PLAINS RESOURCES INC
Form PRER14A
June 07, 2004
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**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 x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material under Rule 14a-12

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

**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.

x 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:

Shares of Plains Resources common stock, $0.10 par value per share ( Common Stock ).

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

22,599,200 shares of Common Stock, $0.10 par value per share, 76,500 restricted units representing the right to acquire Common Stock and 1,610,785 options representing the right to acquire Common Stock.

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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):

The filing fee of $48,799.96 was calculated pursuant to Exchange Act Rule 0-11(c)(1) and is based on (1) the aggregate number of 22,675,700 shares of Common Stock consisting of 22,599,200 shares of Common Stock outstanding plus the 76,500 restricted units representing the right to purchase Common Stock multiplied by the $16.75 per share merger consideration; plus (ii) the cash-out value of 1,610,785 options representing the right to purchase Common Stock. The filing fee was then calculated by multiplying the resulting transaction cash value of $385,161,498.00 by 0.00012670.

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(4) Proposed maximum aggregate value of transaction:

$385,161,498.00

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(5) Total fee paid:

$48,799.96

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x Fee paid previously with preliminary materials: $48,799.96

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¨ 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.

(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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**PLAINS RESOURCES INC.**

**700 Milam Street, Suite 3100**

**Houston, Texas 77002**

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Dear Plains Resources Stockholder:

You are cordially invited to attend a special meeting of the stockholders of Plains Resources Inc. The meeting will be held at [**time**], local time, on [ ], 2004, at [ ], Houston, Texas. Your Board of Directors and management look forward to greeting those of you able to attend in person. We have included a map and directions to the meeting site on the back page of this proxy statement. This proxy statement is dated [ ], 2004, and is first being mailed to stockholders on or about [ ], 2004.

At the special meeting, you will be asked to consider and vote upon the approval and adoption of an Agreement and Plan of Merger, dated as of February 19, 2004, by and among us, Vulcan Energy Corporation and Prime Time Acquisition Corporation, a newly formed Delaware corporation wholly owned by Vulcan Energy Corporation, and the merger of Prime Time Acquisition Corporation with and into Plains Resources Inc., which will survive the merger.

Vulcan Energy Corporation is a Delaware corporation currently owned solely by investor Paul G. Allen. James C. Flores, our Chairman of the Board of Directors, and John T. Raymond, our President and Chief Executive Officer, will each acquire a significant interest in Vulcan Energy in connection with the transaction. In this letter and the accompanying proxy statement, Messrs. Flores and Raymond (together with Sable Investments, L.P. and Sable Investments, LLC) will be referred to as the Management Stockholders. Prior to the merger, the Management Stockholders will contribute their shares of vested and restricted common stock to Vulcan Energy and will together hold approximately 11% of the outstanding common shares of Vulcan Energy following the merger.

If the merger agreement is approved and adopted and the merger is completed in accordance with its terms you will be entitled to $16.75 in cash per share of our common stock you own. We will pay the merger consideration without interest and less any applicable withholding taxes.

If the merger is completed, we will no longer be a publicly traded company and will become a wholly owned subsidiary of Vulcan Energy.

A special committee of our Board of Directors has unanimously determined that the proposed merger is advisable, fair to and in the best interests of Plains Resources and its stockholders, other than the Management Stockholders, and recommends the approval and adoption of the merger agreement and the merger by our stockholders. The special committee consists of two directors who are not our officers or employees, are not directly or indirectly affiliated with Vulcan Energy or the Management Stockholders, and who will not have an economic interest in us or Vulcan Energy following the merger. **Accordingly, the Board of Directors, taking into account the unanimous recommendation of the special committee, through a unanimous vote of the directors present (with Mr. Flores not in attendance) approved the merger**

**agreement and resolved to recommend that you vote FOR approval and adoption of the merger agreement and the merger. Members of the Board of Directors (excluding Mr. Flores) will receive aggregate merger consideration of approximately $10,875,048 and certain indemnification rights as a result of this transaction. Please see Special Factors Interests of Certain Persons in the Merger beginning on page 75, for a description of such benefits.**

In reaching its decision, the special committee considered many factors, including an oral opinion delivered by Petrie Parkman & Co., the special committee s financial advisor, on February 18, 2004 and subsequently

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confirmed in writing that, as of that date, and based on and subject to the matters set forth in the opinion, the consideration to be received by our stockholders in the merger was fair from a financial point of view to our stockholders (other than the Management Stockholders).

The accompanying proxy statement explains the proposed merger and provides specific information concerning the merger agreement and the special meeting. We urge you to read these materials, including the merger agreement and other appendices, completely and carefully.

Your vote is important. The proposed merger cannot occur unless, among other things, the merger agreement and the merger are approved and adopted by an affirmative vote of the holders of a majority of the outstanding shares of our common stock. The Board of Directors appreciates and encourages stockholder participation in our affairs. Whether or not you can attend the meeting, please read the proxy statement carefully, then sign, date and return the enclosed proxy card promptly in the enclosed pre-addressed postage-paid envelope, so that your shares will be represented at the meeting. If you attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

Failure to return a properly executed proxy card or vote at the special meeting will have the same effect as a vote against the approval and adoption of the merger agreement and the merger. If you have any questions, or need assistance in voting your proxy, please call our proxy solicitor, Georgeson Shareholder Communications Inc. toll-free at (800) 334-9612.

On behalf of the Board of Directors, thank you for your continued support.

**This transaction has not been approved or disapproved by the Securities and Exchange Commission or any state securities commission. Neither the Securities and Exchange Commission nor any state securities commission has passed upon the merits or fairness of this transaction or upon the adequacy or accuracy of the information contained in this proxy statement. Any representation to the contrary is a criminal offense.**

This proxy statement is dated [ ], 2004, and is first being mailed to stockholders on or about [ ], 2004.

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**PLAINS RESOURCES INC.**

**700 Milam Street, Suite 3100**

**Houston, Texas 77002**

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**NOTICE OF SPECIAL MEETING TO BE HELD ON [ ], 2004**

We cordially invite you to attend a special meeting of stockholders of Plains Resources Inc., a Delaware corporation. This special meeting will be held at [time], local time, on [ ], 2004, at [ ] Houston, Texas. The meeting is being held:

1. To vote on the approval and adoption of the Agreement and Plan of Merger, dated as of February 19, 2004, by and among us, Vulcan Energy Corporation and Prime Time Acquisition Corporation, a newly formed Delaware corporation wholly owned by Vulcan Energy Corporation, and the merger of Prime Time Acquisition Corporation with and into Plains Resources, pursuant to which stockholders of Plains Resources Inc. will receive $16.75 in cash in exchange for each share of Plains Resources Inc. common stock, and Plains Resources Inc. will become a privately-held company;

2. To grant to the proxyholders the authority to vote in their discretion with respect to the approval of any proposal to postpone or adjourn the special meeting to a later date to solicit additional proxies in favor of the approval and adoption of the merger agreement and the merger if there are not sufficient votes for approval and adoption of the merger agreement and the merger at the special meeting; and

3. To consider any other business that is properly brought before the special meeting or any reconvened meeting after any adjournment or postponement of the meeting.

The Board of Directors has fixed the close of business on June 14, 2004, as the record date for the determination of stockholders entitled to notice of, and to vote at, the special meeting or any adjournment or postponement of the meeting.

The Board of Directors, in accordance with the unanimous recommendation of a special committee of the board consisting of two directors who are not our officers or employees, are not directly or indirectly affiliated with Vulcan Energy or the Management Stockholders, and who will not have an economic interest in us or Vulcan Energy following the merger, has unanimously approved the merger agreement and the merger, and has determined that the merger agreement and the merger are advisable and that the proposed merger is fair to, and in the best interests of, all Plains Resources stockholders (other than the Management Stockholders). **Accordingly, the Board of Directors, taking into account the unanimous recommendation of the special committee, through a unanimous vote of the directors present (with Mr. Flores not in attendance) approved the merger agreement and resolved to recommend that you vote FOR approval and adoption of the merger agreement and the merger. Members of the Board of Directors (excluding Mr. Flores) will receive aggregate merger consideration of approximately $10,875,048 and certain indemnification rights as a result of this transaction. Please see Special Factors Interests of Certain Persons in the Merger beginning on page 75, for a description of such benefits.**

Under Delaware law, if the merger is completed, holders of our common stock who do not vote in favor of approval and adoption of the merger agreement and the merger will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery,

but only if they submit a written demand for such an appraisal prior to the vote on the merger agreement and they comply with the other Delaware law procedures and requirements explained in the accompanying proxy statement.

Your vote is very important. The merger cannot occur unless holders of a majority of the outstanding shares of common stock of Plains Resources vote in favor of the approval and adoption of the merger agreement and the merger. Even if you plan to attend the special meeting in person, please complete, date, sign and return the enclosed proxy card to ensure that your shares will be represented at the special meeting. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for that purpose. If you attend the special

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meeting and wish to vote in person, you may withdraw your proxy card and vote in person. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain from the record holder a proxy issued in your name. A broker, bank or other nominee cannot vote your shares on the merger by proxy without your express instructions.

We urge you to read carefully the accompanying proxy statement. A copy of the merger agreement is included as Appendix A to the accompanying proxy statement.

[ ], 2004

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## SUMMARY

*This summary highlights selected information included in this proxy statement and should be read together with the questions and answers on the following pages. Because this is a summary, it may not contain all of the information that is important to you. To more fully understand the merger agreement and the merger and for a more complete description of the legal terms of the merger, you should read this entire proxy statement carefully, including the appendices attached to this proxy statement. The actual terms of the merger are contained in the merger agreement, a copy of which is attached as Appendix A to this proxy statement. For additional information, see Miscellaneous Other Information Where You Can Find More Information and Miscellaneous Other Information Incorporation by Reference.*

*Unless we otherwise indicate or unless the context requires otherwise, all references in this proxy statement to Plains Resources, we, our, us or similar references mean Plains Resources Inc. and its subsidiaries, predecessors and acquired businesses. When we refer to the Management Stockholders in this proxy statement, we mean James C. Flores, chairman of our Board of Directors, and John T. Raymond, our president and chief executive officer, and their respective affiliates. When we refer to the subscription agreement in this proxy statement, we mean the amended and restated subscription agreement, dated as of February 19, 2004, entered into by and among the Management Stockholders, Vulcan Energy and Paul G. Allen pursuant to which each Management Stockholder will contribute all of his equity interests in Plains Resources, and Paul G. Allen will contribute cash, in exchange for equity interests in Vulcan Energy immediately prior to the effective time of the merger.*

**Transaction Participants (Page 128)**

**PLAINS RESOURCES INC.**

**700 Milam Street, Suite 3100**

**Houston, Texas 77002**

Plains Resources Inc. is an independent energy company. We are principally engaged in the midstream activities of marketing, gathering, transporting, terminalling, and storage of oil through our equity ownership in Plains All American Pipeline, L.P., or PAA, a publicly traded master limited partnership that is actively engaged in the midstream energy markets. All of PAA s midstream activities are conducted in the United States and Canada. We also participate in the upstream activities of acquiring, exploiting, developing, exploring for and producing oil through our wholly owned subsidiary, Calumet Florida L.L.C., which has producing properties in the Sunniland Trend in south Florida.

**VULCAN ENERGY CORPORATION**

**505 Fifth Avenue S, Suite 900**

**Seattle, Washington 98104**

Vulcan Energy Corporation ( Vulcan Energy ) was formed on November 19, 2003 for the purpose of acquiring all of the outstanding shares of Plains Resources. It has not carried on any activities to date other than those incidental to its formation and completion of the merger. Vulcan Energy is currently owned solely by Mr. Allen and managed by several employees of Vulcan Capital, an investment vehicle of Mr. Allen.

Immediately following the merger, Mr. Allen will own approximately 89% of the outstanding common shares of Vulcan Energy (excluding the Management Stockholders unvested shares of restricted stock and stock options), and Vulcan Energy will be managed by a five-member board of directors consisting of Mr. Allen, Jody Patton, David Capobianco, Mr. Flores and Mr. Raymond. See page 19 Special Factors Structure of the Transaction.

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**PRIME TIME ACQUISITION CORPORATION**

**505 Fifth Avenue S, Suite 900**

**Seattle, Washington 98104**

Prime Time Acquisition Corporation (the Vulcan Merger Subsidiary ) was incorporated on February 18, 2004 for the purpose of merging with and into Plains Resources. It has not carried on any activities to date other than those incidental to its incorporation and completion of the merger. Vulcan Energy owns all of the outstanding stock of the Vulcan Merger Subsidiary.

**Transaction Structure (Page 19)**

The proposed transaction is a merger of Prime Time Acquisition Corporation with and into Plains Resources, with Plains Resources continuing as the surviving corporation.

The principal steps that will accomplish this transaction are as follows:

***The Equity and Debt Financing.*** At or prior to the merger (subject to the satisfaction or waiver of all conditions) and pursuant to the amended and restated subscription agreement with respect to the equity financing and written commitments with respect to the debt financing:

- Mr. Allen will contribute to Vulcan Energy approximately $212 million in order to consummate the merger and pay related fees and expenses in exchange for shares constituting approximately 89% of the outstanding common shares of Vulcan Energy;

- each of the Management Stockholders will contribute to Vulcan Energy as an investment their respective shares of Plains Resources common stock (both restricted common stock and vested common stock) in exchange for common shares of Vulcan Energy;

- following the merger, the Management Stockholders will own, in the aggregate, approximately 11% of the outstanding common shares of Vulcan Energy; and

- Fleet National Bank will provide financing for Vulcan Energy through a senior secured credit facility in the principal amount of $175 million and Bank of America N.A. will provide financing for Vulcan Energy through a $65 million senior term loan guaranteed by Mr. Allen to fund a portion of the acquisition costs and related expenses.

***The Merger.*** Following the satisfaction or waiver of the conditions to the merger, including completion of the funding described above, the Vulcan Merger Subsidiary will merge with and into Plains Resources, and Plains Resources will be the surviving corporation.

As a result of the merger, the stockholders of Plains Resources (other than Vulcan Energy and its affiliates, and the Management Stockholders) will no longer have any interest in, and will no longer be stockholders of, Plains Resources and will not participate in the future earnings or growth of Plains Resources, if any.

**Vote Required (Page 16)**

Each share of Plains Resources common stock is entitled to one vote.

Under Delaware law, the affirmative vote of the holders of a majority of the outstanding shares of Plains Resources common stock is required to approve and adopt the merger agreement and the merger. Adoption and approval of the merger agreement and the merger by at least a majority of Plains Resources unaffiliated stockholders is not required.

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The Management Stockholders, who collectively beneficially own 1,180,305, or 4.8% of the, shares of Plains Resources common stock outstanding as of May 28, 2004, have agreed to vote their shares in favor of the approval and adoption of the merger agreement and the merger.

Kayne Anderson Capital Advisors, LP, which beneficially owns 1,755,916 (or 7.2%) of the outstanding shares of Plains Resources common stock, and EnCap Investments, LP, which through its institutional equity funds controls 1,174,219 (or 4.8%) of the outstanding shares of Plains Resources common stock, have each informed Plains Resources that it intends to vote in favor of adoption and approval of the merger agreement and the merger.

**Recommendations of the Special Committee and the Board of Directors (Page 59)**

A special committee of our Board of Directors, which consists of two directors who are not our officers or employees, are not directly or indirectly affiliated with Vulcan Energy or the Management Stockholders, and who will not have an economic interest in us or Vulcan Energy following the merger, unanimously determined that the proposed merger and the terms of the provisions of the merger agreement are advisable, fair to, and in the best interests of, our stockholders, other than the Management Stockholders, and unanimously recommended the approval and adoption of the merger agreement and the merger by our stockholders. The Board of Directors, taking into account the unanimous recommendation of the special committee, through a unanimous vote of the directors present (with Mr. Flores not in attendance) also determined that the proposed merger and the terms of the merger agreement are advisable, fair to, and in the best interests of, Plains Resources stockholders, other than the Management Stockholders. **Accordingly, the Board of Directors, taking into account the unanimous recommendation of the special committee, through a unanimous vote of the directors present (with Mr. Flores not in attendance) approved the merger agreement and resolved to recommend that the stockholders vote FOR approval and adoption of the merger agreement and the merger. Members of the Board of Directors (excluding Mr. Flores) will receive aggregate merger consideration of approximately $10,875,048 and certain indemnification rights as a result of this transaction. Please see Special Factors Interests of Certain Persons in the Merger beginning on page 75, for a description of such benefits.**

**Purpose of the Merger; Certain Effects of the Merger (Page 74)**

The principal purpose of the merger is to enable Mr. Allen and the Management Stockholders to own indirectly all of the equity interests in Plains Resources and to provide you with the opportunity to receive a cash payment for your shares at a premium over the market prices at which Plains Resources common stock traded before announcement of Vulcan Energy s proposal to purchase Plains Resources in November 2003.

The merger will terminate all common equity interests in Plains Resources held by our current stockholders, and Vulcan Energy will be the sole owner of Plains Resources and its business. Mr. Allen and the Management Stockholders will be the owners of Vulcan Energy following the merger and therefore will be the beneficiaries of any earnings and growth of Plains Resources following the merger.

Upon completion of the merger, Plains Resources will remove its common stock from listing on the New York Stock Exchange, or NYSE, and Plains Resources common stock will no longer be publicly traded and the registration of Plains Resources common stock under the Securities Exchange Act of 1934, as amended (the Exchange Act ), will be terminated.

