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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2003

OR

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

Commission file number: 1-14569

PLAINS ALL AMERICAN PIPELINE, L.P.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**76-0582150** (I.R.S. Employer Identification No.)

333 Clay Street, Suite 1600
Houston, Texas 77002
(Address of principal executive offices)
(Zip Code)

(713) 646-4100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

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

At November 1, 2003, there were outstanding 44,135,939 Common Units, 1,307,190 Class B Common Units and 10,029,619 Subordinated Units.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except unit data)

	September 30, 2003	December 31, 2002
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,418	$ 3,501
Trade accounts receivable, net	350,916	499,909
Inventory	162,202	81,849
Other current assets	47,692	17,676
Total current assets	564,228	602,935
PROPERTY AND EQUIPMENT	1,181,944	1,030,303
Accumulated depreciation	(109,873)	(77,550)
	1,072,071	952,753
OTHER ASSETS		
Pipeline linefill	109,481	62,558
Other, net	64,362	48,329
Total assets	$ 1,810,142	$ 1,666,575

LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 524,866	$ 488,922
Due to related parties	24,182	23,301
Short-term debt	35,141	99,249
Other current liabilities	45,342	25,777
Total current liabilities	629,531	637,249
LONG-TERM LIABILITIES		
Long-term debt under credit facilities, including current maturities of $8,000 and $9,000, respectively	254,100	310,126
Senior notes, net of unamortized discount of $360 and $390, respectively	199,640	199,610
Other long-term liabilities and deferred credits	21,483	7,980
Total liabilities	1,104,754	1,154,965
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
PARTNERS' CAPITAL		
Common unitholders (44,135,939 and 38,240,939 units outstanding at September 30, 2003, and December 31, 2002, respectively)	704,387	524,428
Class B common unitholder (1,307,190 units outstanding at each date)	19,171	18,463
Subordinated unitholders (10,029,619 units outstanding at each date)	(41,676)	(47,103)
General partner	23,506	15,822
Total partners' capital	705,388	511,610
	$ 1,810,142	$ 1,666,575

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

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(unaudited)			
REVENUES	$ 3,053,677	$ 2,344,089	$ 9,044,774	$ 5,874,759
COST OF SALES AND OPERATIONS (excluding depreciation and LTIP accrual)	3,001,627	2,299,823	8,879,867	5,750,398
LTIP Accrual—operations (Note 7)	1,390	—	1,390	—
Gross margin (excluding depreciation)	50,660	44,266	163,517	124,361
EXPENSES				
General and administrative (excluding LTIP accrual)	12,198	11,512	37,431	33,389
LTIP Accrual—general and administrative (Note 7)	6,006	—	6,006	—
Depreciation and amortization-operations	10,510	7,730	29,491	19,713
Depreciation and amortization-general and administrative	1,478	1,251	4,673	3,412
Total expenses	30,192	20,493	77,601	56,514
OPERATING INCOME	20,468	23,773	85,916	67,847
OTHER INCOME/(EXPENSE)				
Interest expense (net of $165 and $182, respectively, capitalized for the three month periods and $461 and $640, respectively, capitalized for the nine month periods)	(8,794)	(7,368)	(26,480)	(20,175)
Interest income and other, net	197	(88)	184	(123)
NET INCOME	$ 11,871	$ 16,317	$ 59,620	$ 47,549
NET INCOME-LIMITED PARTNERS	$ 10,392	$ 15,159	$ 54,958	$ 44,515

NET INCOME-GENERAL PARTNER	$ 1,479	$ 1,158	$ 4,662	$ 3,034
BASIC NET INCOME PER LIMITED PARTNER UNIT	$ 0.20	$ 0.33	$ 1.06	$ 1.01
DILUTED NET INCOME PER LIMITED PARTNER UNIT	$ 0.19	$ 0.33	$ 1.05	$ 1.01
BASIC WEIGHTED AVERAGE UNITS OUTSTANDING	52,788	46,027	51,735	44,188
DILUTED WEIGHTED AVERAGE UNITS OUTSTANDING	53,435	46,027	52,407	44,188

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

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30,	
	2003	**2002**
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 59,620	$ 47,549
Adjustments to reconcile to cash flows from operating activities:		
Depreciation and amortization	34,164	23,125
Change in derivative fair value	1,731	2,130
Non-cash portion of LTIP accrual (Note 7)	3,700	—
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable and other	131,758	(129,930)
Inventory	(84,690)	104,664
Pipeline linefill	(40,449)	—
Accounts payable and other current liabilities	84,717	67,954
Settlement of environmental indemnities	4,600	—
Due to related parties	500	11,895
Net cash provided by operating activities	195,651	127,387
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid in connection with acquisitions (Note 2)	(99,897)	(323,786)
Additions to property and equipment	(52,180)	(27,445)
Proceeds from sales of assets	7,076	1,390
Other investing activities	232	—
Net cash used in investing activities	(144,769)	(349,841)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments on long-term revolving credit facility	(13,122)	(42,313)
Net borrowings (repayments) on short-term letter of credit and hedged inventory facility	(67,315)	752
Principal payments on senior secured term loan	(43,000)	(3,000)
Cash paid in connection with financing arrangements	(87)	(5,396)
Net proceeds from the issuance of common units (Note 6)	161,905	145,346
Proceeds from the issuance of senior unsecured notes	—	199,600
Distributions paid to unitholders and general partner	(89,346)	(71,642)
Net cash provided by (used in) financing activities	(50,965)	223,347
Effect of translation adjustment on cash	—	(98)
Net increase (decrease) in cash and cash equivalents	(83)	795
Cash and cash equivalents, beginning of period	3,501	3,511
Cash and cash equivalents, end of period	$ 3,418	$ 4,306

Cash paid for interest, net of amounts capitalized	$ 24,286	$ 23,476

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

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

(in thousands)

	Common Unitholders		Class B Common Unitholder		Subordinated Unitholders		General Partner Amount	Total Partners' Capital Amount
	Units	Amounts	Units	Amounts	Units	Amounts		
				(unaudited)				
Balance at December 31, 2002	38,241	$ 524,428	1,307	$ 18,463	10,030	$ (47,103)	$ 15,822	$ 511,610
Issuance of common units	5,895	158,516	—	—	—	—	3,389	161,905
Distributions	—	(65,527)	—	(2,141)	—	(16,423)	(5,255)	(89,346)
Other comprehensive income	—	44,168	—	1,446	—	11,097	4,888	61,599
Net income	—	42,802	—	1,403	—	10,753	4,662	59,620
Balance at September 30, 2003	44,136	$ 704,387	1,307	$ 19,171	10,030	$ (41,676)	$ 23,506	$ 705,388

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

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME
(in thousands)

Statements of Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
		(unaudited)		
Net income	$ 11,871	$ 16,317	$ 59,620	$ 47,549
Other comprehensive income (loss)	25,286	(16,723)	61,599	(5,775)
Comprehensive income (loss)	$ 37,157	$ (406)	$ 121,219	$ 41,774

Statement of Changes in Accumulated Other Comprehensive Income

	Net Deferred Gain (Loss) on Derivative Instruments	Currency Translation Adjustments	Total
		(unaudited)	
Balance at December 31, 2002	$ (8,207)	$ (6,219)	$ (14,426)
Current period activity			
Reclassification adjustments for settled contracts	(6,570)	—	(6,570)

Changes in fair value of outstanding hedge positions	32,784	—	32,784
Currency translation adjustment	—	35,385	35,385
Total period activity	26,214	35,385	61,599
Balance at September 30, 2003	$ 18,007	$ 29,166	$ 47,173

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

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1—Organization and Accounting Policies

Plains All American Pipeline, L.P., is a publicly traded Delaware limited partnership (the "Partnership") formed in 1998, and is engaged in interstate and intrastate marketing, transportation and terminalling of crude oil and liquified petroleum gas ("LPG"). Our operations are conducted directly and indirectly through Plains Marketing, L.P., All American Pipeline, L.P. and Plains Marketing Canada, L.P., and are concentrated in Texas, Oklahoma, California, Louisiana and the Canadian provinces of Alberta and Saskatchewan.

The accompanying consolidated financial statements and related notes present (i) our consolidated financial position as of September 30, 2003, and December 31, 2002, (ii) the results of our consolidated operations for the three months and nine months ended September 30, 2003 and 2002, (iii) our consolidated cash flows for the nine months ended September 30, 2003 and 2002, (iv) our consolidated changes in partners' capital for the nine months ended September 30, 2003, (v) our consolidated comprehensive income for the three months and nine months ended September 30, 2003 and 2002, and (vi) our changes in consolidated accumulated other comprehensive income for the nine months ended September 30, 2003. The financial statements have been prepared in accordance with the instructions for interim reporting as prescribed by the Securities and Exchange Commission. All adjustments (consisting only of normal recurring adjustments) that in the opinion of management were necessary for a fair statement of the results for the interim periods, have been reflected. All significant intercompany transactions have been eliminated. Certain reclassifications are made to prior period amounts to conform to current period presentation. The results of operations for the three months and nine months ended September 30, 2003 should not be taken as indicative of the results to be expected for the full year. The consolidated interim financial statements should be read in conjunction with our consolidated financial statements and notes thereto presented in our 2002 Annual Report on Form 10-K.

Note 2—Acquisitions and Dispositions

The following acquisitions made in 2003, and accounted for under Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations", did not have a material effect on either our financial position, results of operations or cash flows, either individually or in the aggregate. Thus, no pro forma financial information or additional disclosures otherwise required under SFAS 141 are included herein. The cash portion of these acquisitions was funded from cash on hand and borrowings under our revolving credit facility.

ArkLaTex Pipeline System

In September 2003, we made a deposit (approximately $17.0 million) to acquire the ArkLaTex Pipeline System from Link Energy (formerly EOTT Energy). The ArkLaTex Pipeline System consists of 240 miles of active crude oil gathering and mainline pipelines and connects to our Red River Pipeline System near Sabine, Texas. Also included in the transaction were 470,000 barrels of active crude oil storage capacity, the assignment of certain of Link Energy's crude oil supply contracts and crude oil linefill and working inventory comprised of approximately 108,000 barrels. The total purchase price of approximately $21.3 million is comprised of a) $14.0 million of cash paid to Link Energy for the pipeline system, b) $2.9 million of cash paid to Link Energy to purchase crude oil linefill and working inventory, c) $3.6 million for transaction costs and estimated near-term capital costs and d) $0.8 million associated with the satisfaction of outstanding claims for accounts receivable and inventory balances.

The near-term capital costs are associated with modifications required to enhance the capacity and validate and improve the integrity of the pipeline (which are expected to extend the life and improve the usefulness of the pipeline system) and enable us to operate it in conformity with our policies and specifications and are expected to be incurred within the next year. A portion of the purchase price has been allocated to the crude oil supply contracts; however, we are in the process of evaluating certain estimates made in the purchase price allocation. Thus, the allocation is subject to refinements. The acquisition closed and was effective on October 1, 2003, and will be included in our Pipeline Operations and our Gathering, Marketing, Terminalling and Storage segments, as appropriate.

Other Acquisitions

During the first half of 2003, we made six acquisitions from various entities for an aggregate purchase price of $85.7 million. These acquisitions included mainline crude oil pipelines, crude oil gathering lines, terminal and storage facilities, and an underground LPG storage facility. With the exception of $3.0 million

that was allocated to investment in affiliates and $0.5 million that was allocated to goodwill and other intangible assets, the remaining aggregate purchase price was allocated to property and equipment.

Shutdown of Rancho Pipeline System

We acquired the Rancho Pipeline System in conjunction with the acquisition of several other West Texas assets from Shell Pipeline Company, LP and Equilon Enterprises, LLC in August of 2002. The Rancho Pipeline System Agreement dated November 1, 1951, pursuant to which the system was constructed and operated, terminated in March 2003. Upon termination, the agreement required the owners to take the pipeline system, in which we owned an approximate 50% interest, out of service. Accordingly, we notified our shippers and did not accept nominations for movements after February 28, 2003. This shutdown was contemplated at the time of the acquisition and was accounted for under purchase accounting in accordance with SFAS No. 141 "Business Combinations." The pipeline was shut down on March 1, 2003 and a purge of the crude oil linefill was completed in April 2003. In June 2003, we completed transactions whereby we transferred all of our ownership interest in approximately 240 miles of the total 458 miles of the pipeline in exchange for $4 million and approximately 500,000 barrels of crude oil tankage in West Texas. We are currently in discussions for the remainder of the pipe to be salvaged or sold. No gain or loss has been recorded on the shutdown of the Rancho System or these transactions.

Note 3—Trade Accounts Receivable

Trade accounts receivable included in the consolidated balance sheets are reflected net of our allowance for doubtful accounts. We routinely review our receivable balances to identify past due amounts and analyze the reasons such amounts have not been collected. In many instances, such delays involve billing delays and discrepancies or disputes as to the appropriate price, volumes or quality of crude oil delivered or exchanged. We also attempt to monitor changes in the creditworthiness of our customers as a result of developments related to each customer, the industry as a whole and the general economy.

At September 30, 2003 approximately 99% of our net trade accounts receivable classified as current were less than 60 days past the scheduled invoice date. Our allowance for doubtful accounts receivable classified as current totaled $3.2 million, representing 41% of trade receivable balances

greater than 60 days past the scheduled invoice date. At September 30, 2003, our allowance for doubtful accounts receivable classified as long-term totaled $5.0 million, representing 100% of all long-term receivable balances.

Note 4—Debt

At September 30, 2003 our total debt balance was approximately $488.9 million (including approximately $35.2 million of short-term debt) with a fair value of approximately $509.2 million. The carrying amounts of the variable rate instruments in our credit facilities approximate fair value primarily because the interest rates fluctuate with prevailing market rates, while the interest rate on the 7.75% senior notes is fixed and the fair value is based on quoted market prices. Total availability under our long-term revolving credit facilities was approximately $441.9 million (net of $8.0 million to refinance term loan maturities due in the next twelve months). This reflects the use of proceeds from the September 2003 sale of common units (see Note 6) to reduce net borrowings under our revolving credit facilities at September 30, 2003, to approximately $0.1 million and the prepayment of approximately $34 million on our Senior secured term B loan. The payment on the Senior secured term B loan was made in anticipation of our potential refinancing.

At September 30, 2003, we have classified $8.0 million of term loan maturities due in the next twelve months as long-term due to our intent and ability to refinance those maturities using the revolving credit facilities. The following table reflects the aggregate maturities of our long-term debt for the next five years (in millions):

Calendar Year	Payment
2004	$ 8.0
2005	8.1
2006	76.0
2007	162.0
2008	—
Thereafter	200.0
Total(1)	$ 454.1

(1) Includes unamortized discount on 7.75% senior notes of approximately $0.4 million.

Note 5—Earnings Per Common Unit

The following table sets forth the computation of basic and diluted earnings per limited partner unit (in thousands, except for per unit amounts). The net income available to limited partners and the

weighted average limited partner units outstanding have been adjusted for the impact of the contingent equity issuance related to the CANPET acquisition (see Note 9).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Numerator:				
Numerator for basic earnings per limited partner unit:				
Net income available for common unitholders	$ 10,392	$ 15,159	$ 54,958	$ 44,515
Effect of dilutive securities:				
Increase in general partner's incentive distribution—Contingent equity issuance	(16)	—	(46)	—
Numerator for diluted earnings per limited partner unit	$ 10,376	$ 15,159	$ 54,912	$ 44,515
Denominator:				
Denominator for basic earnings per limited partner unit:				
Weighted average number of limited partner units	52,788	46,027	51,735	44,188
Effect of dilutive securities:				
Contingent equity issuance	647	—	672	—
Denominator for diluted earnings per limited partner unit:				
Weighted average number of limited partner units	53,435	46,027	52,407	44,188
Basic net income per limited partner unit	$ 0.20	$ 0.33	$ 1.06	$ 1.01
Diluted net income per limited partner unit	$ 0.19	$ 0.33	$ 1.05	$ 1.01

Note 6—Partners' Capital and Distributions

Distributions

On October 23, 2003, we declared a cash distribution of $0.55 per unit on our outstanding common units, Class B common units and subordinated units. The distribution is payable on November 14, 2003, to unitholders of record on November 4, 2003, for the period July 1, 2003, through September 30, 2003. The total distribution to be paid is approximately $32.5 million, with approximately $25.0 million to be paid to our common unitholders, $5.5 million to be paid to our subordinated unitholders and $0.6 million and $1.4 million to be paid to our general partner for its general partner and incentive distribution interests, respectively. The distribution is in excess of the minimum quarterly distribution specified in the partnership agreement.

During the previous months of 2003, we declared three separate cash distributions on our outstanding common units, Class B common units and subordinated units. The total distributions paid were approximately $89.3 million, with approximately $67.6 million paid to our common unitholders, $16.4 million paid to our subordinated unitholders and $1.8 million and $3.5 million paid to our general partner for its general partner and incentive distribution interests, respectively. The

distributions each were in excess of the minimum quarterly distribution specified in the partnership agreement.

