

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.

(Name of Registrant as Specified in Its Charter)

(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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(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):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

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(1) Amount previously paid:

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

(3) Filing Party:

(4) Date Filed:

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
Revenues		
Oil sales	\$ 3,264	\$ 7,277
Hedging		(307)
	<u>3,264</u>	<u>6,970</u>
Costs and Expenses		
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>
Other Income (Expense)		
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>
Income Before Income Taxes	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>
Income before cumulative effect of accounting change	13,276	6,391
Cumulative effect of accounting change, net of tax		933
	<u>13,276</u>	<u>7,324</u>
Net Income	13,276	7,324
Preferred dividends		(350)
	<u>13,276</u>	<u>6,974</u>
Income Available to Common Stockholders	\$ 13,276	\$ 6,974
Earnings Per Share (in dollars)		
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 March 31,	
	2004	2003
Distributions from PAA (thousands of dollars)		
General partner interest	\$ 1,018	\$ 682
Limited partner units	7,133	6,822
	<u>\$ 8,151</u>	<u>\$ 7,504</u>
Production and Sales Volumes		
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
Unit Economics (\$/Bbl)		
Average oil sales price		
Average NYMEX	\$ 35.16	\$ 33.80
Differential	(7.02)	(7.44)
	<u>28.14</u>	<u>26.36</u>
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)
	<u>13.27</u>	<u>14.12</u>
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 ⁽¹⁾	(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, 2004	December 31, 2003
ASSETS		
Current Assets		
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>
Property and Equipment, at cost		
Oil and gas properties - full cost method 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>
Ownership Interest in Plains All American Pipeline, L.P.	<u>125,729</u>	<u>100,536</u>
Other Assets	<u>9,724</u>	<u>9,838</u>
	<u>\$ 207,897</u>	<u>\$ 176,048</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
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>
Long-Term Bank Debt	<u>25,000</u>	<u>30,000</u>
Asset Retirement Obligation	<u>1,594</u>	<u>1,594</u>
Other Long-Term Liabilities	<u>6,180</u>	<u>4,626</u>

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Deferred Income Taxes	13,743	7,108
Stockholders Equity		
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)
	124,741	100,904
	\$ 207,897	\$ 176,048

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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.