**Background of the Merger; Reasons for Approval of the Merger (Pages 20 and 59)**

For a description of the events leading to the approval of the merger agreement and the merger by the Board of Directors, you should refer to Special Factors Background of the Merger and Special Factors

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Recommendations of the Special Committee and the Board of Directors; Reasons for Recommending the Approval and Adoption of the Merger Agreement and the Merger.

**Fairness Opinion of Petrie Parkman & Co. (Page 64 and Appendix B)**

The special committee received an oral opinion from Petrie Parkman & Co. ( Petrie Parkman ) on February 18, 2004, and subsequently confirmed in writing that, as of that date and based on and subject to the matters set forth in the opinion, the consideration to be received by Plains Resources stockholders in the merger was fair from a financial point of view to such stockholders (other than the Management Stockholders). The full text of this opinion, dated February 18, 2004, is attached to this proxy statement as Appendix B. You should read the opinion carefully in its entirety.

**Interests of Certain Persons in the Merger (Page 75)**

In considering the recommendations of the special committee and the Board of Directors, you should be aware that some Plains Resources officers, directors and affiliates have interests in the merger that may be different from or in addition to your interests as a Plains Resources stockholder generally, including the following:

as of June 14, 2004, executive officers and directors of Plains Resources (other than the Management Stockholders) held

options to purchase an aggregate of shares of Plains Resources common stock,

shares of restricted stock, and

restricted stock units;

all shares of restricted stock will become fully vested and all options generally will become fully vested and exercisable immediately prior to the effective time of the merger. The aggregate amount to be paid (based on the same $16.75 per share purchase price to be paid to all other stockholders) to the executive officers and directors (other than the Management Stockholders) in the merger with respect to such vesting restricted stock and the cancellation of the options and restricted stock units will be approximately $1,905,750;

Upon completion of the merger, approximately 11% of the outstanding common shares of Vulcan Energy will be owned by the Management Stockholders. In addition, each Management Stockholder will be granted an option to purchase a number of shares of Vulcan Energy common stock equal to 5% of the outstanding shares on a fully diluted basis (calculated utilizing the treasury method) on the date of grant. In addition, under certain circumstances, including a sale of Vulcan Energy, where a 20% or greater internal rate of return to common equity has been achieved, each Management Stockholder will be entitled to an incentive payment of up to 2.5% of the value of Vulcan Energy above the original investment amount. For more details regarding the Management Stockholders interests in the transaction, see page 74 Special Factors Interests of Certain Persons in the Merger and page 82 Special Factors Agreements with the Management Stockholders Employment Agreements for Management Stockholders;

upon the closing of the merger, Vulcan Energy must reimburse the Management Stockholders for reasonable out-of-pocket expenses incurred by them in connection with the merger, including the fees of legal counsel;

Mr. Flores, the chairman of the Plains Resources Board of Directors, and Mr. Raymond, the President and Chief Executive Officer of Plains Resources, will enter into employment agreements with Plains Resources upon completion of the merger. These employment agreements will provide significant benefits to these individuals;

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Stephen A. Thorington, Plains Resources Executive Vice President & Chief Financial Officer, will receive a severance payment of $400,000 under the terms of his employment agreement with Plains Resources;

Plains Resources must continue to provide indemnification and related insurance coverage to former directors and officers of Plains Resources following the merger;

affiliates of Mr. Flores and Mr. Raymond and of EnCap Investments L.L.C. and Kayne Anderson Capital Advisors, L.P., two of our significant stockholders, will retain their separate equity interests in the general partner of Plains All American Pipeline, L.P. ( PAA ), a publicly-owned midstream oil and gas master limited partnership. Two members of the Board of Directors, Robert V. Sinnott and D. Martin Phillips, are affiliates of Kayne Anderson Capital Advisors, L.P. and EnCap Investments L.L.C. respectively, and Mr. Sinnott is also a member of the board of directors of Plains All American GP LLC ( PAA GP ), the entity that controls the general partner of PAA;

Mr. Raymond will continue to serve as a director of PAA GP; and

The Management Stockholders will continue to beneficially own an aggregate of 1,687,048 PAA common units.

The special committee and the Board of Directors were aware of these different or additional interests and considered them along with other matters in approving the merger agreement and merger.

**Conditions to the Merger (Page 102)**

The obligations of Plains Resources, Vulcan Energy and the Vulcan Merger Subsidiary to complete the merger are subject to various conditions, including

approval and adoption by Plains Resources stockholders of the merger agreement and merger,

the receipt by Vulcan Energy of the cash proceeds of the debt financing,

the number of dissenting shares not exceeding 10% of the outstanding shares of Plains Resources common stock,

the absence of any order or injunction prohibiting the merger or any government proceeding seeking any such order or injunction,

the continued accuracy of the representations and warranties of each party to the merger agreement,

the performance in all material respects by the parties to the merger agreement of their respective covenants contained in the merger agreement,

the absence of any event or occurrence since December 31, 2002 which has had or would reasonably be expected to have a material adverse effect on Plains Resources or PAA,

the receipt of certain third party consents to the merger,

the continued accuracy of the representations and warranties of each of the Management Stockholders in the subscription agreement, and the performance in all material respects by each of the Management Stockholders of their respective covenants contained in the subscription agreement,

the financial statements of PAA filed with the SEC since January 1, 2000 must be accurate and must have complied with, and been prepared in accordance with, applicable accounting requirements and with the published rules and regulations of the SEC with respect to those financial statements, and

all PAA filings with the SEC since January 1, 2000 must be accurate and must have complied with, and been prepared in accordance with, the applicable requirements of the Exchange Act and the Securities Act and the applicable rules and regulations of the SEC.

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**Amendments to the Merger Agreement (Page 117)**

No amendment of the merger agreement, whether before or after approval and adoption of the merger agreement and the merger by Plains Resources stockholders, can be made without the authorization of the Board of Directors.

After approval and adoption of the merger agreement and the merger by Plains Resources stockholders, no amendment can be made without first obtaining the approval of Plains Resources stockholders if that amendment alters or changes

- the merger consideration payable under the merger agreement,
- any term of the certificate of incorporation of the surviving entity in the merger, or
- any terms or conditions of the merger agreement if such alteration or change would adversely affect any Plains Resources stockholder.

**Termination of the Merger Agreement (Page 108)**

The merger agreement may be terminated before the merger is completed, under certain circumstances.

**Termination Fees and Expenses (Page 109)**

Upon the termination of the merger agreement under specified circumstances, Plains Resources has agreed to reimburse all of Vulcan Energy s and the Vulcan Merger Subsidiary s reasonable out-of-pocket expenses. In addition, in some of these circumstances, Plains Resources has agreed to pay Vulcan Energy a termination fee of $15 million. In all other circumstances, each party must pay all fees and expenses it incurs relating to the merger.

**No Solicitation; Our Ability to Accept a Superior Proposal (Pages 105 and 106)**

The merger agreement generally restricts Plains Resources ability to solicit, initiate, knowingly encourage or facilitate any competing acquisition inquiries, proposals or offers. However, Plains Resources may provide information in response to a request for information by a person who has made, or participate in discussions or negotiations with respect to, an unsolicited bona fide written acquisition proposal that is reasonably likely to lead to a superior proposal under certain circumstances. Plains Resources may also, with respect to an unsolicited superior bona fide written acquisition proposal, withdraw or modify its recommendation in favor of the merger, recommend the competing offer to the stockholders or terminate the merger agreement under certain circumstances.

**Merger Financing; Source of Funds (Page 95)**

Completion of the merger will require total funding by Plains Resources and Vulcan Energy of approximately $452 million. Plains Resources and Vulcan Energy currently expect that the funds necessary to finance the merger will come from the following sources:

Mr. Allen will provide approximately $212 million in cash through an equity investment in Vulcan Energy; and

Vulcan Energy has received written commitments from Fleet National Bank and Bank of America to provide a $175 million senior secured credit facility and a $65 million senior term loan guaranteed by Mr. Allen, respectively, to Vulcan Energy.

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**Litigation Related to the Merger (Page 87)**

Seven purported class action lawsuits relating to the merger have been served. Six of these lawsuits purport to be brought on behalf of Plains Resources common stockholders, and the other lawsuit purports to be brought on behalf of all of the limited partners and unit holders of PAA. The complaints seek a preliminary and permanent injunction to enjoin the merger and, if the merger is consummated, rescission and damages.

**Regulatory Approvals and Requirements (Page 87)**

In connection with the merger, Plains Resources will be required to make certain filings with, and comply with certain laws of, various federal and state governmental agencies. It is currently expected that no regulatory approvals will be required in order to complete the merger.

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## QUESTIONS AND ANSWERS ABOUT THE MERGER

The following questions and answers are intended to briefly address some commonly asked questions regarding the merger. It should be read together with the summary. These questions and answers may not address all questions that may be important to you as a Plains Resources stockholder. Please refer to the more detailed information contained elsewhere in this proxy statement and the appendices to this proxy statement.

Q: **When and where is the special meeting?**

A: The special meeting of stockholders will be held on [ ], 2004, at [ ] Houston, Texas at [ ] local time.

Q: **What am I being asked to vote on?**

A: You are being asked to vote to approve and adopt a merger agreement and merger pursuant to which a wholly owned subsidiary of Vulcan Energy Corporation, or Vulcan Energy, which will be owned at the time of the merger by Paul G. Allen, James C. Flores and John T. Raymond, will merge with and into Plains Resources, which will survive the merger.

Q: **Why am I being asked to grant to the proxy holders the authority to vote in their discretion on a motion to adjourn or postpone the special meeting?**

A: We may determine to adjourn or postpone the special meeting, for example, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve and adopt the merger agreement.

Q: **What will I receive in the merger?**

A: As a stockholder of Plains Resources, you will be entitled to receive $16.75 in cash, without interest, in exchange for each of your shares of Plains Resources common stock at the time of the merger, unless you do not vote to approve and adopt the merger agreement and the merger and you exercise and perfect your appraisal rights under Delaware law.

Q: **What will happen in the merger?**

A: The Vulcan Merger Subsidiary will merge with and into Plains Resources, and Plains Resources will be the surviving corporation and will become a wholly owned subsidiary of Vulcan Energy, an entity that, as of the effective time of the merger, will be 100% owned by Mr. Allen and the Management Stockholders. After the merger, Plains Resources will be a privately-held company indirectly owned by Mr. Allen and the Management Stockholders through their ownership of Vulcan Energy.

Q: **Who are the Management Stockholders, and what will they receive in connection with the merger?**

A: James C. Flores, our Chairman of the Board of Directors, and John T. Raymond, our President and Chief Executive Officer, together with Sable Investments, L.P. and Sable Investments, LLC, are referred to in this proxy statement as the Management Stockholders.

Upon completion of the merger, approximately 11% of the outstanding common shares of Vulcan Energy will be owned by the Management Stockholders. Approximately 29% of the shares held by the Management Stockholders will be restricted shares. In addition, each Management Stockholder will be granted an option to purchase a number of shares of Vulcan Energy common stock equal to 5% of the outstanding shares on a fully diluted basis (calculated on the treasury method) on the date of grant. In addition, under certain circumstances, including a sale of Vulcan Energy, where a 20% or greater internal rate of return to common equity has been achieved, each Management Stockholder will be entitled to an incentive payment of up to

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2.5% of the value of Vulcan Energy above the original investment amount. For a further description of Vulcan Energy s equity ownership, see page 82, Special Factors Agreements with the Management Stockholders Employment Agreements for Management Stockholders.

Q: **Who will manage Plains Resources after the merger?**

A: Plains Resources will be a wholly owned subsidiary of Vulcan Energy following the merger. After the merger, each Management Stockholder will enter into an employment agreement with Vulcan Energy, and the Board of Directors of Vulcan Energy will include Mr. Allen, Ms. Jody Patton, Mr. David Capobianco, Mr. Flores and Mr. Raymond.

Q: **Why did the Plains Resources Board of Directors form the Special Committee?**

A: The Board of Directors formed a special committee consisting of independent directors because of the participation of Messrs. Flores and Raymond in the transaction. The Board of Directors formed the special committee to evaluate and negotiate the terms of the proposed transaction and any alternative transaction, to evaluate the fairness to the stockholders of Plains Resources (other than the Management Stockholders) of any such transaction and to make a recommendation to the Board of Directors.

Q: **Why did the Special Committee approve and recommend the merger agreement and the merger?**

A: In making the determination to approve and recommend the merger and the merger agreement, the special committee of the Board of Directors considered, among other factors:

the oral opinion of an independent financial advisor, Petrie Parkman & Co. on February 18, 2004, and subsequently confirmed in writing that, as of that date and based on and subject to the matters set forth in the opinion, the consideration to be received by Plains Resources stockholders in the merger was fair from a financial point of view to such stockholders (other than the Management Stockholders); and

the fact that the merger consideration of $16.75 per share to be received by Plains Resources stockholders (other than the Management Stockholders and other than shares of treasury stock) represented, on February 18, 2004, (1) an approximate 25% premium over the $13.44 per share closing price of Plains Resources common stock on November 19, 2003, the last full trading day prior to the public announcement of the original proposal by Vulcan Energy to purchase Plains Resources and an approximate 27% premium over the average closing price of $13.23 per share of Plains Resources common stock over the 30-calendar day period ending on the same date, (2) an increase of $2.50 per share above Vulcan Energy s original proposal, and (3) a price higher than any per share closing price of Plains Resources common stock on the NYSE since its spin-off of Plains Exploration & Production Company on December 18, 2002. For a discussion of additional factors considered by the special committee, see page 59, Special Factors Recommendations of the Special Committee and the Board of Directors; Reasons for Recommending the Approval and Adoption of the Merger Agreement and the Merger.

Q: **Why is the Plains Resources Board of Directors recommending that I vote to approve and adopt the merger agreement and the merger?**

A: The Board of Directors, taking into account the unanimous recommendation of the special committee, believes that the terms of the merger agreement and the merger are advisable, fair to, and in the best interests of, Plains Resources and its stockholders (other than the Management Stockholders). **Accordingly, the Board of Directors taking into account the unanimous recommendation of the special committee through a unanimous vote of the directors present (with Mr. Flores not in attendance) approved the merger agreement and resolved to recommend that you vote FOR approval and adoption of the**

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**merger agreement and the merger. Members of the Board of Directors (excluding Mr. Flores) will receive aggregate merger consideration of approximately $10,875,048 and certain indemnification rights as a result of this transaction. Please see Special Factors Interests of Certain Persons in the Merger beginning on page 75, for a description of such benefits.** To review the background and reasons for the merger in greater detail, see Special Factors Background of the Merger and Special Factors Recommendations of the Special Committee and the Board of Directors; Reasons for Recommending the Approval and Adoption of the Merger Agreement and the Merger.

Q: **What will happen to shares of restricted stock, restricted stock units and stock options in the merger?**

A: All outstanding shares of restricted stock (other than those held by the Management Stockholders) will become fully vested and all restricted stock units and options to purchase shares of Plains Resources common stock (other than those held by the Management Stockholders) will become fully vested and exercisable in accordance with their terms. Each holder of options to purchase shares of Plains Resources Common Stock (other than the Management Stockholders and the option holders discussed in the next paragraph) generally will receive, upon exercise, an amount in cash equal to the number of unexercised shares subject to such option times the amount by which $16.75 exceeds the per share exercise price of the option. At the effective time of the merger, each outstanding restricted stock unit (other than those held by the Management Stockholders) will be treated as a share of Plains Resources common stock and exchanged for $16.75 in cash. Each share of restricted stock, since fully vested, will be treated the same as all other outstanding shares of Plains Resources restricted common stock, and you will be entitled to receive $16.75 in cash, without interest, in exchange for each such share.

In addition, under the existing terms of the Plains Resources stock option plans holders of approximately 117,315 stock options may, in lieu of receiving the amount described above, elect to surrender the option in exchange for an amount equal to the excess of the highest closing price of Plains Resources common stock during the 90 day period before the special meeting (if the merger agreement is approved and adopted) over the per share exercise price of the option, multiplied by the number of shares subject to the option, net of any applicable withholding taxes. None of Plains Resources executive officers or directors will exercise these rights, and any options having this feature that they hold are excluded from the above number.

Q: **When do you expect the merger to be completed?**

A: If the merger agreement and the merger are approved and adopted by Plains Resources stockholders and the other conditions to the merger are satisfied or waived, the merger is expected to be completed promptly after the special meeting.

Q: **How will Vulcan Energy finance the merger?**

A: Based on Plains Resources December 31, 2003 balance sheet, Vulcan Energy estimates that approximately $452 million will be required to complete the merger and pay all related fees and expenses. Vulcan Energy will, subject to certain conditions, receive all of the funds necessary to consummate the merger through the equity investments of Mr. Allen and the Management Stockholders and loans from Fleet National Bank and Bank of America.

Q: **Who is entitled to vote at the special meeting?**

A: Stockholders as of the close of business on June 14, 2004, which is the record date for the special meeting, are entitled to vote at the special meeting. As of June 14, 2004, there were shares of Plains Resources common stock issued and outstanding and entitled to be voted at the special meeting.

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Q: **What happens if I sell my shares of Plains Resources common stock before the special meeting?**

A: The record date for the special meeting is before the expected closing date of the merger. If you transfer your shares of Plains Resources common stock after the record date but before the merger, you will retain your right to vote at the special meeting but will transfer the right to receive the $16.75 in cash per share (if the merger occurs) to the person to whom you transfer your shares.

Q: **What do I need to do now?**

A: After carefully reading and considering the information contained in this proxy statement, please vote by completing, dating and signing your proxy card and then mailing it in the enclosed postage-prepaid envelope as soon as possible so that your shares are represented at the special meeting.

Q: **Should I send in my stock certificates now?**

A: No. If the merger is completed, we will send you written instructions explaining how to exchange your Plains Resources stock certificates for cash.