Equity Offerings

In September 2003, we completed a public offering of 3,250,000 common units for $30.91 per unit. The offering resulted in gross proceeds of approximately $100.5 million from the sale of the units and approximately $2.1 million from our general partner's proportionate capital contribution. Total costs associated with the offering, including underwriter fees and other expenses, were approximately $4.5 million. Net proceeds of approximately $98.0 million were used to reduce outstanding borrowings under the domestic revolving credit facility and reduce the principal balance on our Senior secured term B loan.

In March 2003, we completed a public offering of 2,645,000 common units for $24.80 per unit. The offering resulted in gross proceeds of approximately $65.6 million from the sale of the units and approximately $1.3 million from our general partner's proportionate capital contribution. Total costs associated with the offering, including underwriter fees and other expenses, were approximately $3.0 million. Net proceeds of approximately $63.9 million were used to reduce outstanding borrowings under the domestic revolving credit facility.

Subordinated Unit Conversion

The subordination period (as defined in the partnership agreement) for the 10,029,619 outstanding subordinated units will end if certain financial tests are met for three consecutive, non-overlapping four-quarter periods (the "testing period"). During the first quarter after the end of the subordination period, all of the subordinated units will convert into common units, and will participate pro rata with all other common units in future distributions. Early conversion of a portion of the subordinated units may occur if the testing period is satisfied before December 31, 2003. We are now in the testing period and, in connection with the payment of the quarterly distribution in November 2003, 25% of the subordinated units will convert to common units. If we continue to meet the testing period requirements, the remaining subordinated units will convert in the first quarter of 2004.

Note 7—Vesting of Unit Grants Under Long-Term Incentive Plan

As of September 30, 2003, there were grants covering approximately one million restricted units outstanding under our Long-Term Incentive Plan ("LTIP"). Restricted unit grants become eligible to vest in the same proportion as the conversion of our outstanding subordinated units into common units, subject to any additional vesting requirements.

As discussed in Note 6, 25% of the outstanding subordinated units will convert into common units in connection with the payment of the quarterly distribution in November 2003. In conjunction with this conversion, approximately 35,000 restricted units will vest, and a 90-day period will commence for approximately 220,000 additional restricted units that will not have any remaining vesting requirements except that the holder must continue employment with the Partnership for the remainder of the 90-day period.

Probable Vesting

Under generally accepted accounting principles, we are required to recognize an expense when it is considered probable that the financial tests for conversion of subordinated units and required distribution levels will be met and that the restricted unit grants will vest. At September 30, 2003 we concluded that the vesting of approximately 255,000 restricted units was probable and thus accrued approximately $7.4 million of compensation expense based upon an estimated market price of $30.05 per unit (the unit price as of September 30, 2003), our share of employment taxes and other related costs. Under the LTIP, we may satisfy our obligations using a combination of cash, the issuance of new units and delivery of units purchased in the open market. We anticipate that in November 2003, to satisfy the vesting of those restricted units that vest substantially contemporaneously with the conversion of subordinated units, we will issue approximately 18,000 common units after netting for taxes and paying cash in lieu of a portion of the vested units. For those restricted units that require passage of time to vest, the 90-day period will expire and final vesting will occur in February 2004. We estimate we will issue approximately 100,000 common units in the first quarter of 2004 in connection with this probable vesting.

Potential Vesting

At the current distribution level of $2.20 per unit, assuming that the additional subordination conversion tests are met as of December 31, 2003, approximately 580,000 additional units will vest in connection with the payment of the quarterly distribution in February 2004. If at December 31, 2003 it is considered probable that this distribution level and tests will be met, the costs associated with the vesting of these additional units will be estimated and accrued in the fourth quarter of 2003. At a distribution level of $2.30 to $2.49, the number of additional units that would vest would increase by approximately 87,000. At a distribution level at or above $2.50, the number of additional units that would vest would increase by approximately 87,000. In all cases, vesting is subject to any applicable continuing employment requirements.

Subject to providing those holding less than a certain number of restricted units the option to receive cash, we are currently planning to issue units to satisfy the majority of restricted unit obligations that vest in connection with the conversion of subordinated units. If all conditions to vesting are met, we currently project the issuance of units (approximately 100,000 common units in connection with the probable vesting and approximately 239,000 common units in connection with the potential vesting) in the first half of 2004 to satisfy such obligations. Obligations satisfied by the issuance of units will result in a non-cash compensation expense. Purchase of units would result in a cash charge to compensation expense. In addition, the "company match" portion of payroll taxes, plus the value of any units withheld for taxes, will result in a cash charge. The aggregate amount of the potential charge to expense will be determined by the unit price on the date vesting occurs multiplied by the number of units, plus our share of associated employment taxes. The amount of the potential charge is subject to various factors, including the unit price on the date vesting occurs, and thus is not known at this time. As mentioned above, we have accrued approximately $7.4 million as of September 30, 2003 in connection with the probable vesting. At the current distribution level and based on an assumed market price of $30.05 per unit (the unit price as of September 30, 2003), the aggregate additional charge that would be triggered by the potential vesting (that is, if we determine it is probable that the additional units will vest) would be approximately $21 million, of which approximately $17 million would be accrued as of December 31, 2003 (although payment and issuance of units would not occur until the first and second quarters of 2004).

Note 8—Derivative Instruments and Hedging Activities

We utilize various derivative instruments to (i) manage our exposure to commodity price risk, (ii) engage in a controlled trading program, (iii) manage our exposure to interest rate risk and (iv) manage our exposure to currency exchange rate risk.

Our risk management policies and procedures are designed to monitor interest rates, currency exchange rates, NYMEX and over-the-counter positions, and physical volumes, grades, locations and delivery schedules to ensure that our hedging activities address our market risks. We formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking the hedge. We calculate hedge effectiveness on a quarterly basis. This process includes specific identification of the hedging instrument and the hedged transaction, the nature of the risk being hedged and how the hedging instrument's effectiveness will be assessed. Both at the inception of the hedge and on an ongoing basis, we assess whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Summary of Financial Impact

The following is a summary of the financial impact of the derivative instruments and hedging activities discussed below. The September 30, 2003, balance sheet includes assets of $40.8 million ($37.5 million current), liabilities of $23.5 million ($6.9 million current) and related unrealized net gains deferred to Other Comprehensive Income ("OCI") of $18.0 million. Our hedge-related assets and liabilities are included in other current and non-current assets and liabilities in the consolidated balance sheet. In addition, revenues for the nine months ended September 30, 2003, included a noncash loss of $1.7 million ($0.7 million noncash loss before the reversal of the prior period fair value adjustment related to contracts that settled during the current period) resulting from (i) derivatives

characterized as fair value hedges, (ii) derivatives that do not qualify for hedge accounting and (iii) the portion of cash flow hedges that is not highly effective in offsetting changes in cash flows of hedged items.

The total amount of deferred net gains or losses recorded in OCI are expected to be reclassified to future earnings, contemporaneously with the related physical purchase or delivery of the underlying commodity or payments of interest. During the nine months ended September 30, 2003 and 2002, no amounts were reclassified to earnings from OCI in connection with forecasted transactions that were no longer considered probable of occurring. Of the $18.0 million net gain deferred to OCI at September 30, 2003, a gain of $28.8 million will be reclassified to earnings in the next twelve months and the remaining loss by March 2014. Since these amounts are based on market prices at the current period end, actual amounts to be reclassified will differ and could vary materially as a result of changes in market conditions.

The following sections discuss our risk management activities in the indicated categories.

Commodity Price Risk Hedging

We hedge our exposure to price fluctuations with respect to crude oil and LPG in storage, and expected purchases, sales and transportation of these commodities. The derivative instruments utilized consist primarily of futures and option contracts traded on the New York Mercantile Exchange and over-the-counter transactions, including crude oil swap and option contracts entered into with financial institutions and other energy companies. In accordance with SFAS No. 133 "Accounting for Derivative

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Instruments and Hedging Activities," these derivative instruments are recognized in the balance sheet or earnings at their fair values. The majority of our commodity price risk derivative instruments qualify for hedge accounting as cash flow hedges. Therefore, the corresponding changes in fair value for the effective portion of the hedges are deferred into OCI and recognized in revenues or cost of sales and operations in the periods during which the underlying physical transactions occur. We have determined that our physical purchase and sale agreements qualify for the normal purchase and sale exclusion and thus are not subject to SFAS 133. At September 30, 2003, there was a gain of $28.8 million, deferred in OCI related to our commodity price risk activities. The amount included in earnings due to changes in the fair value of derivatives that do not qualify for hedge accounting and the portion of cash flow hedges that are not highly effective for the nine months ended September 30, 2003 and 2002, was a loss of $1.6 million and a loss of $2.1 million, respectively.

Controlled Trading Program

From time to time, we experience net unbalanced positions as a result of production and delivery variances associated with our lease purchase activities. In connection with managing these positions and maintaining a constant presence in the marketplace, both necessary for our core business, we engage in a controlled trading program for up to 500,000 barrels. These activities are monitored independently by our risk management function and must take place within predefined limits and authorizations. In accordance with SFAS 133, these derivative instruments are recorded in the balance sheet as assets or liabilities at their fair value, with the changes in fair value recorded net in revenues. There were no open positions under this program at September 30, 2003. The realized earnings impact related to these derivatives for the nine months ended September 30, 2003 and 2002 was a loss of $0.2 million and $0.3 million, respectively.

Interest Rate Risk Hedging

We utilize various products, such as interest rate swaps, collars and treasury locks, to hedge interest obligations on outstanding debt and anticipated debt issuances. During the first quarter of 2003, we converted a $50.0 million treasury lock into a 10-year LIBOR-based swap that becomes effective in March 2004, as discussed below, contemporaneously with the expiration of an existing $50.0 million LIBOR-based swap. The instruments outstanding at September 30, 2003, consist of three separate interest rate swaps with an aggregate notional principal amount of $100.0 million outstanding at any one time. The interest rate swaps are based on LIBOR rates and provide for a LIBOR rate of 5.1% for a $50.0 million notional principal amount expiring October 2006, a LIBOR rate of 4.3% for a $50.0 million notional principal amount expiring March 2004 and a LIBOR rate of 5.8% for a $50.0 million notional principal amount that commences in March 2004 and expires in March 2014. All of these instruments are placed with what we believe are large creditworthy financial institutions. Interest on the underlying debt is based on LIBOR plus a margin.

These instruments qualify for hedge accounting as cash flow hedges in accordance with SFAS 133. The effective portion of changes in fair values of these hedges is recorded in OCI until the related hedged item impacts earnings. At September 30, 2003, there was a loss of $10.6 million deferred in OCI related to our interest rate risk activities. For the nine months ended September 30, 2003 and 2002, there were no amounts recognized into earnings related to hedge ineffectiveness.

At September 30, 2003, our weighted average interest rate, excluding non-use and facilities fees, was approximately 5.9%. This rate is based on our average September 2003 debt balances, our credit

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spread under our credit facilities and the combination of our fixed rate debt floating rate indices and current interest rate hedges. We have locked-in interest rates (excluding the credit spread under the credit facilities) for approximately 66% of our total long-term debt through October 2006, and 55% for the period from October 2006 through September 2012.

Currency Exchange Rate Risk Hedging

Because a significant portion of our Canadian business is conducted in Canadian dollars (CAD), we use certain financial instruments to minimize the risks of unfavorable changes in exchange rates. These instruments include forward exchange contracts, forward extra option contracts and cross currency swaps.

At September 30, 2003, we had forward exchange contracts and forward extra option contracts that allow us to exchange $3.0 million Canadian for at least $1.9 million U.S. quarterly during 2003 (based on a Canadian-U.S. dollar exchange rate of 1.54). At September 30, 2003, we also had cross currency swap contracts for an aggregate notional principal amount of $23.0 million, effectively converting this amount of our senior secured term loan to $35.6 million of

Canadian dollar debt (based on a Canadian-U.S. dollar exchange rate of 1.55). The terms of this contract mirror the term loan, matching the amortization schedule and final maturity in May 2006. All of these instruments are placed with what we believe are large creditworthy financial institutions.

The forward exchange contracts and forward extra option contracts qualify for hedge accounting as cash flow hedges, in accordance with SFAS 133. Such derivative activity resulted in a loss of $0.2 million deferred in OCI at September 30, 2003. For the nine months ended September 30, 2003 and 2002, there were no amounts recognized into earnings related to hedge ineffectiveness. The cross currency swaps qualify for hedge accounting as fair value hedges, also in accordance with SFAS 133. Therefore, the change in the fair value of these instruments is recognized currently in earnings. The earnings impact related to our cross currency swaps was a loss of $0.1 million for the nine months ended September 30, 2003 and a nominal amount for the nine months ended September 30, 2002.

Note 9—Commitments and Contingencies

Litigation

We, in the ordinary course of business, are a claimant and/or a defendant in various legal proceedings. We do not believe that the outcome of these legal proceedings, individually or in the aggregate, will have a materially adverse effect on our financial condition, results of operations or cash flows.

Indemnities

In November, 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. We are party to various contracts entered into in the ordinary course of business that contain indemnity provisions pursuant to which we indemnify the counterparties against various expenses. Our indemnity

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obligations are contingent upon the occurrence of events or circumstances specified in the contracts. No such events or circumstances have occurred at this time, and we do not consider our liability under such indemnity provisions, individually or in the aggregate, to be material to our financial position or results of operations.

Environmental

We may experience future releases of crude oil into the environment from our pipeline and storage operations, or discover past releases that were previously unidentified. Although we maintain an inspection program designed to prevent and, as applicable, to detect and address such releases promptly, damages and liabilities incurred due to any such environmental releases from our assets may substantially affect our business. We believe that our reserve for environmental liabilities is adequate. However, no assurance can be given that any costs incurred in excess of this reserve would not have a material adverse effect on our financial condition, results of operations or cash flows.

Contingent Equity Issuance

In connection with the CANPET acquisition in July 2001, approximately $26.5 million Canadian dollars of the purchase price, payable in common units, was deferred subject to various performance objectives being met. If these objectives are met as of December 31, 2003, the deferred amount is payable on April 30, 2004. The number of common units issued in satisfaction of the deferred payment will depend upon the average trading price of our common units for a ten-day trading period prior to the payment date and the Canadian and U.S. dollar exchange rate on the payment date. In addition, an amount will be paid equivalent to the distributions that would have been paid on the common units had they been outstanding since the acquisition was consummated. At our option, the deferred payment may be paid in cash rather than the issuance of units. We believe that it is probable that the objectives will be met and the deferred amount will be paid in April 2004, however, it is not determinable beyond a reasonable doubt. Assuming the tests are met as of December 31, 2003, and the entire obligation is satisfied with common units, based on the foreign exchange rate and the ten-day average unit price in effect at September 30, 2003, (1.35 Canadian to U.S. dollar exchange rate and $30.36 per unit price) approximately 650,000 units would be issued.

Asset Retirement Obligation

In June 2001, the FASB issued SFAS No. 143 "Asset Retirement Obligations." SFAS 143 establishes accounting requirements for retirement obligations associated with tangible long-lived assets, including (1) the time of the liability recognition, (2) initial measurement of the liability, (3) allocation of asset retirement cost to expense, (4) subsequent measurement of the liability and (5) financial statement disclosures. SFAS 143 requires that the cost for asset retirement should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. Effective January 1, 2003, we adopted SFAS 143, as required. Determination of the amounts to be recognized upon adoption is based upon numerous estimates and assumptions, including future retirement costs, future inflation rates and the credit-adjusted risk-free interest rate. The majority of our assets, primarily related to our pipeline operations segment, have obligations to perform remediation and, in some instances, removal activities when the asset is retired. However, the fair value of the asset retirement obligations cannot be reasonably estimated, as the settlement dates are indeterminate. We will record such asset retirement obligations in the period in which we can reasonably determine the settlement dates. The adoption of this statement did not have a material

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impact on our financial position, results of operations or cash flows. See Note 2 for the accounting treatment of the shutdown of the Rancho Pipeline System.

Other

Since the terrorist attacks of September 11, 2001, the United States Government has issued numerous warnings that energy assets (including our nation's pipeline infrastructure) may be future targets of terrorist organizations. These developments expose our operations and assets to increased risks. We have instituted security measures and procedures in conformity with Department of Transportation ("DOT") guidance. We will institute, as appropriate, additional security measures or procedures indicated by the DOT or the Transportation Safety Administration (an agency of the Department of Homeland Security, which is

in the transitional phase of assuming responsibility from the DOT). We cannot assure you that these or any other security measures would protect our facilities from a concentrated attack. Any future terrorist attacks on our facilities, those of our customers and, in some cases, those of our competitors, could have a material adverse effect on our business, whether insured or not.

The occurrence of a significant event not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our operations and financial condition. We believe we are adequately insured for public liability and property damage to others with respect to our operations. We believe that our levels of coverage and retention are generally consistent with those of similarly situated companies in our industry. With respect to all of our coverage, no assurance can be given that we will be able to maintain adequate insurance in the future at rates we consider reasonable, or that we have established adequate reserves to the extent that such risks are not insured.

