benefit (expense)                                  |                    |               |
| Current   | (2,621)            | (2,391)       |
| Deferred  | (6,861)            | (3,476)       |
|   | <u>13,276</u>      | <u>6,391</u>  |
| <b>Income before cumulative effect of accounting change</b>   | 13,276             | 6,391         |
| Cumulative effect of accounting change, net of tax            |                    | 933           |
|   | <u>13,276</u>      | <u>7,324</u>  |
| <b>Net Income</b>   | 13,276             | 7,324         |
| Preferred dividends   |                    | (350)         |
|   | <u>13,276</u>      | <u>6,974</u>  |
| <b>Income Available to Common Stockholders</b>                | \$ 13,276          | \$ 6,974      |
| <b>Earnings Per Share (in dollars)</b>                        |                    |               |
| Basic   |                    |               |
| Income from continuing operations                             | \$ 0.56            | \$ 0.25       |
| Change in accounting policy                                   |                    | 0.04          |

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|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
|                                     | \$ 0.56           | \$ 0.29           |
|                                     | <u>          </u> | <u>          </u> |
| Diluted                             |                   |                   |
| Income from continuing operations   | \$ 0.55           | \$ 0.24           |
| Change in accounting policy         |                   | 0.04              |
|                                     | <u>          </u> | <u>          </u> |
|                                     | \$ 0.55           | \$ 0.28           |
|                                     | <u>          </u> | <u>          </u> |
| Weighted average shares outstanding |                   |                   |
| Basic                               | 23,763            | 23,981            |
| Diluted                             | 24,279            | 26,050            |

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## Plains Resources Inc.

## Financial and Operating Data

|   | Three Months Ended<br>March 31, |                 |
|---|---------------------------------|-----------------|
|   | 2004                            | 2003            |
| <b>Distributions from PAA (thousands of dollars)</b>        |                                 |                 |
| General partner interest                                    | \$ 1,018                        | \$ 682          |
| Limited partner units                                       | 7,133                           | 6,822           |
|   | <u>\$ 8,151</u>                 | <u>\$ 7,504</u> |
| <b>Production and Sales Volumes</b>                         |                                 |                 |
| Production volumes (MBbls)                                  | 210                             | 232             |
| Daily average production volumes (Bbls)                     | 2,308                           | 2,578           |
| Sales volumes (MBbls)                                       | 116                             | 276             |
| Daily average sales volumes (Bbls)                          | 1,275                           | 3,067           |
| <b>Unit Economics (\$/Bbl)</b>                              |                                 |                 |
| Average oil sales price                                     |                                 |                 |
| Average NYMEX   | \$ 35.16                        | \$ 33.80        |
| Differential  | (7.02)                          | (7.44)          |
| Realized price prior to hedging and derivatives             | 28.14                           | 26.36           |
| Lease operating expenses                                    | (8.96)                          | (6.73)          |
| Production and ad valorem taxes                             | (1.61)                          | (1.46)          |
| Oil transportation expenses                                 | (4.30)                          | (4.05)          |
| Gross margin before hedging and derivative cash settlements | 13.27                           | 14.12           |
| Hedging   |                                 | (1.11)          |
|   | <u>13.27</u>                    | <u>13.01</u>    |
| Derivative cash settlements <sup>(1)</sup>                  | (11.95)                         | (2.65)          |
|   | <u>\$ 1.32</u>                  | <u>\$ 10.36</u> |

- (1) Effective February 1, 2003 we were required to discontinue hedge accounting and reflect the mark-to-market value of our hedges in earnings. The amounts presented represent the effect of derivative cash settlement losses on our average sales prices. Because sales volumes (1,275 bbls/day) were less than the hedged volumes (1,500 bbls/day) in the first quarter of 2004, the derivative cash settlement loss is disproportionately high.

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**Plains Resources Inc.****Consolidated Balance Sheets**

(in thousands of dollars)

|  | March 31,<br>2004 | December 31,<br>2003 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| <b>Current Assets</b>  |                   |                      |
| Cash and cash equivalents  | \$ 15,828         | \$ 4,549             |
| Accounts receivable - Plains All American Pipeline, L.P.             |                   | 3,533                |
| Other accounts receivable  |                   | 2,072                |
| Inventory  | 2,605             | 1,334                |
| Other current assets   | 1,140             | 873                  |
|  | <u>19,573</u>     | <u>12,361</u>        |
| <b>Property and Equipment, at cost</b>                               |                   |                      |
| Oil and gas properties - full cost method<br>Subject to amortization | 354,260           | 353,653              |
| Other property and equipment   | 27                | 30                   |
|  | <u>354,287</u>    | <u>353,683</u>       |
| Less allowance for depreciation, depletion and amortization          | (301,416)         | (300,370)            |
|  | <u>52,871</u>     | <u>53,313</u>        |
| <b>Ownership Interest in Plains All American Pipeline, L.P.</b>      | <u>125,729</u>    | <u>100,536</u>       |
| <b>Other Assets</b>  | <u>9,724</u>      | <u>9,838</u>         |
|  | <u>\$ 207,897</u> | <u>\$ 176,048</u>    |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                           |                   |                      |
| <b>Current Liabilities</b>   |                   |                      |
| Accounts payable   | \$ 4,451          | \$ 2,114             |
| Derivative contracts   | 4,183             | 2,834                |
| Taxes payable  | 3,163             | 1,975                |
| Royalties payable  | 595               | 814                  |
| Interest payable   | 326               | 197                  |
| Current maturities of long-term debt                                 | 20,000            | 20,000               |
| Other current liabilities  | 3,921             | 3,882                |
|  | <u>36,639</u>     | <u>31,816</u>        |
| <b>Long-Term Bank Debt</b>   | <u>25,000</u>     | <u>30,000</u>        |
| <b>Asset Retirement Obligation</b>                                   | <u>1,594</u>      | <u>1,594</u>         |
| <b>Other Long-Term Liabilities</b>                                   | <u>6,180</u>      | <u>4,626</u>         |