Q: **What should I do if I receive more than one set of voting materials?**

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instructions that you receive.

Q: **How many shares of Plains Resources common stock need to be represented for there to be a quorum at the special meeting?**

A: The holders of a majority of the shares of Plains Resources common stock issued and outstanding and entitled to vote at the special meeting, present in person or represented by proxy, constitutes a quorum for the transaction of business. If you vote by proxy card or in person at the special meeting, you will be considered present for the purpose of determining whether the quorum requirement has been satisfied.

Q: **How do I vote?**

A: You can vote by signing, dating and mailing your proxy card in the enclosed postage-paid envelope. See the proxy card for specific instructions. You may also vote in person if you attend the special meeting.

Q: **If my shares are held in street name, will my bank, broker or other nominee vote my shares for me?**

A: If your shares are held in street name, which means your shares are held of record by a broker, bank or other nominee, you must provide your nominee with instructions on how to vote. Any failure to instruct your nominee on how to vote with respect to the merger will have the effect of a vote AGAINST the approval and adoption of the merger agreement and the merger. You should follow the directions your nominee provides on how to instruct it to vote your shares.

**Q. What if I fail to instruct my broker?**

A. If you fail to instruct your broker to vote your shares of common stock and your broker submits an unvoted proxy, the resulting broker non-vote will have the same effect as a vote against the approval and adoption of the merger agreement and the merger.

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**Q. If the merger is completed, how will I receive the cash for my shares?**

A. If the merger is completed, you will be contacted by [ ], which will serve as the paying agent and will provide instructions that will explain how to surrender stock certificates (other than those for which appraisal rights are properly being sought). You will receive cash for your shares from the paying agent after you comply with those instructions. If your shares of common stock are held in street name by your broker, you will receive instructions from your broker as to how to effect the surrender of your street name shares and receive cash for those shares.

Q: **May I change my vote after I have mailed my signed proxy card?**

A: Yes. You may revoke your vote at any time before the special meeting by:

giving written notice of your revocation to Plains Resources secretary;

filing a duly executed proxy bearing a later date with Plains Resources secretary;

attending the special meeting and voting in person; or

if you have instructed a broker to vote your shares, by following the directions received from your broker to change those instructions.

Q: **What happens if I do not send in my proxy or if I abstain from voting?**

A: If you do not send in your proxy or if you abstain from voting, it will have the effect of a vote AGAINST the merger agreement and the merger.

Q: **What rights do I have to dissent from the merger?**

A: If you do not vote in favor of the approval and adoption of the merger agreement and the merger and the merger is completed, you may dissent and seek appraisal of the fair value of your shares under Delaware law. You must, however, comply with all of the required procedures explained under Appraisal Rights and in Appendix C to this proxy statement.

Q: **What are the tax consequences of the merger?**

A: The merger will be a taxable transaction to you for federal income tax purposes. A brief summary of the possible tax consequences to you appears on page 91 of this proxy statement. You are urged to consult your tax advisor as to the tax effect of your particular circumstances.

Q: **Where can I find more information regarding the merger?**

A: The U.S. Securities and Exchange Commission (the SEC ) requires all affiliated parties involved in certain going-private transactions such as the merger to file with it a transaction statement on Schedule 13E-3. Plains Resources, Vulcan Energy, the Vulcan Merger Subsidiary, Mr. Allen and each of Mr. Flores and Mr. Raymond have filed a transaction statement on Schedule 13E-3 with the SEC, copies of which

are available without charge at its website at www.sec.gov. In addition, the merger agreement is attached as Appendix A to this proxy statement. You should carefully read the entire merger agreement because it is the legal document that governs the merger.

Q: **Who can help answer my questions?**

A: If you have any questions about the merger or if you need additional copies of this proxy statement or the enclosed proxy card, you should contact our proxy solicitor, Georgeson Shareholder Communications Inc., toll free at (800) 334-9612.

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**This document incorporates important business and financial information about Plains Resources from documents filed with the Securities and Exchange Commission that are not included in, or delivered with, this document. This information is available without charge at the Securities and Exchange Commission website at http://www.sec.gov, as well as from other sources. See Miscellaneous Other Information on page 133 below.**

## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement and the other documents attached or incorporated by reference in this proxy statement contain or are based upon forward-looking statements based on our current expectations and projections about future events. Statements that are predictive in nature, that depend upon or refer to future events or conditions, including statements relating to Plains Resources plans, intentions and expectations to complete the merger, that are not statements of historical fact, or that include words such as will , would , should , plans , likely , expects , anticipates , intends , believes , estimates , thinks , may , and similar expressions, are forward-looking statements. These statements involve k and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those expressed or implied by the forward-looking statements. These factors include, among other things:

- risk associated with the satisfaction of the conditions to complete the merger, including the availability of financing to complete the merger;
- conflicts of interest that may influence Plains Resources officers and directors to support or recommend the merger;
- the future profitability of Plains Resources;
- the uncertainty of the market for the midstream activities of marketing, gathering, transporting, terminalling, and storage of crude oil that Plains Resources engages in through its significant equity ownership in PAA;
- the risks associated with the finding and developing of upstream oil and gas reserves associated with Plains Resources Florida oil and gas operations;
- the seasonality of Plains Resources financial results;
- the favorable resolution of pending and future litigation;
- operating and financial performance of PAA;
- the consequences of our and Plains Exploration & Production Company s, or PXP, officers and employees providing services to both us and PXP and not being required to spend any specified percentage or amount of time on our business;
- risks, uncertainties and other factors that could have an impact on Plains All American Pipeline, L.P., or PAA, which could in turn impact the value of our holdings in PAA (for a discussion of these risks, uncertainties and other factors, see PAA s filings with the SEC);

the effects of our indebtedness, which could adversely restrict our ability to operate, make us vulnerable to general adverse economic and industry conditions, place us at a competitive disadvantage compared to our competitors that have less debt, and have other adverse consequences;

uncertainties inherent in the development and production of oil and gas and in estimating reserves;

unexpected future capital expenditures (including the amount and nature thereof);

impact of oil and gas price fluctuations;

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- the effects of competition;
- the success of our risk management activities;
- the availability (or lack thereof) of acquisition or combination opportunities;
- the impact of current and future laws and governmental regulations;
- environmental liabilities that are not covered by an effective indemnity or insurance;
- general economic, market, industry or business conditions; and
- other factors disclosed in Plains Resources Annual Report on Form 10-K/A for the fiscal year ended December 31, 2003 and in other reports filed by Plains Resources from time to time with the Securities and Exchange Commission.

All forward-looking statements in this proxy statement are made as of the date hereof, and you should not place undue certainty on these statements without also considering the risks and uncertainties associated with these statements and our business that are discussed in this proxy statement. Moreover, although we believe the expectations reflected in the forward-looking statements are based upon reasonable assumptions, we can give no assurance that we will attain these expectations or that any deviations will not be material. Except as required by applicable securities laws, we do not intend to update these forward-looking statements and information.

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## INFORMATION CONCERNING THE SPECIAL MEETING

This proxy statement is furnished in connection with the solicitation of proxies by our Board of Directors in connection with a special meeting of our stockholders.

### Date, Time and Place

The special meeting will be held at [ ], Houston, Texas on [ ], 2004 at [ ], local time.

### Purpose

At the special meeting, you will be asked to:

- consider and vote on the proposal to approve and adopt the merger agreement and the merger, pursuant to which stockholders of Plains Resources Inc. will receive $16.75 in cash in exchange for each share of Plains Resources Inc. common stock, and Plains Resources Inc. will become a privately-held company;

- consider and vote on the proposal to grant to the proxyholders the authority to vote in their discretion with respect to the approval of any proposal to postpone or adjourn the special meeting to a later date to solicit additional proxies in favor of approval and adoption of the merger agreement and the merger if there are not sufficient votes for approval and adoption of the merger agreement and the merger at the special meeting; and

- consider and vote on such other matters or transact such other business as may properly come before the special meeting or any reconvened meeting after any adjournment or postponement of the special meeting.

### Record Date

We have fixed June 14, 2004, as the record date. Only holders of record of Plains Resources common stock as of the close of business on the record date will be entitled to notice of, and to vote at, the special meeting. At the close of business on June 14, 2004, there were shares of Plains Resources common stock issued and outstanding and held by approximately holders of record.

### Voting Rights

At the special meeting, you are entitled to one vote for each share of common stock you hold of record as of June 14, 2004 on each matter submitted to a vote of stockholders at the special meeting.

**Quorum Requirements**

The holders of a majority of the shares of Plains Resources common stock issued and outstanding and entitled to vote at the special meeting, present in person or represented by proxy, constitute a quorum for the transaction of business at the special meeting. If you vote in person or by proxy at the special meeting, you will be counted for purposes of determining whether there is a quorum at the special meeting. Shares of Plains Resources common stock present in person or by proxy at the special meeting that are entitled to vote but are not voted ( abstentions ) and broker non-votes will be counted for the purpose of determining whether there is a quorum for the transaction of business at the special meeting. A broker non-vote occurs when a bank, broker or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

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**Voting by Proxy**

Holders of record can ensure that their shares are voted at the special meeting by completing, signing, dating and delivering the enclosed proxy card in the enclosed postage-prepaid envelope. Submitting instructions by this method will not affect your right to attend the special meeting and to vote in person.

**Revoking Your Proxy**

You may revoke your proxy at any time before it is voted by:

- giving notice of revocation in person at, or in writing bearing, a later date than the proxy, to the Secretary of Plains Resources, 700 Milam Street, Suite 3100, Houston, Texas 77002;
- delivering to the Secretary of Plains Resources a duly executed subsequent proxy bearing a later date and indicating a contrary vote;
- attending the special meeting and voting in person; or
- if you have instructed a broker to vote your shares, by following the directions received from your broker to change those instructions.

**Assistance**

If you need assistance, including help in changing or revoking your proxy, please contact our proxy solicitor, Georgeson Shareholder Communications Inc., toll-free at (800) 334-9612.

**Voting at the Special Meeting**

Submitting a proxy now will not limit your right to vote at the special meeting if you decide to attend in person. If you plan to attend the special meeting and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares are held in street name, which means your shares are held of record by a broker, bank or other nominee, and you wish to vote at the special meeting, you must bring to the special meeting a proxy from the record holder of the shares authorizing you to vote at the special meeting.

**Vote Required; How Shares Are Voted**

Under Delaware law, the affirmative vote of the holders of shares of Plains Resources common stock representing a majority of the outstanding shares of Plains Resources common stock entitled to vote is necessary to approve and adopt the merger agreement and the merger. Adoption and approval of the merger agreement and the merger by at least a majority of Plains Resources unaffiliated stockholders is not required.

Kayne Anderson Capital Advisors, LP, which beneficially owns 1,755,916 (or 7.2%) of the outstanding shares of Plains Resources common stock, and EnCap Investments, LP, which through its institutional equity funds controls 1,174,219 (or 4.8%) of the outstanding shares of Plains Resources common stock, have each determined that it will vote in favor of approval and adoption of the merger agreement and the merger.

Under Delaware law, if a quorum is present, the affirmative vote of a majority of the shares present in person or represented by proxy at the special meeting and entitled to vote is necessary to vote to adjourn or postpone the special meeting, assuming such a motion is made.

Abstentions and broker non-votes will have the same effect as a vote AGAINST the approval and adoption of the merger agreement and the merger.

Subject to revocation, all shares represented by each properly executed proxy received by the Secretary of Plains Resources will be voted in accordance with the instructions indicated on the proxy. If you return a signed

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proxy card but do not provide voting instructions (other than in the case of broker non-votes), the persons named as proxies on the proxy card will vote FOR approval and adoption of the merger agreement and the merger and in such manner as the persons named on the proxy card in their discretion determine with respect to such other business as may properly come before the special meeting.

**Stockholder Proposals for Annual Meeting**

If the merger is completed, we will no longer be a publicly held company and there will be no public participation in our future stockholders meetings. If the merger is not completed, Plains Resources stockholders may continue to attend and participate in Plains Resources stockholder meetings. If the merger is not completed, we will inform our stockholders in a quarterly report on Form 10-Q of the date by which we must receive stockholder proposals for inclusion in the proxy materials relating to the annual meeting.

Generally, however, stockholder proposals intended to be presented at our annual meeting must be received by our Secretary at our principal executive office a reasonable time prior to the meeting to be considered for inclusion in our proxy statement and form of proxy for the meeting. Furthermore, under Rule 14a-4(c)(1) under the Exchange Act, our Secretary must receive stockholder proposals intended to be presented at our annual meeting without inclusion in our proxy statement for the meeting at our principal executive office a reasonable time before the mailing of our proxy materials for the meeting. The proxies designated by our board will have discretionary authority to vote on any proposal that we receive within a reasonable time of the mailing of the proxy materials.

If the special meeting is adjourned for any reason, at any subsequent reconvening of the special meeting all proxies will be voted in the same manner as such proxies would have been voted at the original convening of the meeting (except for any proxies that have been revoked or withdrawn).

The proxy card confers discretionary authority on the persons named on the proxy card to vote the shares represented by the proxy card on any other matter that is properly presented for action at the special meeting. As of the date of this proxy statement, we do not know of any matter to be raised at the special meeting other than that described in this proxy statement.

**Voting Agreements**

Pursuant to the amended and restated subscription agreement, each of Messrs. Flores and Raymond has agreed to vote his shares in favor of the approval and adoption of the merger agreement and the merger. See Agreements with the Management Stockholders Subscription Agreement. Collectively, the Management Stockholders beneficially own 1,169,132 shares of Plains Resources common stock or approximately 4.8% of the shares outstanding as of February 27, 2004.

**Voting on Other Matters**

The proxy card confers discretionary authority on the persons named on the proxy card to vote the shares represented by the proxy card on any other matter that is properly presented for action at the special meeting. We may determine to adjourn or postpone the special meeting, for

example, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve and adopt the merger agreement and the merger. If, on the date of the special meeting, we have not received duly executed proxies that, when added to the number of votes represented in person at the meeting by persons who intend to vote for the approval and adoption of the merger agreement and the merger, will constitute a sufficient number of votes to approve and adopt the merger agreement and the merger, we may recommend the adjournment or postponement of the special meeting. As of the date of this proxy statement, we do not know of any other matter to be raised at the special meeting.

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**Proxy Solicitation**

We will bear the cost of soliciting proxies. These costs include preparing, assembling and mailing this proxy statement, the notice of the special meeting of stockholders and the enclosed proxy card, as well as the cost of forwarding these materials to the beneficial owners of Plains Resources common stock. Our directors, officers and regular employees may, without compensation other than their regular compensation, solicit proxies by telephone, e-mail, the internet, facsimile or personal conversation, as well as by mail. Plains Resources has retained Georgeson Shareholder Communications Inc., a proxy solicitation firm, for assistance in connection with the solicitation of proxies for the special meeting at a cost of approximately $15,000 plus reimbursement of reasonable out-of-pocket expenses. We may also reimburse brokerage firms, custodians, nominees, fiduciaries and others for expenses incurred in forwarding proxy material to the beneficial owners of Plains Resources common stock.

**Please do not send any certificates representing shares of Plains Resources common stock with your proxy card. If the merger is completed, the procedure for the exchange of certificates representing shares of Plains Resources common stock will be as described in this proxy statement. For a description of procedures for exchanging certificates representing shares of Plains Resources common stock for the merger consideration following completion of the merger, see The Merger Agreement Payment for Shares.**

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## SPECIAL FACTORS

### Structure of the Transaction

The proposed transaction is a merger of the Vulcan Merger Subsidiary with and into Plains Resources, which would survive in the merger as a wholly owned subsidiary of Vulcan Energy.

The principal steps that will accomplish the merger are as follows:

***The Equity Financing.*** Pursuant to the amended and restated subscription agreement, at or prior to the merger (subject to the satisfaction or waiver of the conditions set forth in the amended and restated subscription agreement):

Mr. Allen will contribute to Vulcan Energy the amount of cash in excess of the $240 million of debt financing proceeds which is necessary to pay the aggregate merger consideration, the aggregate spread , or the difference between the exercise price and the per share merger consideration, on the outstanding Plains Resources stock options, the aggregate amount of unpaid principal and accrued but unpaid interest under Plains Resources existing secured term loan facility immediately prior to the effective time of the merger (less the aggregate amount of Plains Resources available cash on hand at that time), and the reasonable fees and expenses of Vulcan Energy and Messrs. Allen, Flores and Raymond incurred in connection with the merger. Based on the December 31, 2003 balance sheet of Plains Resources, Mr. Allen s cash contribution would be approximately $212 million.

Each Management Stockholder will contribute to Vulcan Energy all of his shares of Plains Resources common stock (both restricted and vested shares) and his Plains Resources restricted stock units. In addition, the Plains Resources stock options held by each Management Stockholder will be cancelled without payment of any consideration to the Management Stockholders.

In exchange for the contributions described above, Vulcan Energy will issue shares of Vulcan Energy common stock, which will constitute all of the outstanding Vulcan Energy common stock at that time. In exchange for his contribution, each of Messrs. Allen, Flores and Raymond will receive his proportionate share of the newly-issued shares of Vulcan Energy common stock, based on the deemed value of his contribution (based on $16.75 per share) divided by the sum of the aggregate deemed values of all of the contributions. See Agreements with the Management Stockholders Subscription Agreement.

***The Debt Financing.*** Pursuant to written commitments, subject to the terms and conditions thereof, Fleet National Bank has agreed to provide Vulcan Energy with a senior secured credit facility in the principal amount of $175.0 million and Bank of America has agreed to provide Vulcan Energy with a $65.0 million senior guaranteed term loan to fund a portion of the acquisition costs and related expenses. See Financing for the Merger Debt Commitment.