Note 10—Operating Segments

Our operations consist of two operating segments: (1) our Pipeline Operations through which we engage in interstate and intrastate crude oil pipeline transportation and certain related margin activities; and (2) our Gathering, Marketing, Terminalling and Storage Operations through which we engage in purchases and resales of crude oil and LPG at various points along the distribution chain and the operation of certain terminalling and storage assets. We evaluate segment performance based on (i) gross margin (excluding depreciation), (ii) gross profit (excluding depreciation), which is gross margin (excluding depreciation) less general and administrative expenses and (iii) on an annual basis, maintenance capital. Maintenance capital consists of expenditures required to maintain the existing operating capacity of partially or fully depreciated assets or extend their useful lives. Capital expenditures made to expand our existing capacity, whether through construction or acquisition, are not considered maintenance capital expenditures. Repair and maintenance expenditures associated with

existing assets that do not extend the useful life or expand the operating capacity are charged to expense as incurred.

	Pipeline	Gathering, Marketing, Terminalling & Storage	Total
		(in millions)	
Three Months Ended September 30, 2003			
Revenues:			
External Customers	$ 148.3	$ 2,905.3	$ 3,053.6
Intersegment[1]	16.1	0.2	16.3
Total revenues of reportable segments	164.4	2,905.5	3,069.9
Gross margin (excluding depreciation)	30.1	20.6	50.7
General and administrative expenses[2]	(7.2)	(11.0)	(18.2)
Gross profit (excluding depreciation)	$ 22.9	$ 9.6	$ 32.5
LTIP accrual[3]	$ (3.0)	$ (4.4)	$ (7.4)
Noncash SFAS 133 impact[4]	$ —	$ (2.9)	$ (2.9)
Maintenance capital	$ 1.0	$ 0.3	$ 1.3
Three Months Ended September 30, 2002			
Revenues:			
External Customers	$ 123.4	$ 2,220.7	$ 2,344.1
Intersegment[1]	7.0	—	7.0
Total revenues of reportable segments	130.4	2,220.7	2,351.1
Gross margin (excluding depreciation)	23.0	21.3	44.3
General and administrative expenses[2]	(3.3)	(8.2)	(11.5)
Gross profit (excluding depreciation)	$ 19.7	$ 13.1	$ 32.8
Noncash SFAS 133 impact[4]	$ —	$ (0.4)	$ (0.4)
Maintenance capital	$ 0.5	$ 0.7	$ 1.2

	Pipeline	Gathering, Marketing, Terminalling & Storage	Total
		(in millions)	
Nine Months Ended September 30, 2003			
Revenues:			
External Customers	$ 450.6	$ 8,594.1	$ 9,044.7
Intersegment[1]	38.5	0.7	39.2
Total revenues of reportable segments	489.1	8,594.8	9,083.9
Gross margin (excluding depreciation)	83.5	80.0	163.5
General and administrative expenses[2]	(16.3)	(27.1)	(43.4)
Gross profit (excluding depreciation)	$ 67.2	$ 52.9	$ 120.1
LTIP accrual[3]	$ (3.0)	$ (4.4)	$ (7.4)
Noncash SFAS 133 impact[4]	$ —	$ (1.7)	$ (1.7)
Maintenance capital	$ 4.8	$ 0.7	$ 5.5
Nine Months Ended September 30, 2002			
Revenues:			
External Customers	$ 320.2	$ 5,554.6	$ 5,874.8
Intersegment[1]	13.9	—	13.9
Total revenues of reportable segments	334.1	5,554.6	5,888.7
Gross margin (excluding depreciation)	60.3	64.1	124.4
General and administrative expenses[2]	(9.9)	(23.5)	(33.4)
Gross profit (excluding depreciation)	$ 50.4	$ 40.6	$ 91.0
Noncash SFAS 133 impact[4]	$ —	$ (2.1)	$ (2.1)
Maintenance capital	$ 2.7	$ 1.3	$ 4.0

(1) Intersegment sales are based on published tariff rates or contracted amounts at market prices.

(2) General and administrative expenses (G&A) reflect direct costs attributable to each segment and an allocation of other expenses to the segments based on the business activities that existed at that time. The proportional allocations by segment require judgement by management and will continue to be based on the business activities that exist during each period.

(3) Includes $0.4 million and $1.0 million related to the accrual for our LTIP included in gross margin for our Pipeline and our Gathering, Marketing, Terminalling and Storage segments, respectively. In addition, $2.6 million and $3.4 million related to the accrual for our LTIP are included in general & administrative expenses for our Pipeline and our Gathering, Marketing, Terminalling and Storage segments, respectively.

(4) Amounts related to SFAS 133 are included in revenues, gross margin (excluding depreciation) and gross profit (excluding depreciation). When we internally evaluate our results, we exclude the noncash, mark-to-market impact of SFAS 133.

Note 11—Recent Accounting Pronouncements

The following recently issued accounting standard has not yet been adopted. This standard will impact the preparation of our financial statements; however, we do not believe that this standard will materially impact our financial position, results of operations or cash flows.

In July 2003, the Emerging Issues Task Force ("EITF") reached consensus on certain issues in EITF Issue No. 03-11, "Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not "Held for Trading Purposes" As Defined in EITF Issue No. 02-3." The consensus provides guidance as to whether gains and losses on physically settled derivative contracts not "held for trading purposes" should be reported in the income statement on a gross or net basis. EITF 03-11 is effective for arrangements entered into after September 30, 2003.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Plains All American Pipeline, L.P., is a publicly traded Delaware limited partnership (the "Partnership"), formed in 1998 and is engaged in interstate and intrastate marketing, transportation and terminalling of crude oil and liquified petroleum gas ("LPG"). Our operations are conducted directly and indirectly through Plains Marketing, L.P., All American Pipeline, L.P. and Plains Marketing Canada, L.P., and are concentrated in Texas, Oklahoma, California, Louisiana and the Canadian provinces of Alberta and Saskatchewan.

During the first quarter of 2003, new Securities and Exchange Commission regulations regarding the use of non-GAAP financial measures became effective. As a result of our efforts to comply with these new regulations, we have made certain changes to the content and presentation of information in Management's Discussion and Analysis of Financial Condition and Results of Operations. Although not excluded here, when we internally evaluate our results for performance against expectations, public guidance and trend analysis, we exclude the noncash, mark-to-market impact of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" resulting from (i) derivatives characterized as fair value hedges, (ii) derivatives that do not qualify for hedge accounting and (iii) the portion of cash flow hedges that is not highly effective in offsetting changes in cash flows of hedged items. The majority of these instruments serve as economic hedges that offset future physical positions not reflected in current results. Therefore, the SFAS 133 adjustment to net income is not a complete depiction of the economic substance of the transaction, as it only represents the derivative side of these transactions and does not take into account the offsetting physical position. In addition, the impact will vary from quarter to quarter based on market prices at the end of the quarter, which are impossible for us to control or forecast.

Internally, we also consider in our analysis of operating results the impact of other items that we believe impact comparability between periods. To comply with the new regulations, we have omitted certain adjustments and reconciliations related to these items that have been presented in the past. We have also changed the format of certain tables presented in the discussion of our results of operations. In addition, certain reclassifications have been made to prior period amounts to conform to current period presentation. Where appropriate, we have noted that reported results include the effects of items we consider to impact comparability between periods. Overall, we believe the discussion and presentation provides an accurate and thorough analysis of our results of operations and financial condition. Additionally, we maintain on our website (www.paalp.com) a reconciliation of all non-GAAP financial information that we disclose to the most comparable GAAP measures. To access the information, investors should click on the "Non-GAAP Reconciliation" link on our home page.

Acquisitions

We completed several acquisitions during 2002 and 2003 that have impacted the results of operations and liquidity discussed herein. The cash portion of these acquisitions was funded from cash on hand and borrowings under our revolving credit facility. These acquisitions are discussed below and our ongoing acquisition activity is discussed further in "Liquidity and Capital Resources."

ArkLaTex Pipeline System

In September 2003, we made a deposit (approximately $17.0 million) to acquire the ArkLaTex Pipeline System from Link Energy (formerly EOTT Energy). The ArkLaTex Pipeline System consists of 240 miles of active crude oil gathering and mainline pipelines and connects to our Red River Pipeline System near Sabine, Texas. Also included in the transaction were 470,000 barrels of active crude oil storage capacity, the assignment of certain of Link Energy's crude oil supply contracts and

crude oil linefill and working inventory comprised of approximately 108,000 barrels. The total purchase price of approximately $21.3 million is comprised of a) $14.0 million of cash paid to Link Energy for the pipeline system, b) $2.9 million of cash paid to Link Energy to purchase crude oil linefill and working inventory, c) $3.6 million for transaction costs and estimated near-term capital costs and d) $0.8 million associated with the satisfaction of outstanding claims for accounts receivable and inventory balances. The near-term capital costs are associated with modifications required to enhance the capacity and validate and improve the integrity of the pipeline (which are expected to extend the life and improve the usefulness of the pipeline system) and enable us to operate it in conformity with our policies and specifications and are expected to be incurred within the next year. A portion of the purchase price has been allocated to the crude oil supply contracts; however, we are in the process of evaluating certain estimates made in the purchase price allocation. Thus, the allocation is subject to refinements. The acquisition closed and was effective on October 1, 2003, and will be included in our Pipeline Operations and our Gathering, Marketing, Terminalling and Storage segments, as appropriate.

Other Acquisitions

During the first half of 2003, we made six acquisitions from various entities for an aggregate purchase price of $85.7 million. These acquisitions included mainline crude oil pipelines, crude oil gathering lines, terminal and storage facilities, and an underground LPG storage facility. With the exception of $3.0 million that was allocated to investment in affiliates and $0.5 million that was allocated to goodwill and other intangible assets, the aggregate purchase price was allocated to property and equipment.

2002 Acquisitions

In August 2002, we acquired interests in approximately 2,000 miles of gathering and mainline crude oil pipelines and approximately 8.9 million barrels (net to our interest) of above-ground crude oil terminalling and storage assets in West Texas from Shell Pipeline Company LP and Equilon Enterprises LLC (the "Shell acquisition") for approximately $324 million. During the remainder of 2002, we made two acquisitions consisting of domestic gathering and marketing assets and an equity interest in a pipeline system for an aggregate purchase price of approximately $15.9 million.

Results of Operations

Our operations consist of two operating segments: (1) our Pipeline Operations, through which we engage in interstate and intrastate crude oil pipeline transportation and certain related margin activities; and (2) our Gathering, Marketing, Terminalling and Storage Operations, through which we engage in purchases and resales of crude oil and LPG at various points along the distribution chain and the operation of certain terminalling and storage assets. We evaluate segment performance based on (i) gross margin (excluding depreciation), (ii) gross profit (excluding depreciation), which is gross margin (excluding depreciation) less general and administrative expenses and (iii) on an annual basis, maintenance capital. Maintenance capital consists of capital expenditures required either to maintain the existing operating capacity of partially or fully depreciated assets or to extend their useful lives. Capital expenditures made to expand our existing capacity, whether through construction or acquisition, are not considered maintenance capital expenditures. Repair and maintenance expenditures associated with existing assets that do not extend the useful life or expand the operating capacity are charged to expense as incurred. Our current

estimate of maintenance capital expenditures for 2003 is approximately $6.9 million. We monitor maintenance capital expenditures on an annual basis, since these capital projects can overlap quarters and may be impacted by weather, permitting and other uncontrollable delays. Accordingly, no period-by-period analysis is provided, except on an annual basis.

Three Months Ended September 30, 2003 and 2002

For the three months ended September 30, 2003, we reported net income of $11.9 million on total revenues of $3.1 billion compared to net income for the same period in 2002 of $16.3 million on total revenues of $2.3 billion. Included in the results of operations for the third quarter of 2003 and 2002 are certain items that impact the comparability between periods. These items include amounts related to accruals for the probable vesting of restricted units granted under our Long-Term Incentive Plan ("LTIP"). Under generally accepted accounting principles, we are required to recognize an expense when vesting of LTIP units becomes probable as determined by management at the end of the period (See Outlook, Vesting of Unit Grants Under Long-Term Incentive Plan). The compensation expense accrued relates to many years of service (thus we have included this amount in the following table of items impacting comparability), and culminates with both the early conversion of 25% of our subordinated units to common units and the related 90-day "continued employment" period. (see Note 7 to the Consolidated Financial Statements). In addition, and as discussed previously, the majority of instruments we are required to mark-to-market at the end of each quarterly period pursuant to SFAS 133 do serve as economic hedges that offset future physical positions not reflected in current results. Therefore, we believe mark-to-market adjustments to net income required under SFAS 133 do not provide a complete depiction of the economic substance of the transaction, as it only represents the derivative side of these transactions and does not take into account the offsetting physical position. In addition, the impact will vary from quarter to quarter based on market prices at the end of the quarter, which are impossible for us to control or forecast, and the SFAS 133 adjustments will reverse in future periods. Accordingly, when we internally evaluate our results for performance against expectations, public guidance and trend analysis, we exclude the non-cash, mark-to-market impact of SFAS 133. Thus, we present the impact of the SFAS 133 adjustments because we believe such amounts affect the comparison of the fundamental operating results for the periods presented. Our third quarter 2003 net income also includes a $0.2 million loss related to unamortized debt issue costs on early extinguishment of debt. This loss relates to a $34 million prepayment on our Senior secured term B loan which was made in anticipation of restructuring our existing secured credit facilities into unsecured credit facilities during the fourth quarter (See Note 4 to the Consolidated Financial Statements).

The items discussed above are included in net income in the period indicated and impact the comparability between periods as shown below:

	Three months ended September 30,	
	2003	**2002**
	(in millions)	
Items Impacting Comparability		
LTIP accrual	$ (7.4)	$ —
SFAS 133 Loss	(2.9)	(0.4)
Loss on early extinguishment of debt	(0.2)	—
Total of items impacting comparability	$ (10.5)	$ (0.4)

The following table reflects our results of operations for each segment:

	Pipeline Operations	Gathering, Marketing, Terminalling & Storage
	(in millions)	
Three Months Ended September 30, 2003[1]		
Revenues	$ 164.4	$ 2,905.5
Cost of sales and operations (excluding depreciation and LTIP accrual)	(133.9)	(2,883.9)
LTIP accrual—operations	(0.4)	(1.0)
Gross margin (excluding depreciation)	30.1	20.6
General and administrative expenses (excluding LTIP accrual)[2]	(4.6)	(7.6)
LTIP accrual—general and administrative	(2.6)	(3.4)
Gross profit (excluding depreciation)	$ 22.9	$ 9.6
Noncash SFAS 133 impact[3]	$ —	$ (2.9)
Maintenance capital	$ 1.0	$ 0.3
Three Months Ended September 30, 2002[1]		
Revenues	$ 130.4	$ 2,220.7
Cost of sales and operations (excluding depreciation)	(107.4)	(2,199.4)

Gross margin (excluding depreciation)	23.0	21.3
General and administrative expenses[2]	(3.3)	(8.2)
Gross profit (excluding depreciation)	$ 19.7	$ 13.1
Noncash SFAS 133 impact[3]	$ —	$ (0.4)
Maintenance capital	$ 0.5	$ 0.7

(1) Revenues and costs of sales and operations include intersegment amounts.
(2) General and administrative expenses (G&A) reflect direct costs attributable to each segment and an allocation of other expenses to the segments based on the business activities that existed at that time. The proportional allocations by segment require judgment by management and will continue to be based on the business activities that exist during each period.
(3) Amounts related to SFAS 133 are included in revenues, gross margin (excluding depreciation), and gross profit (excluding depreciation).

Pipeline Operations

As of September 30, 2003, we owned and operated over 6,200 miles of gathering and mainline crude oil pipelines located throughout the United States and Canada. Our activities from pipeline operations generally consist of transporting volumes of crude oil for a fee and third-party leases of pipeline capacity (tariff activities), as well as barrel exchanges and buy/sell arrangements (margin activities). In connection with certain of our merchant activities conducted under our gathering and marketing business, we are also shippers on certain of our own pipelines. Tariffs and other fees on our pipeline systems vary by receipt point and delivery point. The gross margin (excluding depreciation) generated by our tariff and other fee-related activities depends on the volumes transported on the pipeline and the level of the tariff and other fees charged as well as the fixed and variable costs of operating the pipeline. Gross margin (excluding depreciation) from our pipeline capacity leases, barrel exchanges and buy/sell arrangements generally reflect a negotiated amount.

The following table sets forth our operating results from our Pipeline Operations segment for the periods indicated:

	Three months ended September 30,	
	2003	**2002**
Operating Results (in millions)[1]		
Tariff activities revenues	$ 40.4	$ 31.5
Margin activities revenues	124.0	98.9
Total pipeline operations revenues	164.4	130.4
Cost of sales and operations (excluding depreciation and LTIP accrual)	(133.9)	(107.4)
LTIP accrual—operations	(0.4)	—
Gross Margin (excluding depreciation)	30.1	23.0
General and administrative expenses (excluding LTIP accrual)[2]	(4.6)	(3.3)
LTIP accrual—general and administrative	(2.6)	—
Gross Profit (excluding depreciation)	$ 22.9	$ 19.7
Maintenance capital	$ 1.0	$ 0.5
Average Daily Volumes (thousands of barrels per day)[3]		
Tariff activities		
All American	59	68
Basin	301	157
Other domestic	328	260
Canada	210	201
Total tariff activities	898	686
Margin activities	77	71
Total	975	757

(1) Revenues and cost of sales and operations include intersegment amounts.
(2) General and administrative ("G&A") expenses reflect direct costs attributable to each segment and an allocation of other expenses to the segments based on the business activities that existed at that time. The proportional allocations by segment require judgment by management and will continue to be based on the business activities that exist during each period.
(3) Volumes associated with acquisitions represent weighted average daily amounts for the number of days we actually owned the assets over the total days in the period.