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|  |                   |                   |
|--|-------------------|-------------------|
| <b>Deferred Income Taxes</b>           | 13,743            | 7,108             |
| <b>Stockholders Equity</b>             |                   |                   |
| Common stock                           | 2,898             | 2,842             |
| Additional paid-in capital             | 287,415           | 278,597           |
| Retained earnings (deficit)            | (74,575)          | (87,851)          |
| Accumulated other comprehensive income | 5,048             | 3,361             |
| Treasury stock, at cost                | (96,045)          | (96,045)          |
|  | <u>124,741</u>    | <u>100,904</u>    |
|  | <u>\$ 207,897</u> | <u>\$ 176,048</u> |

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As previously announced, Plains Resources has entered into a merger agreement with an affiliate of Vulcan Capital. Under the terms of the merger agreement, stockholders of Plains Resources, other than James C. Flores and John T. Raymond, would receive \$16.75 per share in cash for each share of Plains Resources stock that they own. Plains Resources Chairman James C. Flores and its CEO John T. Raymond are participating with the affiliate of Vulcan Capital in the transaction.

PLAINS RESOURCES HAS FILED A PRELIMINARY PROXY STATEMENT FOR THE SPECIAL MEETING OF STOCKHOLDERS TO VOTE ON THE PROPOSED TRANSACTION WITH THE VULCAN GROUP, AND PLAINS RESOURCES AND THE VULCAN GROUP HAVE FILED A SCHEDULE 13E-3 AND MAY FILE OTHER RELEVANT DOCUMENTS, WITH THE SEC CONCERNING THE PROPOSED TRANSACTION. STOCKHOLDERS ARE URGED TO READ THE PRELIMINARY PROXY STATEMENT AND SCHEDULE 13E-3, WHICH ARE AVAILABLE NOW, AND THE DEFINITIVE PROXY STATEMENT WHEN IT BECOMES AVAILABLE AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC BECAUSE THEY CONTAIN AND WILL CONTAIN IMPORTANT INFORMATION ABOUT THE MERGER AND THE INTERESTS OF THE PARTICIPANTS IN THE SOLICITATION OF PROXIES.

YOU MAY OBTAIN THE DOCUMENTS FREE OF CHARGE AT THE WEBSITE MAINTAINED BY THE SEC AT WWW.SEC.GOV. IN ADDITION, YOU MAY OBTAIN DOCUMENTS FILED WITH THE SEC BY PLAINS RESOURCES FREE OF CHARGE BY REQUESTING THEM IN WRITING FROM PLX AT 700 MILAM, SUITE 3100, HOUSTON, TEXAS 77002, ATTENTION: JOANNA PANKEY, OR BY TELEPHONE AT 832-239-6000.

Plains Resources, James C. Flores, John T. Raymond, Paul G. Allen and the affiliate of Vulcan Capital (which together with Mr. Flores, Mr. Raymond and Mr. Allen form the Vulcan Group), and the directors and executive officers of Plains Resources and the affiliate of Vulcan Capital, may be deemed to be participants in the solicitation of proxies from stockholders of Plains Resources in connection with the merger. INFORMATION ABOUT THE DIRECT AND INDIRECT INTERESTS, BY SECURITY HOLDINGS OR OTHERWISE, OF THESE PERSONS IS SET FORTH IN THE COMPANY'S PROXY STATEMENT FOR ITS 2003 ANNUAL MEETING, THE SCHEDULE 13D FILED WITH THE SEC BY THE VULCAN GROUP ON DECEMBER 1, 2003 AS AMENDED ON FEBRUARY 26, 2004 AND MARCH 26, 2004, AND THE PRELIMINARY PROXY STATEMENT FOR THE SPECIAL MEETING OF STOCKHOLDERS FILED WITH THE SEC AND THE SCHEDULE 13E-3 FILED WITH THE SEC. SUCH INFORMATION WILL ALSO BE CONTAINED IN THE DEFINITIVE PROXY STATEMENT TO BE FILED WITH THE SEC.