***The Merger.*** Following the funding described above and the satisfaction or waiver of other conditions to the merger, the following will occur in connection with the merger:

each share of Plains Resources common stock issued and outstanding at the effective time (other than those shares held directly or indirectly by Plains Resources or by Vulcan Energy or those shares held by dissenting stockholders who exercise and perfect their appraisal rights under Delaware law) will be converted into the right to receive $16.75 in cash;

each share of Plains Resources common stock that is held by Plains Resources as treasury stock, any of Plains Resources subsidiaries, Vulcan Energy or any of its subsidiaries immediately before the merger becomes effective will automatically be cancelled and retired and will cease to exist, and no consideration will be delivered in exchange for those shares;

each share of restricted common stock (other than restricted shares held by the Management Stockholders) will become fully vested and will be converted into the right to receive $16.75 in cash;

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each option to purchase shares of Plains Resources common stock (other than stock options held by the Management Stockholders) generally will become fully vested and exercisable, and each holder of an option to purchase shares of Plains Resources common stock (other than the Management Stockholders and the option holders discussed below) will receive, on exercise, an amount in cash equal to the number of unexercised shares subject to such option times the excess of $16.75 over the per share exercise price of the option;

under Plains Resources stock option plans, holders of approximately 117,315 stock options may elect receive an amount equal to the excess of the highest closing price of Plains Resources common stock during the 90 day period before the special meeting, over the per share exercise price of the option, multiplied by the number of shares subject to the option; and

each outstanding restricted stock unit (other than those held by the Management Stockholders) will be treated as a share of Plains Resources common stock and cancelled in exchange for $16.75 in cash.

Following, and as a result of, the merger:

the stockholders of Plains Resources (other than the Management Stockholders) will no longer have any interest in, and will no longer be stockholders of, Plains Resources and will not participate in any future earnings or growth of Plains Resources;

the total number of outstanding shares of Plains Resources common stock will decrease from approximately 25,514,029 to 1,000, all of which will be owned by Vulcan Energy;

Mr. Allen and the Management Stockholders will own all of the outstanding shares of Vulcan Energy;

The Management Stockholders will own both options to purchase shares of Vulcan Energy common stock and Vulcan Energy restricted common stock as further described beginning on page 82 in Agreements with the Management Stockholders Employment Agreements for Management Stockholders Equity Compensation; and

shares of Plains Resources common stock will no longer be listed on the NYSE and price quotations with respect to sales of shares of Plains Resources in the public market will no longer be available. The registration of Plains Resources common stock under the Exchange Act will be terminated, and Plains Resources will cease filing reports with the SEC.

***Management and Board of Directors of Plains Resources***. The Board of Directors of Plains Resources after the completion of the merger will include Mr. Allen, Jody Patton, David Capobianco, Mr. Flores and Mr. Raymond.

In addition, Vulcan Energy will enter into employment agreements with Messrs. Flores and Raymond that will become effective upon completion of the merger. See Agreements with the Management Stockholders Employment Agreements for Management Stockholders.

For additional details regarding the terms and structure of the equity financing, merger, debt financing and interests of the Management Stockholders in the transaction, see Financing for the Merger, The Merger Agreement and Interests of Certain Persons in the Merger.

**Background of the Merger**

In late summer 2003, Vulcan Inc. began investigating investment opportunities in the midstream energy sector. In connection with its review of the midstream energy sector, a mutual acquaintance of Mr. David Capobianco, a representative of Vulcan Inc., and Mr. James C. Flores, the Chairman of our Board of Directors, introduced Mr. Capobianco to Mr. Flores and John Raymond, our President and Chief Executive Officer, as well as Martin Phillips, a director of Plains Resources and a representative of Encap Investments, LP, a large stockholder of Plains Resources.

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During the course of discussions with Messrs. Flores and Raymond, the parties began to discuss Plains Resources, its ownership position in PAA and certain tax challenges that Plains Resources faced with respect to its position in PAA. These challenges include owning an interest in a master limited partnership through an entity that is subject to corporate level taxation. Although all corporations are generally subject to a corporate level tax and their stockholders are subject to a second level of taxation on dividends and capital gains, recognized from the corporation, this tax liability is particularly significant for Plains Resources given its ownership of partnership interests that, if held by an individual, would not be subject to such taxation. An individual who holds such partnership interests, or an entity that could avail itself of pass through taxation including through a Subchapter S election, would pay less tax in a given year on distributions made by the partnership than that individual would pay if they held units through a corporation such as Plains Resources if Plains Resources were to distribute any distributions it received from PAA. In addition, as a result of the low tax basis Plains Resources has in the PAA interests (which resulted from the low basis Plains Resources had in the assets it contributed to PAA when it was formed), any sale or transfer of the PAA units (including any distribution of the PAA units to Plains Resources stockholders) would result in significant corporate level tax liabilities, and could result in significant stockholder tax liabilities as well. The parties recognized that as a result of his individual tax characteristics Mr. Allen could be in a position to address Plains Resources inherent structural tax issues, while most other likely potential acquirors of Plains Resources could not, since it was likely that most other potential acquirors would have to access capital through the public market to finance such a transaction. Generally, only a corporation having fewer than 76 holders who are individuals or qualified Subchapter S trusts may elect Subchapter S status to avail itself of pass through taxation and avoid corporate-level taxation. Given Mr. Allen s ability to individually finance a corporation with assets as significant as Plains Resources without having to access capital through the public market, he could take advantage of these tax efficiencies and access Plains Resources operating cash flow on a more tax efficient basis than a publicly-held corporation subject to corporate level taxation. The parties decided to explore the feasibility of a transaction. On August 22, 2003, Vulcan and Plains Resources entered into a confidentiality agreement, and thereafter Vulcan began a due diligence investigation of Plains Resources. The confidentiality agreement included standstill provisions pursuant to which Vulcan agreed that neither Vulcan Inc. nor any of its affiliates would purchase 5% or more of Plains Resources common stock.

In the last week of August 2003, Mr. Capobianco and other Vulcan representatives met with Mr. Greg Armstrong, the chief executive officer of PAA. At that meeting, Mr. Capobianco requested that PAA provide Vulcan with access to confidential information concerning PAA. Mr. Armstrong refused to make any confidential information concerning PAA available to Vulcan, or to Mr. Raymond or Mr. Flores in connection with Vulcan s exploration of a transaction with Plains Resources.

During the fall of 2003, representatives of Vulcan continued the due diligence investigation of Plains Resources, explored the feasibility of a possible transaction and discussed with Messrs. Flores and Raymond the possible terms of arrangements between Messrs. Allen, Flores and Raymond in the event of an acquisition of Plains Resources by Vulcan Energy.

On October 29, 2003, Messrs. Flores and Raymond flew to Los Angeles to have dinner with Mr. Robert V. Sinnott, a Plains Resources director. At that meeting, Messrs. Flores and Raymond informed Mr. Sinnott of a possible going private transaction. In addition, over the next few days Messrs. Flores and Raymond informed the other members of the Plains Resources Board of Directors that Messrs. Flores and Raymond were engaged in discussions with Vulcan regarding a possible going private transaction. The board of directors was aware of the tax issues relating to Plains Resources ownership of PAA that Messrs. Flores and Raymond discussed with Mr. Capobianco and was aware of the timeframe in which those issues were likely to arise. Plains Resources had previously instructed its outside counsel to explore potential solutions for its tax issues.

On November 19, 2003, the terms of the agreements among Messrs. Allen, Flores and Raymond and their affiliates were finalized, and at a regularly scheduled meeting of the Board of Directors, Mr. Flores and Mr. Raymond presented to the Board of Directors a proposal from Vulcan Capital whereby Vulcan Energy, in conjunction with Mr. Flores and Mr. Raymond, would acquire all of our outstanding stock for $14.25 per share in cash. The transaction was proposed to be structured as a merger of Vulcan Energy with and into Plains Resources so that following the transaction, all outstanding equity of Plains Resources would be owned by Mr. Allen, Mr.

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Flores and Mr. Raymond. The proposal was conditioned on approval by our Board of Directors and the execution of a definitive merger agreement containing customary conditions, including, but not limited to, stockholder approval, management participation, no material adverse change and completion of financing. As a condition to proceeding any further with the proposal, Vulcan Energy requested a 45-day exclusive negotiating period. The proposal included a commitment of Mr. Allen to provide $160 million in equity financing and was accompanied by commitment letters from Fleet National Bank and Bank of America for $150 million and $65 million of debt financing, respectively.

Mr. John F. Wombwell, our Executive Vice President, General Counsel and Secretary, and Mr. Stephen Thorington, our Executive Vice President and Chief Financial Officer, also attended the meeting. After Mr. Flores and Mr. Raymond left the meeting, the remaining members of the Board of Directors discussed the advisability of appointing a special committee of independent directors to evaluate, negotiate and formulate a response to the proposal. The remaining members of the Board of Directors discussed the suitability of each of the remaining members of the Board of Directors to serve on a special committee to consider the proposal. After discussion, the Board of Directors appointed a special committee consisting of Mr. William M. Hitchcock and Mr. William C. O Malley. In determining to select Mr. O Malley and Mr. Hitchcock, the Board of Directors considered both of such individuals extensive business experience, their independence with respect to this proposal, and also the fact that Mr. Hitchcock is a large individual stockholder of Plains Resources. Mr. Hitchcock and Mr. O Malley were deemed independent because (1) they were not our officers or employees, (2) they were not directly or indirectly affiliated with Vulcan Energy, the Management Stockholders or PAA, (3) they would not have an economic interest in us or Vulcan Energy after the merger and (4) they did not have any business or other relationship with us or that would impair their ability to exercise independent business judgment. Sable Investments, which is owned by the Management Stockholders, and Mr. O Malley each have an investment in the same private technology company. The Board of Directors believes this relationship is not material and does not impair Mr. O Malley s exercise of independent business judgment. The Board of Directors unanimously authorized the special committee to:

- review and evaluate the terms and conditions of Vulcan Energy s proposal or any alternative transaction;
- negotiate the terms of any transaction with Vulcan Energy or any alternative transaction;
- determine, together with its advisors, whether any transaction is fair to and in the best interest of us and our stockholders (other than the Management Stockholders);
- recommend to our full Board of Directors what action, if any, should be taken by us with respect to a transaction with Vulcan Energy or any alternative transaction;
- retain independent legal and financial advisors to assist the special committee; and
- do all things necessary and related to those tasks.

The Board of Directors also resolved not to approve any transaction with Vulcan Energy or any alternative transaction without a prior favorable recommendation of such a transaction by the special committee.

On November 20, 2003, Plains Resources issued a press release announcing that we had received the Vulcan Energy proposal and that the Board of Directors had appointed a special committee to consider the Vulcan Energy proposal and any alternative proposals for the acquisition of Plains Resources. Also on November 20, 2003, the special committee, Mr. Wombwell and Mr. Thorington discussed the selection of legal counsel and an investment banking firm to provide advice to the special committee in connection with its evaluation and negotiation of the Vulcan Energy proposal and any alternative proposals.

Following the November 20, 2003 press release concerning the Vulcan Energy proposal, seven putative class action lawsuits were filed in the Court of Chancery in the State of Delaware, in and for New Castle County, by various stockholders of Plains Resources and PAA against us, our directors, Mr. Raymond, Vulcan Capital and several other defendants. These actions generally alleged that the original Vulcan Energy proposal was unfair and inadequate and sought to enjoin the transaction, to rescind the transaction if consummated, damages, and other unspecified relief. For a more detailed description of the stockholder litigation, see Litigation Related to the Merger below.

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On November 24, 2003, the special committee interviewed and discussed the qualifications of various law firms as possible legal advisors to the special committee. After evaluating the qualifications of Baker Botts L.L.P. ( Baker Botts ), the special committee determined to engage Baker Botts to represent the special committee. After consultation with Baker Botts, the special committee engaged Morris, Nichols, Arsht & Tunnell ( Morris Nichols ) as Delaware counsel for, among other things, the litigation pending in Delaware.

The special committee met on November 26, 2003 to interview representatives of four investment banks to serve as a financial advisor to the special committee in evaluating the proposal from Vulcan Energy and any alternative proposals. A representative of Baker Botts also attended the meeting at the request of the special committee. The special committee also reviewed written materials provided by each firm, including proposed fees of each firm, and considered the firms qualifications and any current and historical banking and advisory relationships with Plains Resources and whether those relationships would affect the firms independence.

On November 26, 2003, the special committee advised Petrie Parkman & Co. ( Petrie Parkman ) that it wished to engage Petrie Parkman as its financial advisor and engaged in negotiations with Petrie Parkman with respect to the services to be provided by Petrie Parkman and compensation for such services. The special committee and Petrie Parkman agreed that Petrie Parkman would render financial advisory and investment banking services to the special committee in connection with a possible sale, merger or other transaction involving a majority of the assets or securities of Plains Resources and one or more other parties and, if requested by the special committee, render an opinion as to the fairness or adequacy, from a financial point of view, to Plains Resources or its stockholders (other than the Management Stockholders) of the consideration to be received by Plains Resources or its stockholders in any such transaction. The special committee agreed on a $150,000 engagement fee payable on January 1, 2004, a $1,000,000 fee payable upon delivery of a fairness or adequacy opinion by Petrie Parkman, if any, or written notification to the special committee by Petrie Parkman that it had substantially completed the work deemed sufficient by it to render an opinion, regardless of the conclusion to be expressed by Petrie Parkman in such opinion. The fee also included an incremental $100,000 for each 25¢ per share of value above $14.75 per share and up to $16.50 per share, and an incremental $200,000 for each 25¢ per share of value above $16.50 per share, received or realized by the stockholders of Plains Resources in any transaction. Such additional fees were to be payable at the closing of any transaction.

On December 4, 2003, the special committee held a meeting at the offices of Baker Botts to discuss various preliminary matters regarding the Vulcan Energy proposal. After a discussion regarding Petrie Parkman s past work for Plains Resources, including its advisory role in Plains Resources 2001 strategic restructuring under previous management of Plains Resources, the special committee determined that Petrie Parkman s prior representation would not impair its independence in advising the special committee with respect to the Vulcan Energy proposal. After such determination, the special committee formally engaged Petrie Parkman. Representatives of Baker Botts discussed the duties of the special committee and each member s fiduciary responsibilities under Delaware law. The special committee and its advisors discussed the timing and process for its review of the Vulcan Energy proposal and due diligence issues relating to Plains Resources. The special committee also established a practice of telephone conference calls with its advisors on each Monday, Wednesday and Friday afternoon to assess developments. Later that day, Plains Resources issued a press release announcing that the special committee had engaged Petrie Parkman as its financial advisor and Baker Botts and Morris Nichols as its legal counsel.

From December 5 through January 8 the special committee and its advisors conducted due diligence on Plains Resources and Vulcan Energy, which diligence continued through the process. In addition, the special committee entered into a confidentiality agreement with, and conducted due diligence on, PAA. During the entire period of Vulcan s exploration of a possible transaction, and during the period of negotiations between Vulcan and Messrs. Flores and Raymond and between Vulcan and the special committee, Mr. Armstrong and PAA management refused to provide non-public information concerning PAA to Vulcan, or to Mr. Raymond or Mr. Flores in connection with Vulcan s exploration of a transaction with Plains Resources.

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As part of the due diligence review process, Plains Resources provided the special committee and its advisors with financial projections for Plains Resources for 2003 dated as of January 5, 2004 from Plains Resources monthly internal financial reporting package, and two budget cases for 2004 dated as of November 19, 2003 as presented to Plains Resources board of directors, which are summarized as follows:

| | 2003E | PLX Budget Base Case 2004E | PLX Budget Case 2 2004E |
|---|---|---|---|
| | $MM, except per share amounts | | |
| PAA Assumptions: | | | |
| Average Distribution ($/unit) | N/A | $ 2.20 | $ 2.30 |
| Acquisitions ($MM) | N/A | None | $ 100 |
| PLX Assumptions: | | | |
| Oil Volumes (MBbls) | 901 | 833 | 833 |
| Oil Sales Total | $ 19 | $ 14 | $ 14 |
| Production & Transportation Expenses | $ (12) | $ (11) | $ (11) |
| G&A Expense | $ (6) | $ (5) | $ (5) |
| Interest expense | $ (2) | $ (2) | $ (2) |
| Equity in Earnings/(Loss) of PAA | $ 16 | $ 22 | $ 24 |
| Gain on sale/conversion of PAA units | $ 25 | $ 23 | $ 28 |
| Income Taxes | $ (14) | $ (16) | $ (19) |
| Net Income to Common ($MM) | $ (18) | $ 21 | $ 24 |
| Partnership Distributions | $ 31 | $ 31 | $ 33 |

In addition, Plains Resources provided the special committee and its advisors with a financial projection scenario for PAA distributions dated as of May 27, 2003, which is summarized as follows:

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| | $MM, except per share amounts | | | | |
| PAA Acquisitions (8/8ths) | $ 0 | $ 300 | $ 300 | $ 300 | $ 300 |
| LP Distributions ($/unit) | $ 2.19 | $ 2.42 | $ 2.62 | $ 2.77 | $ 2.89 |
| LP Income ($/unit) | $ 1.08 | $ 1.72 | $ 1.86 | $ 1.94 | $ 1.99 |
| PAA GP Distribution (100%) | $ 7.2 | $ 12.5 | $ 18.0 | $ 26.2 | $ 36.4 |
| PAA GP Cash Flow Growth (YOY) | 15.7% | 72.4% | 44.3% | 45.8% | 39.0% |

Although Plains Resources considers the projections provided to the special committee and its advisors reasonable to the extent they relate to Plains Resources, such projections are based on estimates and assumptions that are inherently subject to significant economic, business, regulatory and other uncertainties and contingencies, many of which are beyond the control of Plains Resources.