Total average daily volumes transported were approximately 975,000 barrels per day and 757,000 barrels per day for the three months ended September 30, 2003 and 2002, respectively. As discussed above, we have completed a number of acquisitions during 2003 and 2002 that have impacted the

results of operations herein. The following table reflects our total average daily volumes from our tariff activities by year of acquisition for comparison purposes:

	Three months ended September 30,	
	2003	2002
	(thousands of barrels per day)	
Tariff activities[1]		
2003 acquisitions	108	—
2002 acquisitions	375	282
All other pipeline systems	415	404
Total tariff activities average daily volumes	898	686

(1) Volumes associated with acquisitions represent weighted average daily amounts for the number of days we actually owned the assets over the total days in the period.

Average daily volumes from our tariff activities were approximately 898,000 barrels per day compared to approximately 686,000 barrels per day for the prior year quarter. Approximately 201,000 barrels per day of the increase in the current year quarter is due to volumes transported on the pipelines acquired in 2003 and 2002, including an increase of approximately 94,000 barrels per day on the assets acquired in the Shell acquisition because of their inclusion for the entire period in 2003 compared to 2 months in 2002. Volumes on all other pipeline systems increased by approximately 11,000 barrels per day to approximately 415,000 barrels per day. The increase is primarily related to a 9,000 barrel per day increase in volumes from our Canadian pipelines and a 13,000 barrel per day increase in our West Texas Gathering System volumes, offset by a decrease of 9,000 barrels per day in our All American tariff volumes attributable to a decline in California outer continental shelf ("OCS") production. The increase in our Canadian volumes primarily resulted from the completion of capital expansion projects that allowed for additional volumes on certain of our Canadian pipelines, coupled with the impact of the completion of a refinery turnaround. Our West Texas Gathering System has benefited from the shutdown of the Rancho pipeline. In addition, during the third quarter of 2003, we also transported additional barrels as a result of refinery problems in West Texas that temporarily diverted crude oil from other systems.

Total revenues from our pipeline operations were approximately $164.4 million and $130.4 million for the three months ended September 30, 2003 and 2002, respectively. The increase in revenues was primarily related to our margin activities, which increased by approximately $25.1 million in the third quarter of 2003. This increase was related to higher volumes on our buy/sell arrangements in the current period, coupled with higher average prices on our margin activity on our San Joaquin Valley gathering system in the 2003 period as compared to the 2002 period. However, this business is a margin business and although revenues and cost of sales are impacted by the absolute level of crude oil prices, there is a limited impact on gross margin.

Revenues from our tariff activities increased approximately 28% or $8.9 million. The following table reflects our revenues from our tariff activities by year of acquisition from their date of acquisition for comparison purposes:

	Three months ended September 30,	
	2003	2002
	(in millions)	
Tariff activities revenues[1]		
2003 acquisitions	$ 4.1	$ —
2002 acquisitions	14.8	10.4
All other pipeline systems	21.5	21.1
Total tariff activities	$ 40.4	$ 31.5

(1) Revenues include intersegment amounts.

Total revenues from our tariff activities were approximately $40.4 million and $31.5 million for the three months ended September 30, 2003 and 2002, respectively. The increase in the third quarter of 2003 is predominately related to the inclusion of $18.9 million of revenues from the businesses acquired in 2003 and 2002. Revenues from pipeline systems acquired in 2002 have increased to $14.8 million from $10.4 million primarily the result of the inclusion of only two months' contribution in 2002 from the assets acquired in the Shell acquisition. Revenues from all other pipeline systems increased approximately $0.4 million to $21.5 million. This increase resulted principally from our Canadian operations. Canadian revenues increased approximately $1.1 million in the 2003 period primarily due to expanded capacity, higher tariffs and a $0.9 million favorable exchange rate impact. The favorable exchange rate impact has resulted from a decrease in the Canadian to U.S. dollar exchange rate to an average rate of 1.38 for the three months ended September 30, 2003, from an average rate of 1.56 for the three months ended September 30, 2002. Higher volumes on the West Texas Gathering System also contributed to the increase in tariff revenues from all other

systems. These increases were partially offset by lower revenues from the All American System, on which we receive the highest per barrel tariffs among our pipeline systems.

As a result of these factors, our pipeline operations gross margin (excluding depreciation) increased 31% to approximately $30.1 million for the quarter ended September 30, 2003, from $23.0 million for the prior year period, an increase of approximately $7.1 million. Such results incorporate an increase in operating expenses to $15.0 million in the 2003 period from $12.9 million in the 2002. This increase includes $0.4 million related to the accrual made for the probable vesting of unit grants under our LTIP. The remaining increase is predominately related to our continued growth, primarily from acquisitions, coupled with higher utility costs. In addition, gross margin (excluding depreciation) includes a $0.6 million favorable impact resulting from the decrease in the average Canadian dollar to U.S. dollar exchange rate for the 2003 period as compared to the 2002 period.

General and administrative expenses increased approximately $3.9 million between comparable periods, primarily as a result of a $2.6 million accrual related to the probable vesting of unit grants under our LTIP. Additionally, the percentage of indirect costs allocated to the pipeline operations segment has increased in the 2003 period as our pipeline operations have grown. Including the impact of the items discussed above, gross profit (excluding depreciation) was approximately $22.9 million in the third quarter of 2003, an increase of 16% as compared to the $19.7 million reported for the quarter ended September 30, 2002. Gross profit (excluding depreciation) includes a $0.5 million favorable impact resulting from the decrease in the average Canadian-dollar to U.S.-dollar exchange rate for the 2003 period as compared to the 2002 period.

Gathering, Marketing, Terminalling and Storage Operations

Our revenues from gathering and marketing activities reflect the sale of gathered and bulk-purchased crude oil and liquefied petroleum gas ("LPG") plus the sale of additional barrels exchanged through buy/sell arrangements entered into to enhance the margins of the gathered and bulk-purchased volumes. Gross margin from our gathering and marketing activities is dependent on our ability to sell crude oil and LPG at a price in excess of our aggregate cost. These operations are margin businesses and are not directly affected by the absolute level of prices, but are affected by overall levels of supply and demand for crude oil and LPG and fluctuations in market-related indices. Accordingly, an increase or decrease in revenues is not necessarily an indication of segment performance.

We own and operate approximately 23.2 million barrels of above-ground crude oil terminalling and storage facilities, including a crude oil terminalling and storage facility at Cushing, Oklahoma. Cushing, which we refer to as the Cushing Interchange, is one of the largest crude oil market hubs in the United States and the designated delivery point for New York Mercantile Exchange, or NYMEX, crude oil futures contracts. Terminals are facilities where crude oil is transferred to or from storage or a transportation system, such as a pipeline, to another transportation system, such as trucks or another pipeline. The operation of these facilities is called "terminalling." Approximately 11.0 million barrels of our 23.2 million barrels of tankage is used primarily in our Gathering, Marketing, Terminalling and Storage Operations and the balance is used in our Pipeline Operations segment. On a stand alone basis, gross margin from terminalling and storage activities is dependent on the throughput of volumes, the volume of crude oil stored and the level of fees generated from our terminalling and storage services. Our terminalling and storage activities are integrated with our gathering and marketing activities and the level of tankage that we allocate for our arbitrage activities (and therefore not available for lease to third parties) varies throughout crude oil price cycles. This integration enables us to use our storage tanks in an effort to counter-cyclically balance and hedge our gathering and marketing activities.

Crude oil prices have historically been very volatile and cyclical. Over the last 13 years, the NYMEX benchmark price has ranged from as high as $40.00 per barrel to as low as $10.00 per barrel. Our business strategy recognizes this volatility and the inherent inefficiencies such conditions create. Accordingly, we have deliberately configured our assets and integrated our activities in this segment in an effort to provide a counter-cyclical balance between our gathering and marketing activities and our terminalling and storage activities, and execute different hedging strategies to stabilize and enhance margins and reduce the negative impact of crude oil market volatility.

The volatility in the market place continued as during this quarter the NYMEX benchmark price of crude oil ranged from as high as $32.85 per barrel to as low as $26.65 per barrel. This volatility, in conjunction with our hedging strategies, enhanced the returns of our gathering and marketing activities. Beginning in September 2003, the steep backwardation that existed in the crude oil markets for most of the first eight months of the year subsided. Market conditions during the third quarter of 2002 were less favorable as the crude oil market alternated between periods of weak contango and strong backwardation.

As a result of completing our Phase III expansion at our Cushing facility, total tankage dedicated to our Gathering, Marketing, Terminalling and Storage Operations was approximately 1.0 million barrels greater in the third quarter of 2003 relative to the third quarter of 2002. A portion of such tankage was employed in hedging activities related to our gathering and marketing activities in the third quarter of 2003.

The following table sets forth our operating results from our Gathering, Marketing, Terminalling and Storage Operations segment for the periods indicated:

	Three months ended September 30,	
	2003	**2002**
Operating Results (in millions)[1]		
Revenues	$ 2,905.5	$ 2,220.7
Cost of sales and operations (excluding depreciation and LTIP accrual)	(2,883.9)	(2,199.4)
LTIP accrual—operations	(1.0)	—
Gross Margin (excluding depreciation)	20.6	21.3
General and administrative expenses (excluding LTIP accrual)[2]	(7.6)	(8.2)
LTIP accrual—general and administrative	(3.4)	—

Gross Profit (excluding depreciation)	$ 9.6	$ 13.1
Noncash SFAS 133 impact[3]	$ (2.9)	$ (0.4)
Maintenance capital	$ 0.3	$ 0.7
Average Daily Volumes (thousands of barrels per day except as otherwise noted)[4]		
Crude oil lease gathering	429	408
Crude oil bulk purchases	96	72
Total	525	480
LPG sales	37	32
Cushing Terminal throughput	214	118
Storage leased to third parties, monthly average volumes	1,099	591

(1) Revenues and cost of sales and operations include intersegment amounts.

(2) General and administrative ("G&A") expenses reflect direct costs attributable to each segment and an allocation of other expenses to the segments based on the business activities that existed at that time. The proportional allocations by segment require judgment by management and will continue to be based on the business activities that exist during each period.

(3) Amounts related to SFAS 133 are included in revenues, gross margin (excluding depreciation) and gross profit (excluding depreciation).

(4) Volumes associated with acquisitions represent weighted averaged daily amounts for the number of days we actually owned the assets over the total days in the period.

Because of the overall counter-cyclical balance of our assets and the flexibility embedded in our business strategy, the benefit we received from backwardation in the market, the increase in lease gathering volumes, volatile market conditions and increased tankage available to our gathering and marketing business in the third quarter of 2003, more than offset the adverse impact of reduced storage activities. During much of the third quarter of 2002, the crude oil market was in contango. In addition, the Canadian dollar to U.S. dollar exchange rate decreased to an average rate of 1.38 for the three months ended September 30, 2003, from an average rate of 1.56 for the three months ended September 30, 2002, which resulted in a favorable impact on the results reported for our Canadian operations.

The increase in earnings we realized from the factors discussed above was offset by the items impacting comparability listed in the table below. The resulting gross margin (excluding depreciation)

for the quarter was $20.6 million compared to $21.3 million in 2002. The following items impact the comparability of gross margin (excluding depreciation) for the periods presented:

	Three months ended September 30,	
	2003	**2002**
	(in millions)	
Items Impacting Comparability		
LTIP accrual	$ (1.0)	$ —
SFAS 133 Loss	(2.9)	(0.4)
Total of items impacting comparability	$ (3.9)	$ (0.4)

Operating expenses included in gross margin (excluding depreciation) increased to approximately $19.6 million in the current period from $15.9 million in the prior year period. This increase included the $1.0 million LTIP accrual shown above. The remaining increase was partially related to our continued growth, primarily from acquisitions, coupled with increased regulatory compliance activities and higher fuel costs. These items were partially offset by the approximately $0.9 million favorable impact from the decrease in the Canadian dollar to U.S. dollar exchange rate in the 2003 period as compared to the 2002 period.

General and administrative expenses increased to $11.0 million in the current period from $8.2 million in the 2002 period. Included in the 2003 amount is $3.4 million related to the accrual for the probable vesting of unit grants under our LTIP. The percentage of indirect costs allocated to the Gathering, Marketing, Terminalling and Storage Operations segment has decreased from period to period as our pipeline operations have grown, partially offsetting the impact of the inclusion of the LTIP accrual. Current quarter gross profit (excluding depreciation) of $9.6 million includes $3.9 million related to the items impacting comparability listed above as well as an additional $3.4 million of expense related to the probable vesting of unit grants under our LTIP accrual included in general and administrative expenses. Partially offsetting these items is the approximately $0.5 million favorable impact from the decrease in the Canadian dollar to U.S. dollar exchange rate.

In addition to market conditions and our hedging activities, the primary drivers of the performance of our gathering, marketing, terminalling and storage operations segment are crude oil lease gathered volumes and LPG sales volumes. Crude oil bulk purchase volumes are not considered a driver as they are primarily used to enhance margins of lease gathered barrels. Gross profit per barrel (excluding depreciation) including the items impacting comparability for the quarters ended September 30, 2003 and 2002, was $0.22 per barrel and $0.32 per barrel, respectively.

For the quarter ended September 30, 2003, we gathered from producers, using our assets or third-party assets, approximately 429,000 barrels of crude oil per day, an increase of 5% over similar activities in the third quarter of 2002. In addition, we purchased in bulk, primarily at major trading locations, approximately 96,000 barrels of crude oil per day in the 2003 period and approximately 72,000 barrels per day in the 2002 period. Storage leased to third parties at our Cushing facility increased to an average of 1.1 million barrels per month in the current year quarter from an average of 0.6 million barrels per month in the third quarter of 2002. Cushing Terminal throughput volumes averaged approximately 214,000 barrels per day and 118,000 barrels per day for the quarters ended September 30, 2003 and 2002, respectively. Also during the quarter, we marketed approximately 37,000 barrels per day of LPG, an increase of approximately 16% over the approximately 32,000 barrels per day marketed in the third quarter of 2002.

Revenues from our gathering, marketing, terminalling and storage operations were approximately $2.9 billion and $2.2 billion for the quarters ended September 30, 2003 and 2002, respectively.

Revenues and cost of sales and operations (excluding depreciation) for 2003 were impacted by higher average prices and higher crude oil lease gathering volumes in the 2003 period as compared to the 2002 period. The average NYMEX price for crude oil was $30.26 per barrel and $28.27 per barrel for the third quarter of 2003 and 2002, respectively.

Other Expenses

Depreciation and Amortization

Depreciation and amortization expense related to operations was approximately $10.5 million for the quarter ended September 30, 2003, compared to $7.7 million for the same period of 2002. The increase relates to an inclusion of a full quarter of depreciation for the Shell acquisition in 2003 compared to only two months in 2002, the completion of numerous smaller acquisitions in 2003 and various capital expansion projects. Depreciation and amortization expense related to general and administrative items increased to $1.5 million in the third quarter of 2003 from $1.3 million in the third quarter of 2002. Debt amortization costs included in depreciation and amortization expense were $1.0 million in the third quarter of both 2003 and 2002.

Interest Expense

Interest expense increased approximately $1.4 million to $8.8 million for the quarter ended September 30, 2003, from $7.4 million for the comparable 2002 period. The increase was primarily related to an increase in the average debt balance during the 2003 period to approximately $532.3 million from approximately $482.3 million in the 2002 period, which resulted in additional interest expense of approximately $0.7 million. The higher average debt balance was primarily due to the portion of the Shell acquisition that was not financed with equity. This debt was outstanding for the entire quarter in 2003 versus only a portion of the quarter in 2002. Also, increased commitment and other fees coupled with lower capitalized interest resulted in approximately $0.5 million of the increase in the 2003 period. In addition, our weighted average interest rate increased slightly during the current year quarter to 5.9% versus 5.8% in the third quarter of 2002, which increased our interest expense by approximately $0.2 million. Although the interest rate change was slight, it was the net result of various factors that included an increase in the amount of fixed rate, long-term debt, long-term interest rate hedges and declining short-term interest rates. In mid-September 2002, we issued $200 million of ten-year bonds bearing a fixed interest rate of 7.75%. In the fourth quarter of 2002 and the first quarter of 2003, the company entered into hedging arrangements to lock in interest rates on approximately $50 million of its floating rate debt. In addition, the average three-month LIBOR rate declined from approximately 1.8% during the third quarter of 2002 to approximately 1.1% during the three months ended September 30, 2003. The net impact of these factors, increased commitment fees and changes in average debt balances increased the average interest rate by 0.1%.

Nine Months Ended September 30, 2003 and 2002

For the nine months ended September 30, 2003, we reported net income of $59.6 million on total revenues of $9.0 billion compared to net income for the same period in 2002 of $47.5 million on total revenues of $5.9 billion.