In addition, as part of the due diligence process, PAA provided the special committee and its advisors with two financial projection cases for PAA prepared in mid-2003. According to PAA management, these cases had been prepared for PAA s bank group in connection with certain refinancing activities. These cases are summarized as follows:

***Bank Base Case***

| | 2004E | 2005E | 2006E |
|---|---|---|---|
| | $MM, except per unit | | |
| Acquisition/Expansion CapEx | $ 53 | $ 10 | $ 10 |
| EBITDA | $ 183 | $ 185 | $ 189 |
| Distributable Cash Flow | $ 139 | $ 135 | $ 137 |
| Total Distributions | $ 132 | $ 132 | $ 132 |
| Distribution per Unit | $ 2.20 | $ 2.20 | $ 2.20 |
| Total LP Units Outstanding | 56.3 | 56.3 | 56.3 |

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***Bank Growth Case, 7.5x EBITDA Acquisition Multiple***

| | 2004E | 2005E | 2006E |
|---|---|---|---|
| | $MM, except per unit | | |
| Acquisition/Expansion CapEx | $ 53 | $ 260 | $ 260 |
| EBITDA | $ 183 | $ 219 | $ 255 |
| Distributable Cash Flow | $ 139 | $ 160 | $ 187 |
| Total Distributions | $ 132 | $ 154 | $ 178 |
| Distribution per Unit | $ 2.20 | $ 2.35 | $ 2.50 |
| Total LP Units Outstanding | 56.3 | 60.6 | 64.8 |

PAA also provided the special committee and its advisors with six illustrative cases for PAA dated as of September 30, 2003. The principal variable in each case was the level of acquisitions needed to generate a target level of distribution growth, and common assumptions included 50% debt, 50% equity financing of acquisitions at a 6.5% interest rate and 7.2% equity yield. According to PAA management, the illustrative cases were only intended to demonstrate sensitivity to variations in certain assumptions and did not represent forecasts. According to PAA management, the illustrative cases were intended to show, among other things, the increasing acquisition capital expenditures that are required over time to sustain high growth rates. PAA management stated that actual distributions made may vary from distribution capacity; thus, PAA told representatives of Petrie Parkman that it believed that the projected net distributions may be misleading without a full consideration of the considerable discretion that PAA s general partner has in creating reserves, which would reduce cash available for distribution. Further, according to PAA management, such illustrative cases were based on estimates and assumptions that are inherently subject to significant economic, business, regulatory and other uncertainties and contingencies, many of which are beyond the control of PAA. The illustrative cases are summarized as follows:

***5.0% Distribution Growth, 0% Organic Growth, 7.5x EBITDA Acquisition Multiple***

| | Base | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|---|
| | | $MM, except per unit | | | |
| Acquisition CapEx | | $ 163 | $ 171 | $ 192 | $ 209 |
| EBITDA | $ 174 | $ 196 | $ 219 | $ 244 | $ 272 |
| Distributable Cash Flow | $ 131 | $ 146 | $ 162 | $ 180 | $ 200 |
| Distributions | | | | | |
| LP Distribution | $ 122 | $ 134 | $ 148 | $ 162 | $ 178 |
| GP Distribution | 8 | 10 | 13 | 16 | 20 |
| Total Distribution | $ 130 | $ 145 | $ 161 | $ 179 | $ 198 |
| Distribution per Unit | $ 2.20 | $ 2.31 | $ 2.43 | $ 2.54 | $ 2.67 |
| *Growth Rate* | | *5.0%* | *5.0%* | *5.0%* | *5.0%* |
| Total LP Units Outstanding | 55.5 | 58.1 | 60.8 | 63.7 | 66.6 |

***5.0% Distribution Growth, 2% Organic Growth, 7.5x EBITDA Acquisition Multiple***

| | Base | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|---|

| | $MM, except per unit | | | | |
|---|---|---|---|---|---|
| Acquisition CapEx | | $ 102 | $ 99 | $ 109 | $ 117 |
| EBITDA | $ 174 | $ 191 | $ 208 | $ 227 | $ 247 |
| Distributable Cash Flow | $ 131 | $ 144 | $ 156 | $ 171 | $ 186 |
| Distributions | | | | | |
| LP Distribution | $ 122 | $ 132 | $ 142 | $ 154 | $ 166 |
| GP Distribution | 8 | 10 | 13 | 16 | 19 |
| Total Distribution | $ 130 | $ 142 | $ 155 | $ 169 | $ 184 |
| Distribution per Unit | $ 2.20 | $ 2.31 | $ 2.42 | $ 2.55 | $ 2.68 |
| *Growth Rate* | | *5.0%* | *5.0%* | *5.0%* | *5.0%* |
| Total LP Units Outstanding | 55.5 | 57.1 | 58.7 | 60.3 | 61.9 |

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***7.5% Distribution Growth, 0% Organic Growth, 7.5x EBITDA Acquisition Multiple***

| | Base | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|---|
| | | | $MM, except per unit | | |
| Acquisition CapEx | | $ 246 | $ 277 | $ 354 | $ 591 |
| EBITDA | $ 174 | $ 207 | $ 244 | $ 291 | $ 370 |
| Distributable Cash Flow | $ 131 | $ 154 | $ 180 | $ 213 | $ 269 |
| Distributions | | | | | |
| LP Distribution | $ 122 | $ 141 | $ 162 | $ 188 | $ 225 |
| GP Distribution | 8 | 12 | 16 | 24 | 42 |
| Total Distribution | $ 130 | $ 152 | $ 178 | $ 211 | $ 267 |
| Distribution per Unit | $ 2.20 | $ 2.36 | $ 2.54 | $ 2.73 | $ 2.94 |
| *Growth Rate* | | *7.5%* | *7.5%* | *7.5%* | *7.5%* |
| Total LP Units Outstanding | 55.5 | 59.5 | 63.7 | 68.7 | 76.5 |

***7.5% Distribution Growth, 2% Organic Growth, 7.5x EBITDA Acquisition Multiple***

| | Base | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|---|
| | | | $MM, except per unit | | |
| Acquisition CapEx | | $ 183 | $ 197 | $ 252 | $ 456 |
| EBITDA | $ 174 | $ 202 | $ 232 | $ 270 | $ 336 |
| Distributable Cash Flow | $ 131 | $ 151 | $ 174 | $ 202 | $ 250 |
| Distributions | | | | | |
| LP Distribution | $ 122 | $ 138 | $ 156 | $ 178 | $ 209 |
| GP Distribution | 8 | 12 | 16 | 22 | 39 |
| Total Distribution | $ 130 | $ 150 | $ 172 | $ 200 | $ 248 |
| Distribution per Unit | $ 2.20 | $ 2.36 | $ 2.54 | $ 2.73 | $ 2.94 |
| *Growth Rate* | | *7.5%* | *7.5%* | *7.5%* | *7.5%* |
| Total LP Units Outstanding | 55.5 | 58.5 | 61.5 | 65.0 | 71.0 |

***10.0% Distribution Growth, 0% Organic Growth, 7.5x EBITDA Acquisition Multiple***

| | Base | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|---|
| | | | $MM, except per unit | | |
| Acquisition CapEx | | $ 333 | $ 398 | $ 729 | $ 1,030 |
| EBITDA | $ 174 | $ 218 | $ 271 | $ 369 | $ 506 |
| Distributable Cash Flow | $ 131 | $ 162 | $ 200 | $ 268 | $ 366 |
| Distributions | | | | | |
| LP Distribution | $ 122 | $ 147 | $ 178 | $ 225 | $ 288 |
| GP Distribution | 8 | 13 | 20 | 41 | 74 |
| Total Distribution | $ 130 | $ 161 | $ 198 | $ 266 | $ 362 |

| | | | | | |
|---|---|---|---|---|---|
| Distribution per Unit | $ 2.20 | $ 2.42 | $ 2.66 | $ 2.93 | $ 3.22 |
| *Growth Rate* | | *10.0%* | *10.0%* | *10.0%* | *10.0%* |
| Total LP Units Outstanding | 55.5 | 60.9 | 66.8 | 76.7 | 89.4 |

***10.0% Distribution Growth, 2% Organic Growth, 7.5x EBITDA Acquisition Multiple***

| | **Base** | **Year 1** | **Year 2** | **Year 3** | **Year 4** |
|---|---|---|---|---|---|
| | | | **$MM, except per unit** | | |
| Acquisition CapEx | | $ 268 | $ 309 | $ 599 | $ 825 |
| EBITDA | $ 174 | $ 213 | $ 259 | $ 344 | $ 460 |
| Distributable Cash Flow | $ 131 | $ 159 | $ 193 | $ 254 | $ 338 |
| Distributions | | | | | |
| LP Distribution | $ 122 | $ 145 | $ 172 | $ 212 | $ 266 |
| GP Distribution | 8 | 13 | 19 | 39 | 69 |
| Total Distribution | $ 130 | $ 158 | $ 191 | $ 251 | $ 335 |
| Distribution per Unit | $ 2.20 | $ 2.42 | $ 2.66 | $ 2.93 | $ 3.22 |
| *Growth Rate* | | *10.0%* | *10.0%* | *10.0%* | *10.0%* |
| Total LP Units Outstanding | 55.5 | 59.9 | 64.4 | 72.5 | 82.7 |

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On January 8, 2004, the members of the special committee met at the offices of Baker Botts to receive a preliminary presentation concerning various types of financial analyses being conducted by Petrie Parkman and addressing potential strategic options. During the meeting representatives of Petrie Parkman (1) outlined the major tasks that had been completed at that time regarding the preliminary analysis of Plains Resources, (2) summarized the scope of their review process, and (3) reviewed potential strategic options and alternatives for Plains Resources. The special committee determined that it wanted Petrie Parkman s preliminary reference value analysis of Plains Resources before formally responding to the Vulcan Energy proposal, negotiating with Vulcan Energy or negotiating with other interested parties. Representatives from Baker Botts, Petrie Parkman and the special committee then discussed a number of potential strategic options for Plains Resources, which included:

selling Plains Resources stock to a third party for cash or stock. The special committee noted that this option would provide immediate liquidity for Plains Resources stockholders and that the market and tax environments were favorable for such a sale. However, it noted that Plains Resources non-controlling interest in its key assets and its low tax basis in those assets may limit the universe of potentially interested parties.

maintaining the status quo, in which management would remain focused on its current strategy. The special committee considered Plains Resources tax-inefficient corporate structure and the dependence of its growth on PAA s results as negative factors to maintaining the status quo.

liquidating. The special committee noted that this option would provide near-term liquidity for Plains Resources stockholders but would also trigger a large corporate level tax, substantially reducing the proceeds available to Plains Resources stockholders, and would likely require multiple sales, increasing transaction execution risks.

restructuring, either through dividends of master limited partnership units to Plains Resources shareholders or through an exchange offer. The special committee considered that this alternative would provide stockholders a choice of investment currency and would make Plains Resources more of a pure play on the general partner of PAA. On the negative side, this alternative would trigger a significant corporate level tax, effectively reducing the amount of PAA units available for distribution to Plains Resources stockholders, and would reduce the size of Plains Resources operations and its market capitalization.

consummating a reverse merger with a company with a large net operating loss, and simultaneously distributing a large cash dividend to Plains Resources shareholders. The special committee discussed how this option would provide immediate liquidity for Plains Resources stockholders and would be relatively tax efficient. For instance, the acquirer could use existing net operating losses to offset future taxable income from operations and, after a five-year waiting period, from a sale of the PAA units as well. The challenge of this option would be the ability to find a suitable merger partner because the merger partner would have to have a large net operating loss and the existing shareholders of that merger partner would have to own at least 50% of the merger partner s post-merger stock, taking into account certain changes in stock ownership during the preceding three years to avoid limitation on the utilization of its net operating losses.

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recapitalizing with a special dividend funded by an exchangeable debt offering. The special committee considered that this alternative would provide liquidity for Plains Resources stockholders and would be tax efficient until the debt was exchanged for master limited partnership units or the units were sold to repay the debt. However, this alternative would reduce Plains Resources market capitalization and for tax purposes the deduction for the interest on the debt could be deferred until maturity.

recapitalizing using leverage, in which interest deductions would provide an additional tax shield. The special committee noted that this option would provide immediate liquidity for Plains Resources stockholders and the interest deductions would provide an additional tax shield, but it would reduce Plains Resources market capitalization and the increased leverage would increase financial risk.

acquiring a larger interest in the general partner of Plains All American Pipeline, L.P. The special committee considered that acquiring a controlling interest in the general partner of PAA would increase the marketability of Plains Resources. However, Plains Resources would have to find a willing seller of its GP interest and come to terms with the seller on the acquisition price of the GP interest. Additionally, certain general partner actions require supermajority approval. Another challenge of this alternative would be the right of first refusal provision in the limited liability company agreement of PAA GP, which restricts transfers of GP interests.

The special committee also determined to solicit third party proposals, instructed Petrie Parkman to generate a contact list of potential buyers and instructed Baker Botts to review the tax issues associated with Plains Resources as well as potential solutions that would be competitive with the Vulcan Energy proposal. Baker Botts prepared a memorandum outlining the likely tax consequences of an acquisition of Plains Resources by different types of purchasers. Petrie Parkman subsequently provided that memorandum to several potential purchasers that had signed confidentiality agreements with Plains Resources. According to the tax memorandum, not only could a buyer that could convert to an S-corporation enjoy certain tax advantages, but a party with a large net operating loss might be able to use such losses to offset taxable gains generated through Plains Resources. Soon thereafter the special committee established an offsite data room where information could be maintained for review by potential third party bidders.

At telephonic meetings held on January 14th and 16th, the special committee s legal and financial advisors updated the special committee regarding their diligence process. Representatives of Petrie Parkman also discussed the interests of three potential third party buyers for Plains Resources. The special committee also discussed a plan for responding to the Vulcan Energy proposal.

At a telephonic meeting held on January 19, 2004, representatives of Petrie Parkman updated the special committee regarding contacts with the three potential third party buyers, and suggested to the special committee that such parties be sent confidentiality agreements. The special committee instructed Baker Botts to prepare a form of confidentiality agreement to be used with those parties and other third parties expressing an interest in Plains Resources.

On January 20, 2004, Petrie Parkman sent confidentiality agreements to each of the three potential third party buyers.

On or about January 20, 2004, Mr. Capobianco of Vulcan Energy called a representative of Petrie Parkman to discuss the status of the special committee s review of the Vulcan Energy proposal and the potential for the parties to enter into negotiations for a transaction. Mr. Capobianco expressed significant frustration at the length of time that had passed since Vulcan Energy submitted its proposal without a response from the special committee. Petrie Parkman s representative informed Mr. Capobianco that the special committee was not prepared to respond to the proposal or engage in any negotiations at that time.

On January 21, 2004, the special committee met at the offices of Petrie Parkman to review Petrie Parkman s preliminary reference value analysis of Plains Resources and to discuss the Vulcan Energy proposal. Representatives of Baker Botts were in attendance as well. Before presenting its analysis, representatives of

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Petrie Parkman reviewed the actions that had been taken with respect to distributing confidentiality agreements, summarized its contacts with other potentially interested parties and reported on conversations with Vulcan Energy.

At the meeting, representatives of Petrie Parkman discussed with the special committee preliminary financial analyses it performed in connection with its evaluation of the Vulcan Energy proposal. Representatives of Petrie Parkman discussed the methodologies it was using to evaluate the Vulcan Energy proposal. Representatives of Petrie Parkman also discussed the results of its preliminary reference value analyses consisting of discounted cash flows, comparable transactions, premium analysis and capital market comparisons, the results of which are summarized as follows (see Opinion of Financial Advisor to the Special Committee for further discussion of Petrie Parkman s reference value analysis methodologies):

| Methodology | Preliminary Equity Reference Value Range $/Share |
|---|---|
| Discounted Cash Flow/Going Concern Analysis | $ 9.00-$23.00 |
| Comparable Transaction Analysis | $ 14.81-$18.24 |
| Premium Analysis | $ 15.57-$17.64 |
| Capital Market Comparison | $ 13.69-$16.97 |

Petrie Parkman then discussed a number of advocacy points that it had prepared for discussions with Vulcan Energy. After extensive discussions with its legal and financial advisors, questions and calculations of reference value sensitivities utilizing alternate investment assumptions, the special committee determined that Vulcan Energy s proposal of $14.25 per share was inadequate and not in the best interests of the Plains Resources stockholders.

On January 21st and 22nd, the members of the special committee telephoned each member of our Board of Directors other than Mr. Flores to update them on the special committee s process and to inform them of the special committee s determination with respect to the Vulcan Energy proposal.

On January 21, 2004, a representative of Petrie Parkman telephoned Mr. Capobianco of Vulcan Energy to inform him of the special committee s decision regarding the Vulcan Energy proposal, and on January 22, 2004 Plains Resources issued a press release announcing that the proposal by Vulcan Energy and the management stockholders to acquire all of our outstanding stock for $14.25 per share in cash was inadequate and not in the best interests of Plains Resources stockholders. The press release also stated that the special committee was prepared to enter into discussions or negotiations with Vulcan Energy or other parties relating to a transaction with Plains Resources.

On January 21, representatives of Petrie Parkman contacted Mr. Capobianco to suggest a meeting between Vulcan Energy and the special committee and proposed either January 23, 2004 or January 28, 2004. Through several calls over the next five days between representatives of Petrie Parkman, Mr. Capobianco, and Mr. Raymond, a meeting was confirmed for January 28, 2004 at Petrie Parkman s office.

Representatives of Petrie Parkman and representatives of a group led by Pershing Square Capital Management LLC, with the backing of Leucadia National Corporation (collectively, Leucadia ), held numerous phone conversations beginning January 23, 2004 regarding Leucadia s interest in submitting a proposal to acquire Plains Resources. These conversations covered various topics including Leucadia s unwillingness to sign a confidentiality agreement, Leucadia s desire to speak with management of PAA (which discussion representatives of Petrie Parkman arranged for the evening of January 26, 2004), and Leucadia s interest in additional information that might be available to it in the absence of an

executed confidentiality agreement. Stock purchases by Leucadia would have been prevented under the form of confidentiality agreement executed by Vulcan and other interested parties.

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On January 23, 2004, the special committee and its advisors held a telephonic meeting at which a financial consultant engaged by the plaintiffs in the Delaware lawsuits discussed under Litigation Related to the Merger on page 87 below, presented his preliminary valuation analysis of Plains Resources. The plaintiff s consultant s written analysis was that an offer approaching $23.00 per share would achieve fair value. In the conversation, one of his advisors indicated that a reasonable value might be $17.00 to $20.00 per share. The plaintiff s consultant s analysis was based only on publicly available information and consisted of (1) an adjustment to our balance sheet to reflect differences between the market value of our assets and their respective carrying values, (2) the potential value of the effective control of the general partner of PAA, and (3) an examination of the market values of proved oil reserves held by a sample of publicly traded oil and gas companies. The plaintiffs consultant presented an analysis of Plains Resources to the special committee and its advisors based on a single valuation methodology, a sum-of-the-parts analysis. His analysis did not include any adjustment for income taxes, although Plains Resources is a corporation and is liable for corporate level taxes on any taxable income or gains. The analyses of each of the parts (general partner interest and incentive distribution rights, common and subordinated units, and proved oil reserves) were conducted on a pre-tax basis, but, inconsistently, his analysis of the overall company included additional value for Plains Resources tax credits. He valued Plains Resources proved reserves based on a multiple of proved reserves to standardized measure. He estimated this multiple by reviewing the implied trading multiples of a sample group of publicly traded oil and gas companies. The special committee and its advisors did not believe that the group of companies utilized in his analysis represented an appropriate benchmark for comparison to Plains Resources oil and gas assets. The members of the special committee and its advisors asked him numerous questions regarding his analysis, such as if he had considered any other methodologies for his analysis and if he considered the impact of tax consequences of a sale of any of Plains Resources assets on the value of Plains Resources common stock. He stated that he considered other valuation methodologies but did not use them in the analysis presented to the special committee. He also stated that he was unable to calculate the impact of taxes. As a consequence of these factors, the special committee did not rely on the analysis provided by the plaintiffs consultant. The members of the special committee and its advisors requested that he provide any more detailed written analysis he had prepared (which he subsequently delivered), as well as any suggestions for potential third party acquirors, to the special committee.

On January 26, 2004, the special committee held a telephonic meeting to discuss its upcoming meeting with Vulcan Energy and contacts with other parties. Representatives of Baker Botts informed the special committee that a party that had expressed an interest in a transaction with Plains Resources had signed a confidentiality agreement and that this party had asked to review certain confidential tax information regarding Plains Resources, and that such material was subsequently provided to such party.

On January 28, 2004, the special committee held a meeting with representatives of Vulcan Energy and Mr. Raymond at the offices of Petrie Parkman. The purpose of the meeting was to discuss with Vulcan Energy and Mr. Raymond factors suggesting that a higher cash offer was appropriate. The special committee informed Vulcan Energy and Mr. Raymond that it was prepared to support a transaction with Vulcan Energy that delivers an acceptable price to the public stockholders of Plains Resources. Representatives of Petrie Parkman explained to Vulcan Energy that its proposal of $14.25 per share undervalued Plains Resources because it:

- reflected a low premium and was below market expectations;
- did not reflect the value associated with the G&A and other savings flowing from a transaction;
- did not reflect any value to the Plains Resources stockholders for the tax structure to be utilized by Vulcan Energy;
- did not reflect the long-term going concern value to Plains Resources arising from the interplay of future PAA growth and the general partner s structural leverage on that growth; and
- did not reflect PAA s proposed pipeline acquisition from Shell, which was announced subsequent to the original Vulcan Energy proposal.

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At the conclusion of the meeting, the special committee informed Vulcan Energy that it would be prepared to support a transaction at $18.25 per share. Vulcan Energy disagreed strongly with several of the points made by representatives of Petrie Parkman and the special committee s views on valuation but agreed to discuss whether it could consider an increase in its offer.

On or about January 30, 2004, a representative of Petrie Parkman called Mr. Raymond to tell him that Vulcan Energy should convey any revised offer to Mr. O Malley. Mr. Capobianco called Mr. O Malley and said that he was sensitive to the points made by the special committee at the January 28th meeting, and that Vulcan Energy would endeavor to provide the special committee with a revised offer on February 3rd.

At a telephonic meeting on January 30, 2004, Mr. O Malley reported on his conversation with Mr. Capobianco. The special committee also discussed possible responses to any revised proposal submitted by Vulcan Energy, including whether and under what circumstances it would be willing to agree to a short exclusive negotiating period and a reasonable break-up fee. The special committee determined that if it received an offer from Vulcan Energy for around $17.00 per share, it would agree to a seven-day exclusive negotiating period. After analyzing break-up fee levels in recent transactions, the special committee determined to attempt to negotiate a break-up fee in the range of 3% of enterprise value. The special committee discussed the fact that it wanted to entertain discussions with other interested parties even if it determined to begin negotiating a merger agreement with Vulcan Energy. The special committee s advisors discussed the status of contacts with third parties.

Later that afternoon, a second potential buyer signed a confidentiality agreement and received a copy of a reserve report with respect to Plains Resources.

At a telephonic meeting of the special committee held on February 2, 2004, representatives of Petrie Parkman updated the special committee on the status of communications with the three parties who had expressed an interest in Plains Resources and described the information that had been provided to those parties. Later that day, a third potential buyer signed a confidentiality agreement with respect to Plains Resources.

On February 3, 2004, Mr. Capobianco called Mr. O Malley and suggested that Vulcan Energy could consider a transaction with a price ranging between $15.75 and $16.25 per share. Mr. O Malley informed Mr. Capobianco that there would be no transaction at $16.25 or even at $16.50. Mr. O Malley suggested that Mr. Capobianco contact Mr. O Malley the next day with an improved offer.

At a telephonic meeting of the special committee held later that day, Mr. O Malley reported on his conversation with Mr. Capobianco. Representatives of Petrie Parkman informed the special committee that the second potential buyer had indicated that it would be prepared to make an offer early the following week.

On February 4, 2004, Mr. O Malley called Mr. Capobianco suggesting that if Vulcan Energy could agree on a price range of $16.50 to $17.50 per share, the special committee would be willing to schedule a meeting to try to negotiate a firm number. Mr. Capobianco stated that Vulcan Energy would not pay $17.00 per share or above. At a telephonic meeting later that day, a representative of Petrie Parkman reported that Mr. Raymond had told a Petrie Parkman representative that Vulcan Energy would not pay $17.00 per share or above. Mr. Raymond also mentioned that a great deal of time had passed since Vulcan Energy made its proposal, and that Vulcan Energy was losing interest in Plains Resources and considering other possible transactions. Representatives of Petrie Parkman stated that the second potential buyer had indicated that it would be in a position to make an offer on Monday, February 9, and that Leucadia was expected to make an offer as well. Leucadia asserted that such offer would be significantly in excess of the initial Vulcan Energy ($14.25) proposal.

On February 5, 2004, the special committee held a telephonic meeting to discuss conversations with Mr. Raymond regarding the possibility of a meeting with the special committee to discuss a transaction between $16.50 and $17.00 per share. A representative of Petrie Parkman reported that Leucadia had prepared a proposal but was extremely sensitive about its deal structure, and Leucadia wanted the special committee to agree to

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certain preconditions before receiving the proposal. The special committee instructed its advisors to contact Leucadia to get more information regarding these conditions.

Later that evening, representatives of Baker Botts and Petrie Parkman had a conversation with William Ackman, a principal of Pershing Square and the person who was principally responsible for formulating the Leucadia proposal, and his counsel wherein Mr. Ackman outlined his concerns and the proposed terms upon which Leucadia would agree to submit a proposal to the special committee. On February 6, 2004, Mr. Ackman submitted a form of letter agreement to be entered into by the special committee as a condition to Leucadia submitting its proposal, the terms of which letter agreement included:

- the obligation of the special committee to keep any proposal confidential;
- a ten-day due diligence period, during which Plains Resources would pay Leucadia a $2 million fee if it entered into an agreement with respect to a transaction with anyone other than Leucadia;
- reimbursement of up to $1 million of Leucadia s legal fees in the event Plains Resources did not enter into a transaction with Leucadia;
- a requirement for Plains Resources to pay Leucadia a $2 million fee if, after conducting due diligence, Leucadia determined to go forward with a transaction with Plains Resources, but the special committee determined not to proceed, and Plains Resources entered into a transaction with any other party in the six months following the date of the letter agreement; and
- a $10 million fee payable to Leucadia in the event that Plains Resources entered into a transaction in the next year utilizing Leucadia s proposed transaction structure.

At a telephonic meeting on February 6, representatives of Baker Botts informed the special committee of the proposed terms of the Leucadia letter agreement and received instructions to negotiate with Leucadia regarding the terms of the letter agreement to try to obtain a proposal from Leucadia.

Over the weekend of February 7th and 8th, Baker Botts provided comments to Leucadia s counsel on the proposed letter agreement. In addition, with the consent of the Special Committee, a representative of Petrie Parkman spoke with Mr. Raymond about obtaining a higher offer from Vulcan Energy. On Monday, February 9, Mr. Capobianco called Mr. O Malley to state that Vulcan Energy would entertain discussions at $16.75 per share, but it would require a no-shop provision limiting Plains Resources ability to solicit an alternative proposal from, or to negotiate with, third parties between the signing of the merger agreement and the closing or termination of that agreement, a termination fee equal to 4.5% of the transaction value and exclusive negotiations until a definitive transaction agreement was signed. Following a telephonic special committee meeting, Mr. O Malley informed Mr. Capobianco that the special committee would not agree to exclusivity prior to reviewing a draft merger agreement proposed by Vulcan Energy.

On February 9, 2004, the special committee held two telephonic meetings to discuss the status of negotiations with Vulcan Energy and Leucadia. A representative of Petrie Parkman informed the committee that one of the parties that had executed a confidentiality agreement was continuing to evaluate a potential transaction with Plains Resources, and that Leucadia had not yet executed the confidentiality agreement submitted to it first on January 20, 2004. That evening, the special committee received a draft merger agreement from Vulcan Energy s counsel.

At two telephonic meetings held on February 10, 2004, the special committee discussed the proposed terms of the merger agreement and the pendency of a proposal from Leucadia. The special committee instructed Petrie Parkman to encourage Leucadia to submit any proposal it was contemplating as soon as possible, without any preconditions which would involve Plains Resources becoming liable for a fee prior to the time that the special committee would have had an opportunity to review any proposal. The second potential bidder informed representatives of Petrie Parkman that it had completed its analysis and would not be submitting a proposal because it did not believe its proposal would be competitive. The other two parties that signed confidentially

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agreements never submitted proposals. In the course of discussions with potential bidders, representatives of the special committee provided some material non-public information to these potential bidders consisting of a tax memorandum prepared by Baker Botts and a reserve report relating to Plains Resources Florida oil and gas assets. The potential bidders were also given a preliminary data room index; however, no bidder conducted due diligence or asked to review any item on the data room index.

The tax memorandum prepared by Baker Botts compared, on a theoretical level, the federal income tax effects of four types of transactions considered by the special committee:

- a liquidation of Plains Resources ( Case 1 );
- a sale of Plains Resources to a purchaser that is an S corporation and files an election to treat Plains Resources as a qualified subchapter S subsidiary ( Case 2 );
- a sale of Plains Resources to a purchaser that is an affiliated group of companies with a net operating loss that may be used to offset gains from the sale of Plains Resources assets ( Case 3 ); and
- a sale of Plains Resources to a purchaser that is a partnership consisting of partners that are C corporations ( Case 4 ).

For each of these types of transactions, the tax memorandum considered three alternative scenarios:

- an immediate sale by Plains Resources of its assets, followed by a liquidating distribution to its existing stockholders (in Case 1) or the purchaser (in Cases 2-4) ( Alternative 1 );
- the ownership of Plains Resources by the existing stockholders or the purchaser for a period of five years, followed by the sale by Plains Resources of its assets and a liquidating distribution of the cash proceeds to the existing stockholders or the purchaser, as applicable ( Alternative 2 ); and
- the ownership of Plains Resources by the existing stockholders or the purchaser for a period of ten years, followed by the sale by Plains Resources of its assets and a liquidating distribution of the cash proceeds to the existing stockholders or the purchaser, as applicable ( Alternative 3 ).

The tax memorandum also discussed the effect on the stockholders of Plains Resources, for each of the four types of transactions, of Plains Resources earning, over time, $300 million of fully taxable operating income that, after reduction for any taxes payable by Plains Resources on such amount, would be distributed to its stockholders ( Effect 1 ).

The tax memorandum made various assumptions in connection with its analysis, including assumptions related to the value of Plains Resources assets and its tax basis; corporate, individual and capital gains tax rates; and the composition of Plains Resources asset base.

The tax memorandum generally showed that a company with large net operating losses would be a well-positioned purchaser for Plains Resources.

The following tables illustrate the federal income tax effects described in the tax memorandum for each of Alternatives 1 through 3 and Effect 1 as applied to Cases 1 through 4 (amounts in millions):

**Case 1**

| | Net Proceeds to PLX After Asset Sale | Net Proceeds to Current PLX Stockholders After Liquidation | Distribution of After-Tax Proceeds of $300 in Operating Income to Current PLX Stockholders |
|---|---|---|---|
| Alternative 1 | $ 339 | $ 326 | |
| Alternative 2 | $ 514 | $ 493 | |
| Alternative 3 | $ 703 | $ 672 | |
| Effect 1 | | | $ 166 |

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**Case 2**

| | Net Proceeds to PLX Stockholders | Net Proceeds to Acquirer After Asset Sale | Net After-Tax Proceeds to Stockholders of Acquirer After Liquidation | Distribution of After-Tax Proceeds of $300 in Operating Income to the Stockholders of Acquirer |
|---|---|---|---|---|
| Alternative 1 | $ 463 | $ 339 | $ 339 | |
| Alternative 2 | | $ 589 | $ 576 | |
| Alternative 3 | | $ 1,000 | $ 925 | |
| Effect 1 | | | | $ 180 |

**Case 3**

| | Net Proceeds to PLX Stockholders | Net Proceeds to Acquirer After Asset Sale | Net After-Tax Proceeds to Acquirer After Liquidation | Distribution of After-Tax Proceeds of $300 in Operating Income to Acquirer |
|---|---|---|---|---|
| Alternative 1 | $ 463 | $ 500 | $ 500 | |
| Alternative 2 | | $ 750 | $ 750 | |
| Alternative 3 | | $ 1,000 | $ 1,000 | |
| Effect 1 | | | | $ 300 |

**Case 4**

| | Net Proceeds to PLX Stockholders | Net Proceeds to Acquirer After Asset Sale | Net After-Tax Proceeds to Acquirer After Liquidation | After-Tax Distribution of Proceeds to Corporate Partners of Acquirer after Liquidation | Distribution of After-Tax Proceeds of $300 in Operating Income to the Corporate Partners of Acquirer |
|---|---|---|---|---|---|
| Alternative 1 | $ 463 | $ 339 | $ 339 | $ 339 | |
| Alternative 2 | | $ 514 | $ 514 | $ 509 | |
| Alternative 3 | | $ 703 | $ 703 | $ 632 | |

| | |
|---|---|
| Effect 1 | $ 175 |

Beginning February 10, 2004, representatives of Vulcan Energy, its counsel, Baker Botts, Petrie Parkman and the special committee began negotiating the terms of the merger agreement. Representatives of Baker Botts met with Vulcan Energy s counsel to discuss the major issues under the merger agreement, which included:

- representations and conditions relating to PAA;
- the scope of the no-shop provision;
- the termination fee;
- conditions to closing, including:
  - Vulcan Energy s financing;
  - obtaining an exemption under the Investment Company Act of 1940;
  - the truthfulness and correctness of the representations of, and the performance by, each of Mr. Flores and Mr. Raymond, under the subscription agreement; and
  - the pendency of any litigation seeking to prohibit the merger as a condition to closing;

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indemnity of Vulcan Energy regarding any litigation arising out of the transaction, including pending litigation; and

the fact that Plains Resources representations did not include any carve-out for the knowledge of Mr. Flores and Mr. Raymond.

On February 11, the special committee s advisors continued negotiating with Leucadia the terms under which Leucadia would submit a proposal, and Leucadia agreed to remove the proposed $2 million fee payable by Plains Resources in the event it entered into another transaction and to reduce the proposed level of legal fee reimbursement. At a telephonic meeting held that day, the special committee determined to continue negotiations with Leucadia to try to obtain its proposal, and to provide comments on the merger agreement to Vulcan Energy s counsel.