The items included in the following table are included in net income in the period indicated and impact the comparability between periods:

	Nine months ended September 30,	
	2003	2002
	(in millions)	
Items Impacting Comparability		
LTIP accrual	$ (7.4)	$ —
SFAS 133 Loss	(1.7)	(2.1)
Loss on early extinguishment of debt	(0.2)	—
Total of items impacting comparability	$ (9.3)	$ (2.1)

The following table reflects our results of operations for each segment:

	Pipeline Operations	Gathering, Marketing, Terminalling & Storage
	(in millions)	
Nine Months Ended September 30, 2003[1]		
Revenues	$ 489.1	$ 8,594.8
Cost of sales and operations (excluding depreciation and LTIP accrual)	(405.2)	(8,513.8)
LTIP accrual—operations	(0.4)	(1.0)
Gross margin (excluding depreciation)	83.5	80.0
General and administrative expenses (excluding LTIP accrual)[2]	(13.7)	(23.7)
LTIP accrual—general and administrative	(2.6)	(3.4)
Gross profit (excluding depreciation)	$ 67.2	$ 52.9
Noncash SFAS 133 impact[3]	$ —	$ (1.7)
Maintenance capital	$ 4.8	$ 0.7
Nine Months Ended September 30, 2002[1]		
Revenues	$ 334.1	$ 5,554.6
Cost of sales and operations (excluding depreciation)	(273.8)	(5,490.5)
Gross margin (excluding depreciation)	60.3	64.1
General and administrative expenses[2]	(9.9)	(23.5)
Gross profit (excluding depreciation)	$ 50.4	$ 40.6
Noncash SFAS 133 impact[3]	$ —	$ (2.1)
Maintenance capital	$ 2.7	$ 1.3

(1) Revenues and costs of sales and operations include intersegment amounts.

(2) General and administrative expenses (G&A) reflect direct costs attributable to each segment and an allocation of other expenses to the segments based on the business activities that existed at that time. The proportional allocations by segment require judgment by management and will continue to be based on the business activities that exist during each period.

(3) Amounts related to SFAS 133 are included in revenues, gross margin (excluding depreciation), and gross profit (excluding depreciation).

Pipeline Operations

The following table sets forth our operating results from our Pipeline Operations segment for the periods indicated:

	Nine months ended September 30,	
	2003	2002
Operating Results (in millions)[1]		
Tariff activities revenues	$ 112.4	$ 72.2
Margin activities revenues	376.7	261.9
Total pipeline operations revenues	489.1	334.1
Cost of sales and operations (excluding depreciation and LTIP accrual)	(405.2)	(273.8)
LTIP accrual—operations	(0.4)	—
Gross Margin (excluding depreciation)	83.5	60.3
General and administrative expenses (excluding LTIP accrual)[2]	(13.7)	(9.9)
LTIP accrual—general and administrative	(2.6)	—
Gross Profit (excluding depreciation)	$ 67.2	$ 50.4
Maintenance capital	$ 4.8	$ 2.7
Average Daily Volumes (thousands of barrels per day)[3]		
Tariff activities		

All American	60	65
Basin	264	53
Other domestic	283	189
Canada	191	186
Total tariff activities	798	493
Margin activities	80	72
Total	878	565

(1) Revenues and cost of sales and operations include intersegment amounts.

(2) General and administrative ("G&A") expenses reflect direct costs attributable to each segment and an allocation of other expenses to the segments based on the business activities that existed at that time. The proportional allocations by segment require judgment by management and will continue to be based on the business activities that exist during each period.

(3) Volumes associated with acquisitions represent weighted average daily amounts for the number of days we actually owned the assets over the total days in the period.

Total average daily volumes transported were approximately 878,000 barrels per day and 565,000 barrels per day for the nine months ended September 30, 2003 and 2002, respectively. As discussed above, we have completed a number of acquisitions during 2003 and 2002 that have impacted the

results of operations herein. The following table reflects our total average daily volumes from our tariff activities by year of acquisition from their date of acquisition for comparison purposes:

	Nine months ended September 30,	
	2003	**2002**
	(thousands of barrels per day)	
Tariff activities[1]		
2003 acquisitions	58	—
2002 acquisitions	348	103
All other pipeline systems	392	390
Total tariff activities average daily volumes	798	493

(1) Volumes associated with acquisitions represent weighted average daily amounts for the number of days we actually owned the assets over the total days in the period.

Average daily volumes from our tariff activities were approximately 798,000 barrels per day compared to approximately 493,000 barrels per day for the prior year period. Approximately 303,000 barrels per day of the increase in the current year period is due to volumes transported on the pipelines acquired in 2003 and 2002, including approximately 244,000 on the assets acquired in the Shell acquisition. Volumes transported on all other pipeline systems increased approximately 2,000 barrels per day to 392,000 barrels per day. This increase included approximately 5,000 barrels per day more on our Canadian pipelines in the first nine months of 2003 than in the first nine months of 2002, and approximately 7,000 barrels per day more on our West Texas Gathering System. Offsetting these increases is an approximate 5,000 barrel per day decrease in our All American tariff volumes attributable to a decline in OCS production and various smaller decreases on other systems. The increase in our Canadian volumes primarily resulted from the completion of capital expansion projects during 2002 that allowed for additional volumes. Concurrently, our West Texas Gathering System has benefited from the shutdown of the Rancho pipeline and also from temporary refinery problems that have diverted crude oil barrels from other systems.

Total revenues from our pipeline operations were approximately $489.1 million and $334.1 million for the nine months ended September 30, 2003 and 2002, respectively. The increase in revenues was primarily related to our margin activities, which increased by approximately $114.8 million in the 2003 period. This increase was primarily related to higher average prices on our margin activity on our San Joaquin Valley gathering system in the 2003 period as compared to the 2002 period, but was also positively impacted by higher volumes on our buy/sell arrangements in the current period. However, this business is a margin business and although revenues and cost of sales are impacted by the absolute level of crude oil prices, this factor had a limited impact on gross margin.

Revenues from our tariff activities increased approximately $40.2 million. The following table reflects our revenues from our tariff activities by year of acquisition for comparison purposes:

	Nine months ended September 30,	
	2003	**2002**

		(in millions)		
Tariff activities revenues[1]				
2003 acquisitions	$	8.0	$	—
2002 acquisitions		40.7		10.6
All other pipeline systems		63.7		61.6
Total tariff activities	$	112.4	$	72.2

(1) Revenues include intersegment amounts.

Total revenues from our tariff activities were approximately $112.4 million and $72.2 million for the nine months ended September 30, 2003 and 2002, respectively. The increase in 2003 of $40.2 million is predominately related to the inclusion of revenues from the businesses acquired in 2003 and an increase in revenues from the pipeline systems acquired in the Shell acquisition as they have been included for nine months of 2003 versus two months of 2002. Revenues from all other pipeline systems increased approximately $2.1 million to $63.7 million for the nine months ended September 30, 2003. Canadian revenues increased approximately $2.5 million primarily due to higher volumes and tariffs in the current period coupled with a $2.2 million favorable exchange rate impact. The favorable exchange rate impact resulted from a decrease in the Canadian to U.S. dollar exchange rate to an average rate of 1.43 for the nine months ended September 30, 2003, from an average rate of 1.57 for the nine months ended September 30, 2002. Revenues from our West Texas Gathering System also increased approximately $1.1 million. These increases were partially offset by decreased revenues from various of our U.S. pipeline systems, including a $2.1 million decrease on our All American system on which we receive the highest per barrel tariffs among our pipeline operations.

As a result of these factors, pipeline operations gross margin (excluding depreciation) increased 38% to approximately $83.5 million for the nine months ended September 30, 2003, from $60.3 million for the prior year period, an increase of approximately $23.2 million. Incorporated in this increase is approximately $1.4 million from a more favorable Canadian dollar to U.S. dollar exchange rate in the 2003 period as compared to the 2002 period. Such results also incorporate an increase in operating expenses to $42.7 million in the 2003 period from $25.9 million in the 2002 period. This increase includes $0.4 million related to the accrual made for the probable vesting of unit grants under our LTIP. The remaining increase is predominately related to our continued growth, primarily from acquisitions, coupled with higher utility costs and regulatory compliance activities.

General and administrative expenses increased approximately $6.4 million between comparable periods, partially as a result of a $2.6 million accrual related to the probable vesting of unit grants under our LTIP and our continued growth, primarily from acquisitions. Additionally, the percentage of indirect costs allocated to the pipeline operations segment has increased in the 2003 period as our pipeline operations have grown. Including the impact of the items discussed above, gross profit (excluding depreciation) was approximately $67.2 million in the first nine months of 2003, an increase of 33% as compared to the $50.4 million reported for the nine months ended September 30, 2002. Incorporated in this increase is approximately $1.3 million from a more favorable Canadian dollar to U.S. dollar exchange rate in the 2003 period as compared to the 2002 period.

Gathering, Marketing, Terminalling and Storage Operations

The following table sets forth our operating results from our Gathering, Marketing, Terminalling and Storage Operations segment for the periods indicated:

	Nine months ended September 30,			
		2003		2002
Operating Results (in millions)[1]				
Revenues	$	8,594.8	$	5,554.6
Cost of sales and operations (excluding depreciation and LTIP accrual)		(8,513.8)		(5,490.5)
LTIP accrual—operations		(1.0)		—
Gross Margin (excluding depreciation)	$	80.0	$	64.1
General and administrative expenses (excluding LTIP accrual)[2]		(23.7)		(23.5)
LTIP accrual—general and administrative		(3.4)		—
Gross Profit (excluding depreciation)	$	52.9	$	40.6
Noncash SFAS 133 impact[3]	$	(1.7)	$	(2.1)
Maintenance capital	$	0.7	$	1.3
Average Daily Volumes (thousands of barrels per day except as otherwise noted)[4]				
Crude oil lease gathering		430		406
Crude oil bulk purchases		84		69
Total		514		475

LPG sales	43	40
Cushing Terminal throughput	196	87
Storage leased to third parties, monthly average volumes	1,124	1,103

(1) Revenues and cost of sales and operations include intersegment amounts.

(2) General and administrative ("G&A") expenses reflect direct costs attributable to each segment and an allocation of other expenses to the segments based on the business activities that existed at that time. The proportional allocations by segment require judgment by management and will continue to be based on the business activities that exist during each period.

(3) Amounts related to SFAS 133 are included in revenues, gross margin (excluding depreciation) and gross profit (excluding depreciation).

(4) Volumes associated with acquisitions represent weighted averaged daily amounts for the number of days we actually owned the assets over the total days in the period.

During the first nine months of 2003, market conditions were extremely volatile as a confluence of several events caused the NYMEX benchmark price of crude oil to fluctuate widely, with periods of steep backwardation throughout the first eight months of 2003 (See Outlook—Other for additional discussion regarding our expectations for the remainder of the year). The NYMEX benchmark price of crude oil ranged from as high as $39.99 per barrel to as low as $25.04 per barrel during this nine month period. Additionally, results from the first quarter of 2003 were further enhanced by increased sales and higher margins in our LPG activities resulting from cold weather throughout the U.S. and Canada.

Because of the overall counter-cyclical balance of our assets and the flexibility embedded in our business strategy, the benefit we received from the periods of pronounced backwardation, volatile market conditions and increased tankage available to our gathering and marketing business in the first nine months of 2003 more than offset the adverse impact of reduced storage activities. In contrast,

during a substantial portion of the first nine months of 2002, the crude oil market was in contango, which enhances the economics of storing crude oil and increases demand for storage services from third parties, but is generally disadvantageous for our gathering and marketing activities.

As a result of these factors, our gross margin (excluding depreciation) increased approximately $15.9 million or 25% to $80.0 million as compared to $64.1 million in the first nine months of 2002. Included in these results is a $1.7 million non-cash, mark-to-market loss pursuant to SFAS 133 in the first nine months of 2003 and a $2.1 million, SFAS 133 non-cash mark-to-market loss in the comparable 2002 period. The impact of SFAS 133 adjustments accounted for $0.4 million or approximately 3% of the increase in gross margin (excluding depreciation). Also included in gross margin (excluding depreciation) is a favorable impact of $1.9 million resulting from a decrease in the average Canadian to U.S. dollar exchange rate to 1.43 in the 2003 period from 1.57 in the 2002 period.

These results incorporate an increase in operating expenses to $57.6 million in the 2003 period from $49.0 million in the 2002 period related to our continued growth, primarily from acquisitions, coupled with increased regulatory compliance activities and higher fuel costs. Operating expenses for the 2003 period also include $1.0 million related to the accrual for our LTIP.

General and administrative expenses increased approximately $3.6 million to $27.1 million in the current year period. Included in general and administrative expenses for the nine months ended September 30, 2003, is $3.4 million related to the accrual for the probable vesting of unit grants under our LTIP. General and administrative expenses also reflect a general decrease in the percentage of non-direct costs allocated to the Gathering, Marketing, Terminalling and Storage Operations segment as our pipeline operations have grown. Gross profit (excluding depreciation) was approximately $52.9 million in the first nine months of 2003, an increase of $12.3 million from the nine months ended September 30, 2002. This increase incorporates the favorable impacts of approximately $1.2 million resulting from a decrease in the Canadian dollar to U.S. dollar exchange rate in the 2003 period as compared to the 2002 period and a $0.4 million favorable difference in the impact of the SFAS 133 adjustments. Both of these items were partially offset by accruals for the probable vesting of unit grants under our LTIP totaling $4.4 million, as discussed above.

In addition to market conditions and our hedging activities, the primary drivers of the performance of our Gathering, Marketing, Terminalling and Storage Operations segment are crude oil lease gathered volumes and LPG sales volumes. Crude oil bulk purchase volumes are not considered a driver as they are primarily used to enhance margins of lease gathered barrels. Gross profit per barrel (excluding depreciation) for the nine months ended September 30, 2003 and 2002, was $0.41 per barrel and $0.33 per barrel, respectively.

For the nine months ended September 30, 2003, we gathered from producers, using our assets or third-party assets, approximately 430,000 barrels of crude oil per day, an increase of 6% over similar activities in the first nine months of 2002. In addition, we purchased in bulk, primarily at major trading locations, approximately 84,000 barrels of crude oil per day in the 2003 period and approximately 69,000 barrels per day in the 2002 period. Storage leased to third parties at our Cushing facility was flat over the two periods. Cushing Terminal throughput volumes averaged approximately 196,000 barrels per day and 87,000 barrels per day for the nine months ended September 30, 2003 and 2002, respectively. Also during the first nine months of 2003 and 2002, we marketed approximately 43,000 and 40,000 barrels per day of LPG, respectively.

Revenues from our Gathering, Marketing, Terminalling and Storage Operations were approximately $8.6 billion and $5.6 billion for the nine months ended September 30, 2003 and 2002, respectively. Revenues and cost of sales and operations (excluding depreciation) for 2003 were primarily impacted by higher average prices and increased crude oil lease gathering volumes in the 2003 period as compared to the 2002 period. The average NYMEX price for crude oil was $31.03 per barrel and $25.39 per barrel for the first nine months of 2003 and 2002, respectively.

Other Expenses

Depreciation and Amortization

Depreciation and amortization expense related to operations was approximately $29.5 million for the nine months ended September 30, 2003, compared to $19.7 million for the same period of 2002. Approximately $5.6 million of the increase is associated with the assets acquired in the Shell acquisition. The remainder of the increase is primarily related to the completion of various capital expansion projects and other acquisitions. Depreciation and amortization expense related to general and administrative items increased approximately $1.3 million to $4.7 million in the first nine months of 2003 from the first nine months of 2002 because of higher debt issue costs, technology expenditures and various other smaller items. Debt amortization costs included in depreciation and amortization expense were $3.0 million and $2.5 million in the first nine months of 2003 and 2002, respectively. The increase was because of higher debt issue costs related to the amendment of our credit facilities during 2002 and the sale of senior unsecured notes in September 2002.

Interest Expense

Interest expense increased approximately $6.3 million to $26.5 million for the nine months ended September 30, 2003, from $20.2 million for the comparable 2002 period. The increase was primarily related to an increase in the average debt balance during the 2003 period to approximately $524.7 million from approximately $422.0 million in the 2002 period, which resulted in additional interest expense of approximately $4.7 million. The higher average debt balance was primarily due to the portion of the Shell acquisition that was not financed with equity. This debt was outstanding for the entire period in 2003 versus only a portion of the period in 2002. In addition, increased commitment and other fees coupled with lower capitalized interest resulted in approximately $2.2 million of the increase in the 2003 period. Our weighted average interest rate decreased slightly during the first nine months of 2003 to 6.0% versus 6.2% for the nine months ended September 30, 2002, which decreased our interest expense by approximately $0.6 million. Although the interest rate change was slight, it was the net result of various factors that included an increase in the amount of fixed rate, long-term debt, long-term interest rate hedges and declining short-term interest rates. In mid-September 2002, we issued $200 million of ten-year bonds bearing a fixed interest rate of 7.75%. In the fourth quarter of 2002 and the first quarter of 2003, the company entered into hedging arrangements to lock in interest rates on approximately $50 million of its floating rate debt. In addition, the average three-month LIBOR rate declined from approximately 1.9% during the first nine months of 2002 to approximately 1.2% during the first nine months of 2003. The net impact of these factors, increased commitment fees and changes in average debt balances decreased the average interest rate by 0.2%.