On the morning of February 12, representatives of Baker Botts, Petrie Parkman and Mr. Ackman and his counsel conducted several more conversations wherein Mr. Ackman suggested various permutations of the conditions to provide the special committee with a proposal, all of which included a $10 million fee payable by Plains Resources under certain circumstances. At a telephonic meeting held that morning, the special committee instructed its advisors to continue to try to negotiate with Leucadia to reduce any potential fees that Plains Resources would be required to pay in order for the special committee to be provided the proposal. Later that day, Mr. O Malley called Mr. Capobianco to suggest a meeting in Houston on February 13th to negotiate the terms of the merger agreement. After Mr. Capobianco agreed to the meeting, the special committee held another telephonic meeting during which it called several members of the Board of Directors to brief them on the status of negotiations with Vulcan Energy and Leucadia. The special committee instructed its advisors to inform Leucadia that Plains Resources would agree to keep any proposal confidential and would pay Leucadia s out-of-pocket expenses to date up to a cap of $150,000, but would not agree to any of the other terms proposed by Leucadia. Baker Botts called Leucadia s counsel to inform them of this decision, and shortly thereafter Leucadia agreed to submit a proposal to the special committee on those terms.

At a telephonic meeting held in the evening of February 12, 2004, Mr. Ackman orally presented the proposal by Leucadia to acquire Plains Resources in a transaction he asserted had a value of approximately $17.60 per share. He also informed the special committee that Leucadia owned over four percent of the outstanding shares of Plains Resources common stock. Had Leucadia executed a confidentiality agreement when it was first presented on or about January 20, 2004, further stock purchases would have been precluded. According to Mr. Ackman, the transaction was to be structured as a merger, in which Plains Resources stockholders would have the opportunity to elect up to $75 million in cash and/or newly issued publicly traded securities of Plains Resources. The new securities were to be designed to provide holders with returns based upon the income from and value of the master limited partnership units of PAA owned by Plains Resources. The new security would have a face value of $33.00 and a maturity date 30 years after the issuance date. At maturity, Plains Resources would be obligated to pay the holders of the new security the greater of (1) the face amount of $33.00 or (2) the then-current market price of one master limited partnership unit of PAA. The transaction was to include a mechanism whereby Leucadia would engage a stand-by underwriter to purchase from Plains Resources stockholders on a pro-rata basis up to approximately 2.38 million of the new securities at $31.50 for a total of $75 million in cash on a date which would have been limited to a specific period of time after the closing of the proposed merger. A $12 million break-up fee was also proposed, and the willingness of Leucadia to enter into definitive agreements was conditioned on the satisfaction of Leucadia with a commercial, tax, accounting, financial and legal due diligence investigation of Plains Resources and PAA and on the approval of the board of directors of Leucadia. Mr. Ackman provided a written proposal outlining those terms later that night. The proposal was to expire at 6:00 p.m., New York time, on February 13, 2004.

Members of the special committee and representatives of its advisors asked numerous questions of Mr. Ackman, including, among others, whether the new securities would be debt or equity securities, what collateral would underlie the new securities, whether he was aware if there existed any similar securities, and whether the

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distributions on the new securities would be fully taxable to the holders thereof. Mr. Ackman responded that he had not yet determined whether the new securities would be debt or equity or what the collateral would be. Mr. Ackman stated he was not aware of any existing similar securities and that he believed the holders of the new securities would be neutral as to whether or not the distributions were fully taxable.

On February 13, 2004, the members of the special committee met at Petrie Parkman s offices (1) to negotiate with Vulcan Energy and (2) to consider Leucadia s proposal letter. Representatives of Petrie Parkman presented to the special committee an analysis of the Leucadia proposal on a per share basis, assuming two cases. The first case assumed that the maximum number of securities were issued, which would result in total consideration to Plains Resources stockholders of $75 million in cash and 10.9 million units of new securities, which was equivalent to $3.09 in cash and 0.45 units of new securities per Plains Resources share (based on 24.3 million Plains Resources shares outstanding). The second case assumed the ability of Leucadia to engage a stand-by underwriter so that the maximum amount of cash to be offered would be utilized, which would result in the repurchase at $31.50 of 2.38 million units of new securities. This would have resulted in total consideration to Plains Resources stockholders of $150 million in cash and 8.5 million units of new securities, or $6.18 in cash plus 0.35 units of new securities per Plains Resources share (based on 24.3 million Plains Resources shares outstanding). These two cases are summarized as follows:

| Form of Consideration | Total Consideration to Plains Resources Stockholders (Amounts in thousands) | Total Consideration Per Plains Resources Share ($SH./Units) |
|---|---|---|
| Maximum Securities Case | | |
| Cash | $ 75,000 | $ 3.09 |
| New Securities | 10,900 | 0.45 |
| Maximum Cash Case | | |
| Cash | $ 150,000 | $ 6.18 |
| New Securities | 8,500 | 0.35 |

Representatives of Petrie Parkman reviewed the total consideration per Plains Resources share implied by the Leucadia proposal over a range of illustrative trading values for the new securities as follows:

| Maximum Securities Case | | | | |
|---|---|---|---|---|
| Illustrative Trading Price of New Security | New Securities Per PLX Share | New Securities Consideration Per PLX Share | Cash Consideration Per PLX Share | Total Consideration Per PLX Share |
| $27.00 | 0.45 | $12.13 | $3.09 | $15.22 |
| $28.00 | 0.45 | $12.58 | $3.09 | $15.67 |
| $29.00 | 0.45 | $13.03 | $3.09 | $16.12 |
| $30.00 | 0.45 | $13.47 | $3.09 | $16.57 |
| $31.00 | 0.45 | $13.92 | $3.09 | $17.01 |
| $31.50 | 0.45 | $14.15 | $3.09 | $17.24 |
| $32.00 | 0.45 | $14.37 | $3.09 | $17.46 |
| $33.00 | 0.45 | $14.82 | $3.09 | $17.91 |
| $34.00 | 0.45 | $15.27 | $3.09 | $18.36 |
| $35.00 | 0.45 | $15.72 | $3.09 | $18.81 |

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| Maximum Cash Case | | | | |
|---|---|---|---|---|
| Illustrative Trading Price of New Security | New Securities Per PLX Share | New Securities Consideration Per PLX Share | Cash Consideration Per PLX Share | Total Consideration Per PLX Share |
| $27.00 | 0.35 | $ 9.48 | $6.18 | $15.66 |
| $28.00 | 0.35 | $ 9.83 | $6.18 | $16.01 |
| $29.00 | 0.35 | $10.18 | $6.18 | $16.36 |
| $30.00 | 0.35 | $10.53 | $6.18 | $16.71 |
| $31.00 | 0.35 | $10.88 | $6.18 | $17.06 |
| $31.50 | 0.35 | $11.06 | $6.18 | $17.24 |
| $32.00 | 0.35 | $11.23 | $6.18 | $17.41 |
| $33.00 | 0.35 | $11.58 | $6.18 | $17.77 |
| $34.00 | 0.35 | $11.94 | $6.18 | $18.12 |
| $35.00 | 0.35 | $12.29 | $6.18 | $18.47 |

In discussing the possibility that the buyer securities might trade at a discount to the PAA units, the special committee and its advisors noted that (1) the indicative cash distribution on the new security may be fully taxable, as compared to the partial tax shielding of PAA limited partner distributions, (2) prohibitions for institutions relating to UBIT income may be removed in the next energy bill, so that institutions would be able to invest directly in master limited partnerships, (3) the new security was a derivative security, which may be more difficult for investors to understand and which may trade at a discount to the underlying security, and (4) the new securities would likely be less liquid than the PAA units. Representatives of Petrie Parkman then compared the illustrative trading price of the new security, assuming a $2.33 annual cash distribution on the new security, based on a discount to the PAA current yield.

| Implied Trading Price of New Security Based on Current PAA Unit Price (Yield) | Illustrative Discount | Illustrative Trading Price of New Security After Assumed Discount |
|---|---|---|
| $32.86 | 0.0% | $32.86 |
| $32.86 | 2.5% | $32.04 |
| $32.86 | 5.0% | $31.22 |
| $32.86 | 7.5% | $30.39 |
| $32.86 | 10.0% | $29.57 |
| $32.86 | 12.5% | $28.75 |
| $32.86 | 15.0% | $27.93 |

Representatives of Petrie Parkman discussed with the special committee that the new securities proposed by Leucadia had certain derivative characteristics potentially comparable to I-shares issued by affiliates of other master limited partnerships, and that such derivative securities had historically traded at a discount to the underlying partnership units. They presented an analysis showing the historical trading relationships of two existing issues of I-shares versus the related underlying partnership units which is summarized as follows:

| | I-Share Trading Price Discount to Underlying Partnership Unit | |
|---|---|---|
| Trading Period Prior to February 13, 2004 | Kinder Morgan Management vs. Kinder Morgan Energy Partners | Enbridge Energy Management vs. Enbridge Energy Partners |

| | | |
|---|---|---|
| 1 Week Prior | -8.8% | -4.0% |
| 1 Month Prior | -10.2% | -3.8% |
| 3 Months Prior | -12.1% | -6.1% |
| 6 Months Prior | -12.3% | -8.9% |
| 1 Year Prior | -13.4% | -11.9% |

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As a part of the discussion, representatives of Petrie Parkman also noted that the new security would likely have less trading liquidity than the Kinder Morgan Management and Enbridge Energy Management securities due to the relatively smaller size of the overall issue.

Petrie Parkman noted that PAA s limited partnership units were trading in the market, based on a current annualized distribution of $2.25, at a current yield of approximately 7.1%, and reviewed with the special committee the illustrative trading price of the proposed new security over a range of yields as follows:

| Illustrative Annual Cash Distribution | | Illustrative Trading Price of New Security ($/New Security) | | | | | |
|---|---|---|---|---|---|---|---|
| | | Yield on Distribution to New Security | | | | | |
| PAA | New Securities (PAA + $0.08) | 6.5% | 7.0% | 7.5% | 8.0% | 8.5% | 9.0% |
| $2.25 | $2.33 | $35.85 | $33.29 | $31.07 | $29.13 | $27.41 | $25.89 |

Representatives of Petrie Parkman, Baker Botts and the special committee also discussed other issues relating to the Leucadia offer, which included:

- the fact that the after-tax distributions to new securityholders would likely be less than after-tax distributions to holders of PAA common units;
- the fact that the new securities would have no recourse to Leucadia so significant safeguards would have to be provided to insure that distributions and the redemption price were paid as promised;
- the fact that a majority of the consideration was new securities of Plains Resources itself;
- the fact that the form of new security was uncertain in the Leucadia proposal and the lack of trading history or public market for a security of that type;
- the overall complexity and uncertainty of the transaction relative to an all-cash offer;
- the fact that interest rates were at historic low levels, are expected to rise and the negative impact rising interest rates would be likely to have on the trading price of the new securities;
- the fact that if the new security were a debt security, its receipt would be taxable to Plains Resources stockholders; and
- the transaction risks involved with Leucadia s due diligence condition and board approval condition.

In light of the factors discussed above, the progress that had been made with Vulcan Energy and the special committee s belief (based on conversations with Vulcan Energy, including a statement by Mr. Capobianco that if substantial progress was not made quickly Vulcan Energy

was prepared to abandon its proposal) that if it did not do so Vulcan Energy would terminate discussions and withdraw the Vulcan Energy proposal, the special committee determined to continue to negotiate with Vulcan Energy and to decline the Leucadia offer. The special committee was unable to use Leucadia s offer as part of an auction process prior to entering into the acquisition agreement with Vulcan Energy because, as a condition to providing its proposal, Leucadia required the special committee and its advisors to agree to keep Leucadia s proposal strictly confidential. The special committee considered engaging in exclusive negotiations with Vulcan Energy to be consistent with its fiduciary duties because of the factors described above and because:

the terms of any merger agreement with Vulcan Energy would contain a fiduciary out whereby the merger agreement could be terminated if the special committee received a superior proposal prior to the approval of the Vulcan Energy transaction by Plains Resources stockholders;

the special committee had been soliciting other potential purchasers for Plains Resources for several months but no other party had made a formal offer;

three months had elapsed since Vulcan Energy had made its offer and the special committee had issued a press release encouraging other offers; and

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the special committee had spent a considerable amount of time attempting to solicit an offer from Leucadia.

Later that afternoon, after reaching agreement on many issues under the merger agreement, the special committee entered into an exclusivity agreement with Vulcan Energy wherein it agreed to negotiate solely with Vulcan Energy for a period not to exceed 14 days. In light of the provisions of the exclusivity agreement, at the instruction of the special committee, Baker Botts called Mr. Ackman that afternoon, prior to the expiration of the Leucadia proposal, to inform him that the special committee had determined not to pursue the Leucadia proposal.

Despite efforts to market Plains Resources to other buyers, including those fitting the appropriate tax criteria, only one other party, Leucadia, made an offer to purchase Plains Resources. Leucadia fit the criterion of having a large net operating loss that might be used to offset Plains Resources gains. No other party made an offer, and one party that had indicated that it would make an offer later informed Petrie Parkman that it would not be able to make a competitive offer. Therefore, when Vulcan Energy indicated that it was willing to entertain a price at a substantial premium to its original offer and Plains Resources historical trading prices, the special committee determined that it had sufficient basis for engaging in exclusive negotiations with Vulcan Energy.

Between February 14 and February 18, 2004, representatives of Vulcan Energy, Vulcan Energy s counsel, Baker Botts, Petrie Parkman, management of Plains Resources (other than the Management Stockholders) and its counsel and the special committee continued negotiating the terms of the merger agreement. The parties settled on the scope of the representations and warranties. They also agreed on the circumstances under which a superior proposal could be entertained by Plains Resources. Representatives of Baker Botts and Petrie Parkman had conversations with representatives of Fleet and Bank of America to confirm those parties willingness to proceed with financing the transaction, and the special committee obtained Mr. Allen s agreement to guarantee the Bank of America facility.

Throughout this period the special committee kept the members of the Board of Directors other than Mr. Flores apprised of the process. On February 18, 2004, the special committee and the full Board of Directors (other than Mr. Flores) convened a meeting to consider the proposed merger with Vulcan Energy. The special committee reviewed with the board its process for considering the Vulcan Energy proposal and its efforts to market Plains Resources to third parties. Representatives of Petrie Parkman presented the analysis of the Leucadia proposal reviewed with the special committee on February 13, 2004 and the directors discussed the special committee s reasons for determining not to pursue such a proposal. Representatives of Petrie Parkman presented its reference value analysis of Plains Resources, the substance of which is described below in Opinion of Financial Advisor to the Special Committee. Following discussion with the special committee and the other members of the board present at the meeting, the special committee requested and Petrie Parkman rendered its oral opinion, subsequently confirmed in writing on February 18, 2004, that as of such date and based on and subject to the matters set forth in the opinion, the consideration to be received by Plains Resources stockholders in the merger was fair from a financial point of view to such stockholders (other than the Management Stockholders). After receiving the Petrie Parkman oral opinion and after further deliberation, the special committee unanimously determined that the merger agreement and the terms of the merger are fair to and in the best interests of Plains Resources and its stockholders (other than the Management Stockholders), and unanimously recommended that the Board of Directors approve and adopt the execution and delivery of the merger agreement and the consummation of the merger, and further recommended that the stockholders of Plains Resources approve and adopt the merger agreement and the merger, and directed that the merger agreement be submitted to the stockholders of Plains Resources. Thereafter, the Board of Directors unanimously (with Mr. Flores not in attendance) determined that the merger agreement and the terms of the merger are fair to and in the best interests of Plains Resources and its stockholders (other than the Management Stockholders), and unanimously approved the execution and delivery of the merger agreement and the consummation of the merger, and further recommended that the stockholders of Plains Resources approve and adopt the merger agreement and the merger, and directed that the merger agreement be submitted to our stockholders.

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On February 23, 2004, the Leucadia group filed a Schedule 13D with the Securities and Exchange Commission announcing that it had acquired more than 5% of the outstanding shares of Plains Resources common stock and describing the proposal that it made to the special committee on February 12th.

On February 24, 2004, Plains Resources issued a press release announcing that the special committee was aware of Leucadia s proposal prior to entering into the merger agreement with Vulcan Energy and that the special committee, following review with its financial and legal advisors and consideration of the terms and its view of the highly conditional nature of Leucadia s proposal, had determined that the all-cash premium transaction provided for under the merger agreement with Vulcan Energy was more beneficial to Plains Resources stockholders than the potential transaction outlined in Leucadia s proposal.

On March 5, 2004, Leucadia submitted a revised proposal to the special committee to acquire Plains Resources in a merger that Leucadia asserted had a value of approximately $18.19 per share. As set forth in the March 5th Leucadia proposal, Plains Resources stockholders would receive $1.19 in cash plus 0.5019 of a newly issued Plains Resources note in exchange for each share of Plains Resources common stock. In the transaction, Plains Resources would issue an aggregate of 12.4 million notes, one note for each limited partner unit of PAA ( PAA MLP unit ) owned by Plains Resources. The March 5th Leucadia proposal contemplated that thirty to sixty days after closing, Leucadia would use commercially reasonable efforts to commence a tender offer to repurchase up to 3.125 million notes at a purchase price of $32.00 per note. The newly issued Plains Resources notes would have a quarterly interest payment in an amount equal to the quarterly distribution per MLP unit paid by PAA plus an additional distribution of $0.03 per quarter, subject to a minimum annual interest payment of $1.00 per note. The face amount of the notes would be the greater of (1) $34.00 or (2) the fair market value of one PAA MLP unit on the day prior to closing of the merger plus $0.25 per note. The notes would mature 20 years after the issue date, and at maturity, Plains Resources would be obligated to pay the holders of each outstanding note the greater of (1) the face amount of the note or (2) the market price of one PAA MLP unit in consideration consisting of, at Leucadia s option, (a) cash, (b) PAA MLP units at the then-current market price of the PAA MLP units, or (c) any combination of cash or PAA MLP units. Each note would be secured by one PAA MLP unit. As required by the merger agreement, Baker Botts notified Vulcan Energy that the special committee had received the revised Leucadia proposal and provided Vulcan Energy with a copy of the proposal.

On March 6, 2004, the special committee held a telephonic meeting to discuss the March 5th Leucadia proposal. Representatives of Baker Botts discussed with the special committee its fiduciary duties under Delaware law and the requirements of the merger agreement with respect to responding to the revised Leucadia proposal.

On March 8, 2004, the special committee held a telephonic meeting to discuss the public conference call held by Leucadia earlier that day, in which Leucadia responded to questions from Plains Resources stockholders concerning its March 5th proposal. A representative from Baker Botts also provided a preliminary overview of some of the potential tax issues associated with the revised proposal. He said the receipt of the new securities would trigger tax payable on the gain of each individual stockholder, and the amount of cash to be received might not be sufficient to pay the entire amount of the taxes. He also discussed the possible characterization of the new securities as equity rather than debt. If the new securities were characterized as equity, Plains Resources would not be able to deduct the interest payable on the new securities, and Leucadia would not be able to include Plains Resources in its consolidated tax return, preventing Leucadia from using its accumulated and future net operating losses to shield taxable income from Plains Resources, including income that would be realized upon disposition of the PAA units (if Leucadia otherwise intended to use its net operating losses in this manner). Further, he indicated that the loss of the interest deduction might impair Plains Resources ability to pay distributions on the new securities. He mentioned that the uncertain nature of the ultimate principal payment would require the application of original issue discount rules, which could result in the holders recognizing taxable income in excess of the amount of the cash interest actually received on the new securities.

On the morning of March 9, 2004, the Leucadia group filed an amendment to its Schedule 13D with the Securities and Exchange Commission describing its March 5th proposal.

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Later that day, at Vulcan Energy s request, representatives of Baker Botts and Petrie Parkman met with Mr. Capobianco, Mr. Raymond and other representatives of Vulcan Energy and its counsel. The purpose of the meeting was for Vulcan Energy to present its views regarding the March 5th Leucadia proposal. The representatives of Vulcan Energy stated that the revised Leucadia proposal had a number of meaningful tax and valuation issues, which made it significantly less attractive than Vulcan s all-cash offer. In Vulcan Energy s view, the notes offered in the revised Leucadia proposal would not trade at the same or a higher price than the PAA MLP units. In that regard, Vulcan Energy noted that the after-tax cash distributions on such notes would likely be less than the after-tax distributions on the PAA MLP units because, unlike the distributions on the PAA MLP units (where the amount of the distribution is likely to exceed the taxable income associated with the distribution), the distributions on the notes would be fully taxable interest income. Further, Vulcan Energy asserted that the notes would have less trading liquidity than the closest comparable security, the I-shares issued by Kinder Morgan and Enbridge Energy, due to the smaller size of the overall issue. Vulcan Energy asserted the valuation would also be impacted by selling pressure on the notes resulting from tax paying stockholders exiting the security, and the universe of potential holders being significantly smaller than that of the I-shares because the notes would likely only be held by tax-exempt institutions. Vulcan Energy also noted that the Kinder Morgan I-shares and the Enbridge Energy I-shares have traded at consistent discounts to the underlying MLP units over the last year.

Vulcan Energy also raised a number of issues which it asserted affected the credit quality and trading value of the notes, including that:

- the recapitalized Plains Resources would lack the collateral to back the obligations under the notes;
- the cash flows from Plains Resources Florida oil and gas properties are volatile and may not be sufficient to cover the distribution enhancement to the PAA MLP units contemplated by the March 5th Leucadia proposal;
- Leucadia may not be aware of income taxes payable by Plains Resources that may not be offset by Leucadia s net operating losses;
- the cash impact of Canadian tax payments would affect the ability of Plains Resources to make the enhanced distributions on the notes;
- the revised Leucadia proposal included an optional deferral of interest payments for up to five years, which in Vulcan Energy s view, would negatively impact the trading value of the notes;
- Plains Resources capital structure after the completion of the transaction as contemplated in the revised Leucadia proposal would negatively impact the credit rating of PAA, which in turn would affect PAA s ability to access capital to continue its growth strategy; and
- the high debt levels contemplated for Plains Resources would negatively impact PAA s credit rating.

The representatives of Vulcan Energy also discussed the potential tax issues inherent in the revised Leucadia proposal. First, because the receipt of notes in the proposed transaction would be a taxable event, a stockholder of Plains Resources may have a current tax liability that would be greater than the $1.19 cash consideration payable as contemplated. Vulcan Energy noted that holders of the notes also would face a 40% tax on interest payments as opposed to the lower corporate dividend tax rate of 15% that applies to their current stockholders. Further, because of the contingent interest feature in the notes and the right of Plains Resources to defer interest payments, stockholders may have original issue discount income taxable at 40% in advance of receipt of related cash payments. Also, Leucadia s option to pay the principal amount of the notes with PAA MLP units would make the investment in the notes unattractive to taxable holders who are unwilling or unable to hold the PAA MLP units.

Vulcan Energy also noted that the Internal Revenue Service could characterize the notes as equity, which would result in the inability of Plains Resources to deduct interest payments on the notes and render Leucadia

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unable to consolidate Plains Resources in its group for tax purposes. Leucadia would then be unable to use its consolidated net operating losses to shelter gains attributable to the built-in gains in the PAA MLP units or ordinary income from distributions on PAA MLP units. As a result, Plains Resources ability to pay interest on the notes would be impaired, and the collateral backing the security would also be impaired. Vulcan Energy also indicated that the notes might be characterized as constructive receipt of PAA MLP units, which would result in immediate recognition by Plains Resources of a significant taxable gain on PAA MLP units which Leucadia s net operating losses would not be available to shelter even if Leucadia were able to consolidate Plains Resources in its tax group. Further, a significant number of Plains Resources holders would have adverse tax consequences as a result of holding PAA units directly. Vulcan Energy noted that if Leucadia s net operating losses were unavailable for use at Plains Resources, the tax liabilities associated with the built in gain on the PAA MLP units would strip out cash which would otherwise be used to repay the notes. In addition, Vulcan Energy noted the risk that the notes and PAA interest owned by Plains Resources will together be considered to constitute a straddle transaction entered into by Plains Resources. A straddle as defined in the Internal Revenue Code arises when a taxpayer diminishes its risk of loss from holding a position with respect to personal property by reason of holding one or more other positions with respect to the same or another kind of personal property. Proposed Treasury regulations, which purport to clarify the current status of the law, provide that if a person is the obligor of a debt instrument one or more payments on which are linked to the value of personal property, then the person s obligations under the debt instrument constitute a position with respect to such personal property and may be part of a straddle. Because the payments of interest on the proposed notes would be linked to the distributions on the PAA units and the repayment of principal at maturity could be based on the then value of PAA units, and because Plains Resources ownership of PAA units would hedge Plains Resources interest and principal payment under the notes, the notes would appear to fall within the above definition of a straddle. If straddle tax rules applied, Plains Resources would be forced to defer the deduction of any interest payments on the notes until the maturity of the notes. As a result, Plains Resources would have decreased cash available for debt service on the notes; and

On March 11, 2004, the members of the special committee met at Baker Botts offices to consider the revised Leucadia proposal. Representatives of Petrie Parkman presented an analysis of Leucadia s revised proposal on a per share basis, assuming two cases. The first case assumed that the maximum number of securities were issued, which would result in total consideration to Plains Resources stockholders of $29.4 million in cash and 12.4 million notes, which was equivalent to $1.19 in cash and 0.5019 notes per Plains Resources share (based on 24.3 million Plains Resources shares outstanding). The second case assumed the ability of Leucadia to engage a stand- by underwriter so that the maximum amount of cash to be offered would be utilized, which would result in the repurchase at $32.00 of 3.125 million notes. This would have resulted in total consideration to Plains Resources stockholders of $129.4 million in cash and 9.3 million notes, or $5.24 in cash plus 0.3754 notes per Plains Resources share (based on 24.3 million Plains Resources shares outstanding). These two cases are summarized as follows:

| Form of Consideration | Total Consideration to Plains Resources Stockholders (Amounts in thousands) | Total Consideration Per Plains Resources Share ($SH/Units) |
|---|---|---|
| Maximum Securities Case | | |
| Cash | $ 29,400 | $ 1.19 |
| Notes | 12,400 | 0.5019 |
| Maximum Cash Case | | |
| Cash | $ 129,400 | $ 5.24 |
| Notes | 9,300 | 0.3754 |

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Representatives of Petrie Parkman reviewed the total consideration per Plains Resources share implied by the March 5th Leucadia proposal over a range of illustrative trading values for the notes as follows:

**Maximum Securities Case**

| Illustrative Trading Price of Notes | Notes Consideration Per PLX Share | Notes Consideration Per PLX Share ($/SH) | Cash Consideration Per PLX Share ($/SH) | Total Consideration Per PLX Share ($/SH) |
|---|---|---|---|---|
| $27.00 | 0.5019 | $13.55 | $1.19 | $14.74 |
| $28.00 | 0.5019 | $14.05 | $1.19 | $15.24 |
| $29.00 | 0.5019 | $14.56 | $1.19 | $15.75 |
| $30.00 | 0.5019 | $15.06 | $1.19 | $16.25 |
| $31.00 | 0.5019 | $15.56 | $1.19 | $16.75 |
| $32.00 | 0.5019 | $16.06 | $1.19 | $17.25 |
| $33.00 | 0.5019 | $16.56 | $1.19 | $17.75 |
| $33.86 | 0.5019 | $16.99 | $1.19 | $18.18 |
| $34.00 | 0.5019 | $17.06 | $1.19 | $18.25 |

**Maximum Cash Case**

| Illustrative Trading Price of Notes | Notes Consideration Per PLX Share | Notes Consideration Per PLX Share ($/SH) | Cash Consideration Per PLX Share ($/SH) | Total Consideration Per PLX Share ($/SH) |
|---|---|---|---|---|
| $27.00 | 0.3754 | $10.14 | $5.24 | $15.37 |
| $28.00 | 0.3754 | $10.51 | $5.24 | $15.75 |
| $29.00 | 0.3754 | $10.89 | $5.24 | $16.12 |
| $30.00 | 0.3754 | $11.26 | $5.24 | $16.50 |
| $31.00 | 0.3754 | $11.64 | $5.24 | $16.88 |
| $32.00 | 0.3754 | $12.01 | $5.24 | $17.25 |
| $33.00 | 0.3754 | $12.39 | $5.24 | $17.63 |
| $33.86 | 0.3754 | $12.71 | $5.24 | $17.95 |
| $34.00 | 0.3754 | $12.76 | $5.24 | $18.00 |

Representatives of Petrie Parkman compared the features of the notes with several other types of securities, including Plains Resources common stock, bonds, PAA MLP units, I-shares and convertible debt.

A representative from Petrie Parkman also discussed Leucadia s revised proposal from a credit analysis perspective and, in so doing, presented a range of current yields on notes in all industries by Standard & Poor s rating category, illustrating the relationship of the rating to the yield of a note. He then provided an illustrative yield analysis showing a range of values for the total consideration per Plains Resources share based on different yields on the notes.

| **Maximum Securities Case** | |
|---|---|
| Assumed Annual Note Interest | $ 2.37 |

| Assumed Note Current Yield | 7.0% | 7.5% | 8.0% | 8.5% | 9.0% | 9.5% | 10.0% | 10.5% |
|---|---|---|---|---|---|---|---|---|
| Implied Market Value of Note | $ 33.86 | $ 31.60 | $ 29.63 | $ 27.88 | $ 26.33 | $ 24.95 | $ 23.70 | $ 22.57 |
| Notes per PLX share | 0.5019 | 0.5019 | 0.5019 | 0.5019 | 0.5019 | 0.5019 | 0.5019 | 0.5019 |
| Note Consideration | $ 16.99 | $ 15.86 | $ 14.87 | $ 13.99 | $ 13.22 | $ 12.52 | $ 11.90 | $ 11.33 |
| Cash Consideration | $ 1.19 | $ 1.19 | $ 1.19 | $ 1.19 | $ 1.19 | $ 1.19 | $ 1.19 | $ 1.19 |
| Implied Consideration per PLX Share | $ 18.18 | $ 17.05 | $ 16.06 | $ 15.18 | $ 14.41 | $ 13.71 | $ 13.09 | $ 12.52 |

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| Maximum Cash Case | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Assumed Annual Note Interest | $ 2.37 | | | | | | | |
| Assumed Note Current Yield | 7.0% | 7.5% | 8.0% | 8.5% | 9.0% | 9.5% | 10.0% | 10.5% |
| Implied Market Value of Note | $ 33.86 | $ 31.60 | $ 29.63 | $ 27.88 | $ 26.33 | $ 24.95 | $ 23.70 | $ 22.57 |
| Notes per PLX share | 0.3754 | 0.3754 | 0.3754 | 0.3754 | 0.3754 | 0.3754 | 0.3754 | 0.3754 |
| Note Consideration | $ 12.71 | $ 11.86 | $ 11.12 | $ 10.47 | $ 9.89 | $ 9.37 | $ 8.90 | $ 8.47 |
| Cash Consideration | $ 5.24 | $ 5.24 | $ 5.24 | $ 5.24 | $ 5.24 | $ 5.24 | $ 5.24 | $ 5.24 |
| Implied Consideration per PLX Share | $ 17.95 | $ 17.10 | $ 16.36 | $ 15.70 | $ 15.12 | $ 14.60 | $ 14.13 | $ 13.71 |

Representatives of Petrie Parkman completed a preliminary 20-year discounted cash flow analysis of Leucadia s revised proposal based on the net present value of potential future cash flows of the notes plus the cash consideration in the transaction. Using the preliminary discounted cash flow analysis, Petrie Parkman compared the illustrative value of the Leucadia revised proposal under a variety of different discount rates, various PAA LP unit distribution growth rates and PAA MLP unit yields. The analysis indicated that if the discount rate were 10% over the 20-year period, then PAA s distribution growth rate would have to be 4% or more in order for Leucadia s March 5th proposal to generate greater consideration than Vulcan Energy s offer of $16.75 per share.

Representatives of Petrie Parkman presented an updated analysis showing the historical trading relationships of two existing issues of I-shares versus the related underlying partnership units, which is summarized as follows:

| | I-Share Trading Price Discount to Underlying Partnership Unit | |
|---|---|---|
| | Kinder Morgan Management vs. | Enbridge Energy Management vs. |
| Trading Period Prior to March 11, 2004 | Kinder Morgan Energy Partners | Enbridge Energy Partners |
| 1 Week Prior | 5.9% | 4.3% |
| 1 Month Prior | 6.8% | 4.9% |
| 3 Months Prior | 9.7% | 3.9% |
| 6 Months Prior | 10.3% | 6.2% |
| 1 Year Prior | 9.6% | 7.3% |

Representatives of Petrie Parkman also summarized the illustrative trading price of the notes, assuming a $2.37 annual cash distribution on the notes, based on a discount to the PAA current yield.

| Implied Trading Price of Notes Based on Current PAA Unit Price (Yield) | Illustrative Discount | Illustrative Trading Price of Notes After Assumed Discount |
|---|---|---|
| $33.86 | 0.0% | $33.86 |
| $33.86 | 2.5% | $33.01 |
| $33.86 | 5.0% | $32.16 |
| $33.86 | 7.5% | $31.32 |
| $33.86 | 10.0% | $30.47 |
| $33.86 | 12.5% | $29.63 |

| | | |
|---|---|---|
| $33.86 | 15.0% | $28.78 |

Representatives of Petrie Parkman then discussed potential issues for the special committee to consider, which included:

- the overall complexity of Leucadia s revised proposal as compared to an all-cash transaction;
- the fact that the transaction would be fully taxable to Plains Resources stockholders and yet such stockholders would receive only $1.19 per share in cash at closing;
- the impact that the transaction might have on PAA s general partner, PAA s credit profile and the value of PAA MLP units;

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the potential credit rating of the notes;

the fact that there are no securities similar to the notes trading in the market;

the current interest rate environment and its impact on the value of the notes if interest rates rise; and

the impact on the market for the notes if PAA is sold or merged.

A representative of Baker Botts then outlined the principal tax issues raised by Leucadia s March 5th proposal, which included:

the fact that the notes are taxable immediately on the excess of (1) cash and the fair market value of the notes, over (2) a stockholder s basis in his shares of Plains Resources stock. As a result, cash received from Leucadia may be insufficient to cover the tax cost from the transaction;

the fact that the notes will have original issue discount because of the contingent payments, especially the premium at maturity based on PAA unit price. The original issue discount on similar convertible notes is often significant. It would be in Leucadia s interest to maximize original issue discount, which is deductible to Plains Resources but taxable to holders. The original issue discount would be included in income irrespective of any cash interest payments received by holders of the notes. This would include periods in which interest could be deferred under the terms of the notes;

the possibility that the notes would be characterized as equity. If the notes were deemed equity, the notes could potentially be received tax-free as part of a recapitalization and interest would be treated as dividends, currently taxable at 15% rather than ordinary income rates. Further, the redemption premium would qualify for capital gains. However, if the notes were deemed equity, Plains Resources would not be able to deduct interest payments on the notes and would not be eligible to join the Leucadia consolidated group, which would eliminate the ability of Plains Resources to benefit from the Leucadia group s net operating losses. Therefore, Plains Resources would have decreased cash available for debt service. However, the Baker Botts representative advised that the notes would more likely than not be characterized as debt rather than equity, but the issue was not free from doubt;