Outlook

On October 29, 2003, we furnished information in an amended current report on Form 8-K/A containing management's guidance for operating and financial performance for the fourth quarter of 2003 and preliminary guidance for 2004, including a discussion of the significant factors and assumptions management considered in preparing our guidance, as well as a discussion of factors that could cause actual results to differ materially from results anticipated in the forward-looking statements. Information that is "furnished" in a Form 8-K is typically not included in a periodic report such as this quarterly report. As a result, the projections, assumptions and risk factors discussed in our 8-K/A furnished on October 29 are not incorporated by reference in this report.

This "Outlook" section and the section captioned "Forward Looking Statements and Associated Risks" identify certain matters of risk and uncertainty that may affect our financial performance and results of operations in the future.

Crude Oil Inventory

We value our crude oil inventory at the lower of cost or market, with cost determined using an average cost method. At September 30, 2003 we had approximately 574,000 barrels of inventory classified as unhedged operating inventory at a weighted average cost of $25.81 per barrel. The lower of cost or market method requires a write down of inventory to the market price at the end of a period in which our weighted average cost exceeds the market price. This method does not allow a write up of the inventory if the market price subsequently increases. We did not have an adjustment in this period. However, future fluctuations in crude oil prices could result in a period end lower of cost or market adjustment.

Acquisition Activities

Consistent with our business strategy, we are continuously engaged in discussions with potential sellers regarding the possible purchase by us of midstream crude oil assets. Such acquisition efforts involve participation by us in processes that have been made public, involve a number of potential buyers and are commonly referred to as "auction" processes, as well as situations in which we believe we are the only party or one of a very limited number of potential buyers in negotiations with the potential seller. These acquisition efforts often involve assets which, if acquired, would have a material effect on our financial condition and results of operations. We are currently in advanced negotiations for a crude oil pipeline and storage acquisition that is complementary to our existing asset base. We have signed a letter of intent with the seller and are in advanced negotiations with respect to a definitive purchase and sale agreement. If consummated under current terms, the purchase price is expected to be approximately $50 million. Since 1998, we have completed numerous acquisitions for an aggregate purchase price of approximately $1.3 billion. We can give you no assurance that our current or future acquisition efforts will be successful or that any such acquisition will be completed on terms considered favorable to us. In connection with these activities, we routinely incur third party costs, which are capitalized and deferred pending final outcome of the transaction. Deferred costs associated with successful transactions are capitalized as part of the transaction, while deferred costs associated with unsuccessful transactions are expensed at the time of such final determination. At September 30, 2003, the amount of costs deferred pending final outcome was $0.3 million.

Vesting of Unit Grants Under Long-Term Incentive Plan

As of September 30, 2003, there were grants covering approximately one million restricted units outstanding under our LTIP. Restricted unit grants become eligible to vest in the same proportion as the conversion of our outstanding subordinated units into common units, subject to any additional vesting requirements.

The subordination period (as defined in the partnership agreement) for the 10,029,619 outstanding subordinated units will end if certain financial tests are met for three consecutive, non-overlapping four-quarter periods (the "testing period"). See Note 6 to the Consolidated Financial Statements. We are now in the testing period and, in connection with the payment of the quarterly distribution in November 2003, 25% of the outstanding subordinated units will convert into common units. In conjunction with this conversion, approximately 35,000 restricted units vest, and a 90-day period will commence for approximately 220,000 additional restricted units that will not have any remaining vesting requirements except that the holder must continue employment with the Partnership for the remainder of the 90-day period.

Probable Vesting. Under generally accepted accounting principles, we are required to recognize an expense when it is considered probable that the financial tests for conversion of subordinated units and required distribution levels will be met and that restricted unit grants will vest. At September 30, 2003 we

concluded that the vesting of approximately 255,000 restricted units was probable and thus accrued

approximately $7.4 million of compensation expense based upon an estimated market price of $30.05 per unit (the unit price as of September 30, 2003), our share of employment taxes and other related costs. Under the LTIP, we may satisfy our obligations using a combination of cash, the issuance of new units and delivery of units purchased in the open market. Approximately $2.8 million of the $7.4 million accrued at September 30, 2003 is related to units granted to senior management of the partnership and will be settled almost exclusively with the delivery of units, net of taxes. We anticipate that in November 2003, to satisfy the vesting of those restricted units that vest substantially contemporaneously with the conversion of subordinated units, we will issue approximately 18,000 common units after netting for taxes and paying cash in lieu of a portion of the vested units. For those restricted units that require passage of time to vest, the 90-day period will expire and final vesting will occur in February 2004. We estimate we will issue approximately 100,000 common units in the first quarter of 2004 in connection with this probable vesting.

Potential Vesting. At the current distribution level of $2.20 per unit, assuming that the additional subordination conversion tests are met as of December 31, 2003, approximately 580,000 additional units will vest in connection with the payment of the quarterly distribution in February 2004. If at December 31, 2003, it is considered probable that this distribution level and tests will be met, the costs associated with the vesting of these additional units will be estimated and accrued in the fourth quarter of 2003. At a distribution level of $2.30 to $2.49, the number of additional units that would vest would increase by approximately 87,000. At a distribution level at or above $2.50, the number of additional units that would vest would increase by approximately 87,000. In all cases, vesting is subject to any applicable continuing employment requirements.

Subject to providing those holding less than a certain number of restricted units the option to receive cash, we are currently planning to issue units to satisfy the majority of restricted unit obligations that vest in connection with the conversion of subordinated units. If all conditions to vesting are met, we currently project the issuance of units (approximately 100,000 common units in connection with the probable vesting and approximately 239,000 common units in connection with the potential vesting) in the first half of 2004 to satisfy such obligations. Obligations satisfied by the issuance of units will result in a non-cash compensation expense. Purchase of units would result in a cash charge to compensation expense. In addition, the "company match" portion of payroll taxes, plus the value of any units withheld for taxes, will result in a cash charge. The aggregate amount of the potential charge to expense will be determined by the unit price on the date vesting occurs multiplied by the number of units, plus our share of associated employment taxes. The amount of the potential charge is subject to various factors, including the unit price on the date vesting occurs, and thus is not known at this time. As mentioned above, we have accrued approximately $7.4 million as of September 30, 2003 in connection with the probable vesting. At the current distribution level and based on an assumed market price of $30.05 per unit (the unit price as of September 30, 2003), the aggregate additional charge that would be triggered by the potential vesting (that is, if we determine it is probable that the additional units will vest) would be approximately $21 million, of which approximately $17 million would be accrued as of December 31, 2003 (although payment and issuance of units would not occur until the first and second quarters of 2004). Approximately $6.1 million of the potential charge is related to units granted to senior management of the partnership and will be settled almost exclusively with the delivery of units, net of taxes. We currently estimate that approximately one-third of the aggregate potential charge of $21 million will be settled with the delivery of units and the remainder in cash.

Contingent Equity Issuance

In connection with the CANPET acquisition in July 2001, approximately $26.5 million Canadian dollars of the purchase price, payable in common units, was deferred subject to various performance objectives being met. If these objectives are met as of December 31, 2003, the deferred amount is payable on April 30, 2004. The number of common units issued in satisfaction of the deferred payment

will depend upon the average trading price of our common units for a ten-day trading period prior to the payment date and the Canadian and U.S. dollar exchange rate on the payment date. In addition, an amount will be paid equivalent to the distributions that would have been paid on the common units had they been outstanding since the acquisition was consummated. At our option, the deferred payment may be paid in cash rather than the issuance of units. We believe that it is probable that the objectives will be met and the deferred amount will be paid in April 2004, however, it is not determinable beyond a reasonable doubt. Assuming the tests are met as of December 31, 2003, and the entire obligation is satisfied with common units, based on the foreign exchange rate and the ten-day average unit price in effect at September 30, 2003, (1.35 Canadian to U.S. dollar exchange rate and $30.36 per unit price) approximately 650,000 units would be issued.

Basin Expansion

We are currently evaluating a potential expansion of a segment of the Basin Pipeline System that extends from Colorado City to Cushing, Oklahoma. At times, the pipeline has operated at levels that are close to its current maximum throughput and we would like to be positioned to handle increased volumes if market conditions warrant. We estimate the expected expansion investment to be approximately $1.5 million and would expect higher incremental operating costs as we would have to activate pump stations that are currently idled. However, we can give no assurances that our volumes transported would increase as a result of this expansion.

OCS production

In early October, Plains Exploration and Production announced that they had received all of the necessary permits to develop a portion of the Rocky Point structure that is accessible from the Point Arguello platforms and it appears that they will commence drilling activities in the first quarter of 2004. Such drilling activities, if successful, are not expected to have a significant impact on pipeline shipments on our All American Pipeline system in 2004. However, such incremental drilling activity, if successful, could lead to increased volumes on our All American Pipeline System in 2005 and beyond. However, we can give no assurances that our volumes transported would increase as a result of this drilling activity.

Pipeline Rate Regulation

Our interstate common carrier pipeline operations are subject to rate regulation by the Federal Energy Regulatory Commission ("FERC") under the Interstate Commerce Act. The Interstate Commerce Act requires that tariff rates for petroleum pipelines, which includes crude oil, as well as refined product and petrochemical pipelines, be just and reasonable and non-discriminatory. The Energy Policy Act of 1992 deemed petroleum pipeline rates in effect for the 365-day

period ending on the date of enactment of the Energy Policy Act or that were in effect on the 365th day preceding enactment and had not been subject to complaint, protest or investigation during the 365-day period to be just and reasonable under the Interstate Commerce Act. Generally, complaints against such "grandfathered" rates may only be pursued if the complainant can show that a substantial change has occurred since enactment in either the economic circumstances or the nature of the services that were a basis for the rate or that a provision of the tariff is unduly discriminatory or preferential. In a FERC proceeding involving SFPP, L.P., certain shippers are challenging grandfathered rates on the basis of changed circumstances since the passage of the Energy Policy Act. The ultimate disposition of this challenge may define "substantial change" in such a way as to make grandfathered rates more vulnerable to challenge than has historically been the case. We are uncertain what effect, if any, an unfavorable determination in the FERC proceeding might have on our grandfathered tariffs.

On June 26, 2003, the FERC issued a Notice of Proposed Rulemaking that, if adopted, would impose substantial new reporting burdens on oil pipeline companies. Numerous regulated entities and

industry groups have commented on the proposal, and we cannot predict what the final provisions of the rulemaking might include, nor the impact the final rule would have on us.

Other

The following factors are likely to have a negative influence on our operating and financial results for the fourth quarter of 2003:

- In August, a blackout of electrical systems occurred in the Midwestern and Northeastern portions of the United States and Eastern Canada. Our pipelines and facilities were not directly impacted by the blackout and there was minimal adverse impact on our operations in the third quarter. However, as a result of related refinery shutdowns that caused crude oil pipelines within these regions to run slower than normal and the related impact on differentials within our Canadian operations, we currently anticipate that the indirect impact of the blackout may reduce fourth quarter earnings and cash flow by approximately $1 million.

- We are also expecting an increased level of operating expenses associated with a pipeline spill that occurred in October of 2003 in a remote area of Mississippi. On October 13, 2003, a raised pipeline crossing was struck and severed by a falling pine tree, which caused approximately 350 barrels of oil to escape the pipeline. We estimate that the costs related to containing the spill and clean up and recovery operations will increase operating expenses by approximately $1 million in the fourth quarter of 2003.

- In addition, the steep backwardation in the crude oil forward market (see Results of Operations—Gathering, Marketing, Terminalling and Storage Operations) that existed for most of the first eight months of the year weakened in September and we expect these weaker market conditions to continue for the remainder of the year. As a result, market conditions for the gathering and marketing business are not expected to be as strong in the fourth quarter of 2003 as they were for the first three quarters of 2003.

Liquidity and Capital Resources

Liquidity

Cash generated from operations and our credit facilities are our primary sources of liquidity. At September 30, 2003, we had a working capital deficit of approximately $65.3 million, approximately $441.9 million (net of $8.0 million to refinance term loan maturities due in the next twelve months) of availability under our revolving credit facility and $125.7 million of availability under the letter of credit and hedged inventory facility. Usage of the credit facilities is subject to compliance with covenants. We believe we are currently in compliance with all covenants.

We funded the purchase of the acquisitions completed in the first nine months of the year with funds drawn on our revolving credit facilities and available cash on hand. In September 2003, we completed a public offering of 3,250,000 common units priced at $30.91 per unit. Net proceeds from the offering, including our general partner's proportionate capital contribution and expenses associated with the offering, were approximately $98.0 million and were used to pay down our revolving credit facilities and term loan. In March 2003, we completed a public offering of 2,645,000 common units priced at $24.80 per unit. Net proceeds from the offering, including our general partner's proportionate capital contribution and expenses associated with the offering, were approximately $63.9 million and were used to pay down our revolving credit facilities.

On October 27, 2003, we announced that we intend to replace our existing senior secured credit facilities with new senior unsecured credit facilities totaling $750 million and a $200 million, 364-day uncommitted facility for the purchase of hedged crude oil. The new senior unsecured facility will be

comprised of a $455 million, 4-year revolving credit facility, a $170 million 364-day facility (with a 5-year term out option), and a $125 million, 364-day revolving credit facility.

In conjunction with this transaction, we anticipate a non-cash charge of approximately $3.3 million attributable to a loss on the early extinguishment of debt. This expected loss consists of unamortized debt issue costs expected to be written off as a result of the completion of the new credit facility. However, the actual amount of the charge will depend on the final provisions and lenders of the new facility. Although we anticipate closing the refinancing in the fourth quarter of 2003, we can give no assurances that we will successfully consummate the transaction.

The following table reflects our long-term debt obligations as of September 30, 2003 (in millions):

Calendar Year	Payment
2004	$ 8.0

2005	8.1
2006	76.0
2007	162.0
2008	—
Thereafter	200.0
Total[1]	$ 454.1

(1) Includes unamortized discount on 7.75% senior notes of approximately $0.4 million.

We believe that we have sufficient liquid assets, cash from operations and borrowing capacity under our credit agreements to meet our financial commitments, debt service obligations, contingencies and anticipated capital expenditures. However, we are subject to business and operational risks that could adversely effect our cash flow. A material decrease in our cash flows would likely produce a corollary adverse effect on our borrowing capacity.

Cash Flows

	Nine Months Ended September 30,	
	2003	2002
	(in millions)	
Cash provided by (used in):		
Operating activities	$ 195.7	$ 127.4
Investing activities	(144.8)	(349.8)
Financing activities	(51.0)	223.3

Operating Activities. Net cash provided by operating activities for the nine months ended September 30, 2003 was $195.7 million as compared to $127.4 million in the 2002 period. Cash provided by operating activities in the current year period consisted primarily of (i) net income of $59.6 million, (ii) depreciation and amortization of $34.2 million, (iii) a change in derivative fair value related to SFAS 133 of $1.7 million and (iv) net changes in assets and liabilities of approximately $100.1 million. Cash provided by operating activities in the prior year period consisted primarily of (i) net income of $47.5 million, (ii) depreciation and amortization of $23.1 million, (iii) a change in derivative fair value related to SFAS 133 of $2.1 million and (iv) net changes in assets and liabilities of approximately $54.7 million. The net changes in assets and liabilities are generally the result of the timing of cash receipts related to sales and cash disbursements related to purchases, inventory and other expenses. Inventory purchases and sales are accounted for as a use and source, respectively, of cash provided by operating activities. Accordingly, during periods of significant inventory builds or

draws, cash provided by operating activities will fluctuate significantly. Significant inventory activity is typically associated with periods when the market is transitioning into or out of contango, a market condition where prompt month crude oil prices trade at a discount to crude oil prices in one or more future months, and periods following acquisitions or expansion activities where the partnership builds working inventory to operate the expanded asset base.

Investing Activities. Net cash used in investing activities in 2003 includes an approximately $17.0 million deposit made for the ArkLaTex acquisition and an aggregate $82.9 million paid for acquisitions completed in the first half of 2003 and before and approximately $52.2 million for additions to property and equipment. These additions consist of $18.2 million related to the construction of crude oil gathering and transmission lines in West Texas and $34.0 million related to other capital projects. Net cash used in investing activities in 2002 includes $309.5 million related to our Shell acquisition, $14.3 million for other acquisitions, and $27.4 million of capital expenditures primarily for the Cushing expansion and other capital projects.

Financing Activities. Cash used in financing activities in 2003 consisted of (i) approximately $161.9 million of proceeds from the issuance of common units used to pay down outstanding balances on the revolving credit facility and Senior secured term B loan, (ii) $89.3 million of distributions paid to unitholders and the general partner, (iii) $43.0 million of principal repayments of our term loans, (iv) net repayments on our long-term revolving credit facilities of $13.1 million, and (v) net short-term debt repayments of $67.3 million primarily from the proceeds of inventory sales. Cash provided by financing activities in 2002 consisted primarily of (i) $199.6 million of proceeds from the issuance of senior unsecured notes, (ii) $145.3 million of proceeds from the issuance of common units, (iii) net repayments on our long-term revolving credit facilities of $42.3 million, (iv) $3.0 million of payments on our term loans, (v) $71.6 million of distributions paid to unitholders and the general partner, and (vi) a $5.4 million payment related to our financing arrangements.

Universal Shelf

We have filed with the Securities and Exchange Commission a universal shelf registration statement that, subject to effectiveness at the time of use, allows us to issue from time to time up to an aggregate of $700 million of debt or equity securities. At September 30, 2003, we have approximately $255 million remaining under this registration statement.

Contingencies

Litigation. We, in the ordinary course of business, are a claimant and/or a defendant in various legal proceedings. We do not believe that the outcome of these legal proceedings, individually or in the aggregate, will have a materially adverse effect on our financial condition, results of operations or cash flows.

Indemnities. In November, 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. We are party to various

contracts entered into in the ordinary course of business that contain indemnity provisions pursuant to which we indemnify the counterparties against various expenses. Our indemnity obligations are contingent upon the occurrence of events or circumstances specified in the contracts. No such events or circumstances have occurred at this time, and we do not consider our liability under such indemnity provisions, individually or in the aggregate, to be material to our financial position or results of operations.

Operational Hazards and Insurance. Pipelines, terminals or other facilities may experience damage as a result of an accident or natural disaster. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operations. Since the Partnership and its predecessors commenced midstream crude oil activities in the early 1990s, we have maintained insurance of various types and varying levels of coverage that we considered adequate under the circumstances to cover our operations and properties. The insurance policies are subject to deductibles and retention levels that we consider reasonable and not excessive. However, such insurance does not cover every potential risk associated with operating pipelines, terminals and other facilities, including the potential loss of significant revenues. Over the last several years, our operations have expanded significantly, with total assets increasing approximately 200% since the end of 1998. At the same time that the scale and scope of our business activities have expanded, the breadth and depth of the available insurance markets have contracted. Notwithstanding what we believe is a favorable claims history, the overall cost of such insurance as well as the deductibles and overall retention levels that we maintain have increased. This trend was reinforced in connection with the renewal of our insurance program in June 2003. Absent a material favorable change in available insurance markets, this trend of rising insurance-related costs is expected to continue as we continue to grow and expand. As a result, it is anticipated that we will elect to self insure more activities against certain of these operating hazards.

Environmental. We may experience future releases of crude oil into the environment from our pipeline and storage operations, or discover past releases that were previously unidentified. Although we maintain an inspection program designed to prevent and, as applicable, to detect and address such releases promptly, damages and liabilities incurred due to any such environmental releases from our assets may substantially affect our business. We believe that our reserve for environmental liabilities is adequate. However, no assurance can be given that any costs incurred in excess of this reserve would not have a material adverse effect on our financial condition, results of operations or cash flows.

Other. Since the terrorist attacks of September 11, 2001, the United States Government has issued numerous warnings that energy assets (including our nation's pipeline infrastructure) may be future targets of terrorist organizations. These developments expose our operations and assets to increased risks. We have instituted security measures and procedures in conformity with Department of Transportation ("DOT") guidance. We will institute, as appropriate, additional security measures or procedures indicated by the DOT or the Transportation Safety Administration (an agency of the Department of Homeland Security, which is in the transitional phase of assuming responsibility from the DOT). We cannot assure you that these or any other security measures would protect our facilities from a concentrated attack. Any future terrorist attacks on our facilities, those of our customers and, in some cases, those of our competitors, could have a material adverse effect on our business, whether insured or not.

The occurrence of a significant event not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our operations and financial condition. We believe we are adequately insured for public liability and property damage to others with respect to our operations. We believe that our levels of coverage and retention are generally consistent with those of similarly situated companies in our industry. With respect to all of our coverage, no assurance can be given that we will be able to maintain adequate insurance in the future at rates we consider reasonable, or that we have established adequate reserves to the extent that such risks are not insured.

Industry Credit Markets and Accounts Receivable

Throughout the latter part of 2001 and all of 2002, there have been significant disruptions and extreme volatility in the financial markets and credit markets. Because of the credit intensive nature of the energy industry and extreme financial distress at several large, diversified energy companies, the

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energy industry has been especially impacted by these developments. Accordingly, we are exposed to an increased level of direct and indirect counterparty credit and performance risk.

The majority of our credit extensions relate to our gathering and marketing activities that can generally be described as high volume and low margin activities. In our credit approval process, we make a determination of the amount, if any, of the line of credit to be extended to any given customer and the form and amount of financial performance assurances we require. Such financial assurances are commonly provided to us in the form of standby letters of credit or advance cash payments. At September 30, 2003, we had received approximately $39.5 million of advance cash payments from third parties to mitigate credit risk. These proceeds reduced our working capital requirements and were used to reduce long-term borrowings.

Recent Accounting Pronouncements

We continuously monitor and revise our accounting policies as our business and relevant accounting literature change. For further discussion of new accounting rules, see Item 1. Consolidated Financial Statements—Note 11 "Recent Accounting Pronouncements."

Forward-Looking Statements and Associated Risks

All statements, other than statements of historical fact, included in this report are forward-looking statements, including, but not limited to, statements identified by the words "anticipate," "believe," "estimate," "expect," "plan," "intend" and "forecast," and similar expressions and statements regarding our business strategy, plans and objectives for future operations. These statements reflect our current views with respect to future events, based on what we believe are reasonable assumptions. Certain factors could cause actual results to differ materially from results anticipated in the forward-looking statements. These factors include, but are not limited to:

- abrupt or severe production declines or production interruptions in outer continental shelf production located offshore California and transported on the All American Pipeline;

- declines in volumes shipped on the Basin Pipeline and our other pipelines by third party shippers;
- the availability of adequate supplies of and demand for crude oil in the areas in which we operate;
- the effects of competition;
- the success of our risk management activities;
- the impact of crude oil price fluctuations;
- the availability (or lack thereof) of acquisition or combination opportunities;
- successful integration and future performance of acquired assets;
- continued creditworthiness of, and performance by, our counterparties;
- conversion (or non-conversion) of our subordinated units into common units;
- completion of the refinancing of our credit facilities;
- our levels of indebtedness and our ability to receive credit on satisfactory terms;
- successful third-party drilling efforts in areas in which we operate pipelines or gather crude oil;
- shortages or cost increases of power supplies, materials or labor;
- weather interference with business operations or project construction;

- the impact of current and future laws and governmental regulations;
- the currency exchange rate of the Canadian dollar;
- environmental liabilities that are not covered by an indemnity or insurance;
- fluctuations in the debt and equity markets, including the price of our units at the time of vesting under our LTIP; and
- general economic, market or business conditions.

Other factors, such as the "Risk Factors Related to our Business" and the Recent Disruption in Industry Credit Markets discussed in Item 7 of our most recent annual report on Form 10-K or factors that are unknown or unpredictable, could also have a material adverse effect on future results. Except as required by applicable securities laws, we do not intend to update these forward-looking statements and information.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The following should be read in conjunction with Quantitative and Qualitative Disclosures About Market Risks included in Item 7A. in our 2002 Form 10-K. There have not been any material changes in that information other than those discussed below.

As of September 30, 2003 and December 31, 2002 the fair value of our crude oil futures contracts was approximately $30.6 million and $0.6 million respectively. A 10% price decrease would result in a decrease in fair value of $12.0 million and $4.3 million at September 30, 2003 and December 31, 2002, respectively.

During the first quarter of 2003, we converted a $50.0 million treasury lock into a 10-year LIBOR based swap that becomes effective in March 2004, contemporaneously with the expiration of an existing $50.0 million LIBOR based swap. At September 30, 2003, the fair value of our interest rate risk hedging instruments was a liability of approximately $10.5 million with $0.7 million maturing in 2004, $4.5 million in 2006 and $5.3 million in 2014.

As of September 30, 2003, the fair value of our currency exchange rate risk hedging instruments was a liability of approximately $4.0 million with $0.3 million maturing during 2003 and the remainder in 2006.

Item 4. CONTROLS AND PROCEDURES

We maintain written "disclosure controls and procedures," which we refer to as our "DCP." The purpose of our DCP is to provide reasonable assurance that (i) information is recorded, processed, summarized and reported in time to allow for timely disclosure of such information in accordance with the securities laws and SEC regulations and (ii) information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosure. Our DCP is incremental to our system of internal accounting controls designed to comply with the requirements of Section 13(b)(2) of the Exchange Act.

Applicable SEC rules require an evaluation of the effectiveness of the design and operation of our DCP, as of September 30, 2003, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Management (including our Chief Executive Officer and Chief Financial Officer) has evaluated the effectiveness of the design and operation of our DCP as of September 30, 2003, and has found our DCP to be

effective in providing reasonable assurance of the timely recording, processing, summarization and reporting of information, and in accumulation and communication of information to management to allow for timely decisions with regard to required disclosure.

In addition to the information concerning our DCP, we are required to disclose certain changes in our internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the third quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Exchange Act rules 13a-14(a) and 15d-14(a) are filed with this report as exhibits 31.1 and 31.2. The certifications of our Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350 are furnished with this report as exhibits 32.1 and 32.2.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We, in the ordinary course of business, are a claimant and/or a defendant in various legal proceedings. We do not believe that the outcome of these legal proceedings, individually or in the aggregate, will have a materially adverse effect on our financial condition, results of operations or cash flows.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits

3.1	Amended and Restated Limited Liability Company Agreement of Plains All American GP LLC dated June 8, 2001, as amended by the First Amendment dated September 16, 2003
31.1	Certification of Principal Executive Officer pursuant to Exchange Act rules 13a-14(a) and 15d-14(a)
31.2	Certification of Principal Financial Officer pursuant to Exchange Act rules 13a-14(a) and 15d-14(a)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350

B. Reports on Form 8-K.

A current report on Form 8-K/A was furnished on October 29, 2003, to correct certain information in the Form 8-K furnished on October 28, 2003.

A current report on Form 8-K was furnished on October 28, 2003, in connection with disclosure of fourth quarter 2003 projections and earnings guidance and preliminary guidance for certain aspects of financial performance for 2004.

A current report on Form 8-K was furnished on October 7, 2003, in connection with the disclosure of our presentation at Independent Petroleum Association of America's 2003 Oil & Gas Investment Symposium West.

A current report on Form 8-K was furnished on September 24, 2003, in connection with the disclosure of our presentation at Herold's 12th Annual Pacesetters Energy Conference.

A current report on Form 8-K was furnished on September 16, 2003, in connection with the disclosure of our presentation at the RBC Capital Markets 2003 North American Energy and Power Conference.

A current report on Form 8-K was filed on September 10, 2003, including as an exhibit an underwriting agreement with Citigroup Global Markets Inc., Lehman Brothers Inc., UBS Securities LLC, A.G. Edwards & Sons, Inc., Wachovia Capital Markets, LLC and RBC Dain Rauscher Inc. in connection with the sale by the Partnership of 3,250,000 common units of the Partnership.

A current report on Form 8-K was furnished on September 8, 2003, in connection with disclosure of our planned sale of common units pursuant to an effective shelf registration on Form S-3 previously filed with the Securities and Exchange Commission.

A current report on Form 8-K was filed on August 21, 2003, including as an exhibit the unaudited balance sheet of Plains AAP, L.P. as of June 30, 2003.

A current report on Form 8-K was furnished on August 5, 2003, in connection with disclosure of our presentation at the Enercom 8th Annual Oil & Gas Conference.

A current report on Form 8-K was furnished on July 29, 2003, in connection with disclosure of third quarter and full year 2003 projections and earnings guidance and preliminary guidance for certain aspects of financial performance for 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned and thereunto duly authorized.

	PLAINS ALL AMERICAN PIPELINE, L.P.	
	By:	PLAINS AAP, L.P., its general partner
	By:	PLAINS ALL AMERICAN GP LLC, its general partner
Date: November 7, 2003	By:	/s/ GREG L. ARMSTRONG
		Greg L. Armstrong, Chairman of the Board, Chief Executive Officer and Director of Plains All American GP LLC (Principal Executive Officer)
Date: November 7, 2003	By:	/s/ PHIL KRAMER
		Phil Kramer, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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Exhibit 3.1

AMENDED AND RESTATED

LIMITED LIABILITY COMPANY AGREEMENT

OF

PLAINS ALL AMERICAN GP LLC

dated as of June 8, 2001

as amended September 16, 2003

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AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF
PLAINS ALL AMERICAN GP LLC

THIS AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT (this "***Agreement***") of Plains All American GP LLC, a Delaware limited liability company (the "***Company***"), is made and entered into as of the 8th day of June, 2001 and amended as of September 16, 2003, by and among the Persons executing this Agreement on the signature pages hereto as a member (together with such other Persons that may hereafter become members as provided herein, referred to collectively as the "***Members***" or, individually, as a "***Member***").

WHEREAS, Plains All American Inc., a Delaware corporation *("**Rodeo, Inc.**")*, as the Company's initial member, formed the Company on May 21, 2001 as a limited liability company under the Act (as defined below) by causing a certificate of formation of the Company to be filed with the Delaware Secretary of State and has made a capital contribution of the LLC Incentive Distribution Rights (as defined in the Transfer Agreement (as hereinafter defined)) to the Company;

WHEREAS, Rodeo, Inc. and the other Members desire to enter into this Agreement pursuant to which such other Members shall be admitted to the Company;

WHEREAS, all of the property used in the trade or business of Rodeo, Inc. as General Partner (as defined in the Rodeo, L.P. Partnership Agreement) associated with the headquarter employees described in Section 1(a)(ii) of that certain Pension and Employee Benefits Assumption and Transition Agreement, dated as of the date hereof, by and among Rodeo, Rodeo, Inc. and the Company (the "***Transition Agreement***") has been transferred by Rodeo to the Company;

WHEREAS, in connection with the Contribution Agreement, the Company will have succeeded to the management and business activities formerly performed by Rodeo, Inc. as General Partner (as defined in the Rodeo, L.P. Partnership Agreement).

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein, the parties agree as follows:

ARTICLE 1
DEFINITIONS

As used herein, the following terms shall have the following meanings, unless the context otherwise requires:

"***Acceptance Notice***" shall have the meaning set forth in *Section 9.8(b)*.

"***Act***" means the Delaware Limited Liability Company Act, 6 *Del. C.* Section 18-101, *et seq.*, as amended from time to time.

"***Adjusted Capital Account Deficit***" means, with respect to a Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant Taxable Year, after giving effect to the following adjustments:

(a) Credit to such Capital Account any amounts which such Member is obligated to restore pursuant to any provision of this Agreement or is deemed to be obligated to restore pursuant to Regulation Sections 1.704-1(b)(2)(ii)(*c*), 1.704-2(g)(1) and 1.704-2(i)(5); and

(b) Debit to such Capital Account the items described in Regulation Sections 1.704-1(b)(2)(ii)(*d*)(*4*), 1.704-1(b)(2)(ii)(*d*)(*5*), and 1.704-1(b)(2)(ii)(*d*)(*6*).

"***Affiliate***" means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person.

"***Agreement***" shall have the meaning set forth in the preamble hereof, as the same may be amended from time to time in accordance with the terms hereof.

"***Authorized Representative***" shall have the meaning set forth in *Section 6.1*.

"***Available Cash***" means, with respect to a fiscal quarter, all cash and cash equivalents of the Company at the end of such quarter less the amount of cash reserves that is necessary or appropriate in the reasonable discretion of the Board to (a) provide for the proper conduct of the business of the Company (including reserves for future capital expenditures and for anticipated future credit needs of the Company) subsequent to such quarter or (b) comply with applicable law or any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which the Company is a party or by which it is bound or its assets or Property is subject; *provided, however*, that disbursements made by the Partnership to the Company or cash reserves established, increased or reduced after the expiration of such quarter but on or before the date of determination of Available Cash with respect to such quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, during such quarter if the Board so determines in its reasonable discretion.

"***Board***" means the Board of Directors of the Company.

"***Business***" means all Hydrocarbon gathering, transportation, terminalling, storage, and marketing and all operations related thereto, including, without limitation, (a) the acquisition, construction, installation, maintenance or remediation and operation of pipelines, gathering lines, compressors, facilities, storage facilities and equipment, and (b) the gathering of Hydrocarbons from fields, interstate and intrastate transportation by pipeline, trucks or barges, tank storage of Hydrocarbons, transferring Hydrocarbons from pipelines and storage tanks to trucks, barges or other pipelines, acquisition of Hydrocarbons at the well or bulk purchase at pipeline and terminal facilities and subsequent resale thereof.

"***Business Day***" means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in the City of New York.

"***Capital Account***" means, with respect to any Member, a separate account established by the Company and maintained for each Member in accordance with *Section 3.4* hereof.

"***Capital Contribution***" means, with respect to any Member, the amount of money and the initial Gross Asset Value of any Property (other than money) contributed to the Company with respect to the interests purchased by such Member pursuant to the terms of this Agreement, in return for which the Member contributing such capital shall receive a Membership Interest.

"***Cause***" shall have the meaning set forth in the Flores Employment Agreement.

"***Certificate***" means the Certificate of Formation of the Company filed with the Secretary of State of Delaware, as amended or restated from time to time.

"***Code***" means the United States Internal Revenue Code of 1986, as amended.

"***Company***" shall have the meaning set forth in the preamble hereof.

"***Company Affiliate***" shall have the meaning set forth in *Section 8.2*.

"***Compensatory Units***" shall have the meaning set forth in *Section 3.4(v)*.

"***Credit Agreements***" shall have the meaning set forth in the Transfer Agreement, as such credit agreements may be amended, modified or supplemented from time to time, including, without limitation, amendments, modifications, supplements and restatements thereof giving effect to increases, renewals, extensions, refundings, deferrals, restructurings, replacements or refinancings of, or additions to, the arrangements provided in such credit agreements.

"***Depreciation***" means, for each Taxable Year or other period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such Taxable Year, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such Taxable Year, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization or other cost recovery deduction for such Taxable Year bears to such beginning adjusted tax basis; *provided, however*, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such Taxable Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Board.

"***Directors***" shall have the meaning set forth in *Section 7.1(a)*.

"***E-Holdings***" means E-Holdings III, L.P., a Texas limited partnership.

"***Employees***" shall have the meaning set forth in *Section 13.2*.

"***EnCap***" shall have the meaning set forth in *Section 13.1*.

"***Encumbrance***" means any security interest, pledge, mortgage, lien (including, without limitation, environmental and tax liens), charge, encumbrance, adverse claim, any defect or imperfection in title, preferential arrangement or restriction, right to purchase, right of first refusal or other burden or encumbrance of any kind, other than those imposed by this Agreement.

"***Flores Employment Agreement***" means the Employment Agreement dated May 8, 2001 between JCF and Rodeo.

"***First Refusal Notice***" shall have the meaning set forth in *Section 9.8(a)*.

"***First Union***" shall have the meaning set forth in *Section 9.1*.

"***General Partner's Percentage***" means the "Percentage Interest" as to the "General Partner" (with respect to its "General Partner Interest") as such terms are defined in the Rodeo L.P. Partnership Agreement.

"***Good Reason***" shall have the meaning set forth in the Flores Employment Agreement.

"***Gross Asset Value***" means with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows and as otherwise provided in *Section 3.2(b)*:

(a) The initial Gross Asset Value of any asset contributed by a Member to the Company shall be the gross fair market value of such asset, as reasonably determined by the Board; *provided, however*, that the initial Gross Asset Values of the assets contributed to the Company pursuant to *Section 3.1* hereof shall be as set forth in such section or the schedule referred to therein;

(b) The Gross Asset Values of all Company assets shall be adjusted to equal their respective gross fair market values (taking Code Section 7701(g) into account), as reasonably determined by the Board as of the following times: (i) the acquisition of an additional interest in the Company by any new or

existing Member in exchange for more than a *de minimis* Capital Contribution; (ii) the distribution by the Company to a Member of more than a *de minimis* amount of Company property as consideration for an interest in the Company; and (iii) the liquidation of the Company within the meaning of Regulation Section 1.704-1(b)(2)(ii)(g); and

(c) The Gross Asset Value of any item of Company assets distributed to any Member shall be adjusted to equal the gross fair market value (taking Code Section 7701(g) into account) of such asset on the date of distribution as reasonably determined by the Board.

If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraph (b), such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset, for purposes of computing Profits and Losses.

"***Hydrocarbons***" means crude oil, natural gas, casinghead gas, condensate, sulphur, natural gas liquids, plant products, liquefied petroleum gas and other liquid or gaseous hydrocarbons produced in association therewith, including, without limitation, coalbed methane and gas and CO_2.

"***Independent Director***" means a Director who is eligible to serve on the Conflicts Committee (as defined, and provided for, in the Rodeo, L.P. Partnership Agreement) and is otherwise independent as defined in Sections 303.01(B)(2)(a) and (3) or any successor provisions of the listing standards of the New York Stock Exchange.

"***Initial Capital Contribution Date***" means the earlier to occur of (i) the Closing Date (as defined in the Transfer Agreements), or (ii) such date as may be determined by the Board upon not less than three Business Days' notice to the Members of such date.

"***Initial Designating Members***" means Rodeo, Inc., E-Holdings, Kafu and Sable.

"***Initial Directors***" shall have the meaning set forth in *Section 7.1(a)(i)*.

"***Initial Members***" means Rodeo, Inc., E-Holdings, Kafu, Sable, Management Entity, Strome, Strome Hedgecap and Raymond.

"***JCF***" means James C. Flores.

"***Kafu***" means KAFU Holdings, LP, a Delaware limited partnership.

"***Kayne Anderson***" shall have the meaning set forth in *Section 13.1*.

"***Limited Partnership Interest***" means, with respect to a Member, such Member's limited partnership interest in the Partnership, which refers to all of such Member's rights and interests in the Partnership in such Member's capacity as a limited partner thereof, all as provided in the Partnership Agreement and the Delaware Revised Uniform Limited Partnership Act.

"***Liquidating Trustee***" shall have the meaning set forth in *Section 10.3*.

"***LLC Incentive Distribution Rights***" has the meaning set forth in the Transfer Agreement.

"***Losses***" has the meaning set forth in the definition of "Profits" and "Losses".

"***Majority in Interest***" means, with respect to the Members or to any specified group or class of Members, Members owning more than fifty percent (50%) of the total Percentage Interests held by all Members or such specified group or class of Members, as applicable.

"***Management Entity***" shall mean PAA Management, L.P.

"***Management Sale***" shall have the meaning set forth in *Section 9.10*.

"***Member***" or "***Members***" shall have the meaning set forth in the preamble hereof.

"***Membership Interest***" means a Member's limited liability company interest in the Company which refers to all of a Member's rights and interests in the Company in such Member's capacity as a Member, all as provided in this Agreement and the Act.

"***Membership Transfer***" shall have the meaning set forth in *Section 9.1(b)*.

"***Non-Selling Members***" shall have the meaning set forth in *Section 9.8(b)*.

"***Notice***" means a writing, containing the information required by this Agreement to be communicated to a party, and shall be deemed to have been received (a) when personally delivered or

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sent by telecopy, (b) one day following delivery by overnight delivery courier, with all delivery charges pre-paid, or (c) on the third Business Day following the date on which it was sent by United States mail, postage prepaid, to such party at the address or fax number, as the case may be, of such party as shown on the records of the Company.

"***Offer***" shall have the meaning set forth in *Section 9.8(a)*.

"***Offeror***" shall have the meaning set forth in *Section 9.8(a)*.

"***Officer***" shall have the meaning set forth in *Section 7.8*.

"***Optioned Interest***" shall have the meaning set forth in *Section 9.8(a)*.

"***Partnership***" means Plains AAP, L.P., a Delaware limited partnership.

"***Partnership Agreement***" means the Amended and Restated Agreement of Limited Partnership of the Partnership, dated as of the date hereof, by and between the Company, as the general partner, Rodeo, Inc., Sable Investments, L.P., E-Holdings, Kafu, Management Entity, Raymond, Strome, Strome Hedgecap and any other Persons who become partners in the Partnership as provided therein, as amended from time to time in accordance with the terms thereof.

"***Partnership Transfer***" shall have the meaning set forth in *Section 9.1(b)*.

"***Percentage Interest***" of a Member means the aggregate percentage of Membership Interests of such Member set forth on *Schedule 1* hereto, as the same may be modified from time to time as provided herein.

"***Permitted Transfer***" shall mean:

(a) a Transfer of any or all of the Membership Interest by any Member who is a natural person to (i) such Member's spouse, children (including legally adopted children and stepchildren), spouses of children or grandchildren or spouses of grandchildren; (ii) a trust for the benefit of the Member and/or any of the Persons described in clause (i); or (iii) a limited partnership or limited liability company whose sole partners or members, as the case may be, are the Member and/or any of the Persons described in clause (i) or clause (ii); *provided*, that in any of clauses (i), (ii) or (iii), the Member transferring such Membership Interest, or portion thereof, retains exclusive power to exercise all rights under this Agreement;

(b) a Transfer of any or all of the Membership Interest by any Member to the Company; or

(c) a Transfer of any or all of the Membership Interest by a Member to any Affiliate of such Member; *provided, however*, that such transfer shall be a Permitted Transfer only so long as such Membership Interest, or portion thereof, is held by such Affiliate or is otherwise transferred in another Permitted Transfer.

Provided, however, that no Permitted Transfer shall be effective unless and until the transferee of the Membership Interest, or portion thereof, so transferred complies with *Sections 9.1(b)*. Except in the case of a Permitted Transfer pursuant to clause (b) above, from and after the date on which a Permitted Transfer becomes effective, the Permitted Transferee of the Membership Interest, or portion thereof, so transferred shall have the same rights, and shall be bound by the same obligations, under this Agreement as the transferor of such Membership Interest, or portion thereof, and shall be deemed for all purposes hereunder a Member and such Permitted Transferee shall, as a condition to such Transfer, agree in writing to be bound by the terms of this Agreement. No Permitted Transfer shall conflict with or result in any violation of any judgment, order, decree, statute, law, ordinance, rule or regulation or require the Company, if not currently subject, to become subject, or if currently subject, to become subject to a greater extent, to any statute, law, ordinance, rule or regulation, excluding matters of a ministerial nature that are not materially burdensome to the Company.

"***Permitted Transferee***" shall mean any Person who shall have acquired and who shall hold a Membership Interest, or portion thereof, pursuant to a Permitted Transfer.

"***Person***" means any individual, partnership, corporation, limited liability company, trust, incorporated or unincorporated organization or other legal entity of any kind.

"***Profits***" and "***Losses***" means, for each Taxable Year, an amount equal to the Company's net taxable income or loss for a taxable year, determined in accordance with Section 703(a) of the Code (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Section 703(a)(1) of the Code shall be included in computing such taxable income or loss), with the following adjustments:

(a) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses shall be added to such taxable income or loss;

(b) Any expenditures of the Company described in Section 705(a)(2)(B) of the Code or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulation Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Profits or Losses, shall be subtracted from such taxable income or loss;

(c) In the event the Gross Asset Value of any Company asset is adjusted pursuant to subparagraphs (b) or (c) of the definition of Gross Asset Value, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the Gross Asset Value of the asset) or an item of loss (if the adjustment decreases the Gross Asset Value of the asset) from the disposition of such asset and shall be taken into account for purposes of computing Profits or Losses;

(d) Gain or loss resulting from any disposition of Property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the Property disposed of, notwithstanding that the adjusted tax basis of such Property differs from its Gross Asset Value;

(e) In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Taxable Year, computed in accordance with the definition of Depreciation; and

(f) To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Regulation Sections 1.704-1(b)(2)(iv)(m)(4) to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Member's interest in the Company, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis

of the asset) or loss (if the adjustment decreases such basis) from the disposition of such asset and shall be taken into account for purposes of computing Profits or Losses.

"***Property***" means all assets, real or intangible, that the Company may own or otherwise have an interest in from time to time.

"***Raymond***" means John T. Raymond.

"***Regulations***" means the regulations, including temporary regulations, promulgated by the United States Department of Treasury with respect to the Code, as such regulations are amended from time to time, or corresponding provisions of future regulations.

"***Regulatory Allocations***" shall have the meaning set forth in *Section 5.3(c)*.

"***Rodeo***" means Plains Resources Inc., a Delaware corporation.

"***Rodeo, Inc.***" shall have the meaning set forth in the preamble hereof.

"***Rodeo, L.P.***" means Plains All American Pipeline, L.P., a Delaware limited partnership.

"***Rodeo, L.P. Partnership Agreement***" means the Second Amended and Restated Agreement of Limited Partnership of Rodeo, L.P., as amended from time to time.

"***Sable***" means Sable Investments, L.P.

A "***Sable Change of Control***" shall be deemed to occur if: any Person or "Group" (as such term is used in Section 13(d) of the Exchange Act), other than JCF or any entity or entities controlled by JCF, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), of (a) more than 50% of the general or limited partnership interests in Sable or (b) stock or other equity interests of any legal entity that controls Sable representing more than 50% of the voting interests entitled to vote generally for the election of the board of directors or other governing body of such entity.

"***Selling Member***" shall have the meaning set forth in *Section 9.8(a)*.

"***Strome***" means Mark E. Strome.

"***Strome Hedgecap***" means Strome Hedgecap Fund, L.P.

"***Subsidiary***" means, with respect to a Person, any corporation, partnership, association or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or (ii) if a partnership, association or other business entity, a majority of either (x) the partnership or other similar ownership interest thereof or (y) the stock or equity interest of such partnership, association or other business entity's general partner, managing member or other similar controlling Person, is at the time owned or controlled, directly or indirectly, by such Person or one or more Subsidiaries of that Person or a combination thereof. For purposes of this Agreement, with respect to the Company, each of the Partnership and Rodeo, L.P., and each of their respective Subsidiaries, shall be a Subsidiary of the Company.

"***Super Majority in Interest***" means Members owning Membership Interests with Percentage Interests aggregating at least $66^{2}/_{3}$%.

"***Taxable Year***" shall mean the calendar year.

"***Tax Matters Member***" shall have the meaning set forth in *Article 11*.

"***Transfer***" or "***Transferred***" means to give, sell, exchange, assign, transfer, pledge, hypothecate, bequeath, devise or otherwise dispose of or encumber, voluntarily or involuntarily, by operation of law or otherwise. When referring to a Membership Interest, "Transfer" shall mean the Transfer of such Membership Interest whether of record, beneficially, by participation or otherwise.

"***Transfer Agreements***" means those certain Unit Transfer and Contribution Agreements, dated as of May 8, 2001, by and among PAAI LLC, Rodeo, Rodeo, Inc. and each of (i) Sable, Sable Holdings, L.P. and JCF; (ii) E-Holdings; (iii) Kafu Holdings, LLC; (iv) Strome; (v) Strome Hedgecap; and (vi) Raymond, as may be amended from time to time.

"***Transition Agreement***" has the meaning set forth in the preamble hereof.

ARTICLE 2
GENERAL

2.1 *Formation.* The name of the Company is Plains All American GP LLC. The rights and liabilities of the Members shall be as provided in the Act for Members except as provided herein. To the extent that the rights or obligations of any Member are different by reason of any provision of this Agreement than they would be in the absence of such provision, to the extent permitted by the Act, this Agreement shall control.

2.2 *Principal Office.* The principal office of the Company shall be located at 333 Clay Street, 29th Floor, Houston, Texas 77002 or at such other place(s) as the Board may determine from time to time.

2.3 *Registered Office and Registered Agent.* The location of the registered office and the name of the registered agent of the Company in the State of Delaware shall be as stated in the Certificate or as determined from time to time by the Board.

2.4 *Purpose of the Company.* The Company's purposes, and the nature of the business to be conducted and promoted by the Company, are (a) to act as the general partner of the Partnership in accordance with the terms of the Partnership Agreement and (b) to engage in any and all activities necessary, advisable, convenient or incidental to the foregoing.

2.5 *Date of Dissolution.* The Company shall have perpetual existence unless the Company is dissolved pursuant to *Article 10* hereof. The existence of the Company as a separate legal entity shall continue until cancellation of the Certificate in the manner required by the Act.

2.6 *Qualification.* The President and Chief Executive Officer, any Vice President, the Secretary and any Assistant Secretary of the Company is hereby authorized to qualify the Company to do business as a foreign limited liability company in any jurisdiction in which the Company may wish to conduct business and each is hereby designated as an authorized person, within the meaning of the Act, to execute, deliver and file any amendments or restatements of the Certificate and any other certificates and any amendments or restatements thereof necessary for the Company to so qualify to do business in any such state or territory.

2.7 *Members*.

(a) *Powers of Members*. The Members shall have the power to exercise any and all rights or powers granted to the Members pursuant to the express terms of this Agreement. Except as expressly provided herein, the Members shall have no power to bind the Company and no authority to act on behalf of the Company.

(b) *Partition*. Each Member waives any and all rights that it may have to maintain an action for partition of the Company's Property.

(c) *Resignation*. Except upon a Transfer of all of its Membership Interests in accordance with this Agreement, a Member may not resign from the Company prior to the dissolution and winding up of the Company. A Member ceases to be a Member only upon: (i) a Permitted Transfer of all of such Member's Membership Interest and the transferee's admission as a substitute Member, all in accordance with the terms of this Agreement, or (ii) completion of dissolution and winding up of the Company pursuant to *Article 10*.

(d) *Ownership*. Each Member shall be entitled to receive a Membership Interest in exchange for a Capital Contribution. Each Membership Interest shall correspond to a "limited liability company interest" as is provided in the Act. The Company shall be the owner of the Property. No Member shall have any ownership interest or right in the Property, including Property conveyed by

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a Member to the Company, except indirectly by virtue of a Member's ownership of a Membership Interest.

2.8 *Reliance by Third Parties.* Except with respect to certain tax matters, Persons dealing with the Company shall be entitled to rely conclusively upon the power and authority of an Officer.

ARTICLE 3
CAPITALIZATION OF THE COMPANY

3.1 *Initial Capital Contributions.* On June 8, 2001, Rodeo, Inc. made a Capital Contribution to the capital of the Company consisting of the LLC Incentive Distribution Rights. On the Initial Capital Contribution Date, each Initial Member shall make a Capital Contribution to the capital of the Company consisting of cash as set forth opposite such Member's name on *Schedule 1* hereto, which shall immediately be distributed to Rodeo, Inc. The initial Percentage Interest of such Member following such Capital Contribution on the Initial Capital Contribution Date shall be as set forth on *Schedule 1* hereto, which shall be amended from time to time in accordance with the terms hereof (including, but not limited to, upon the making of additional Capital Contributions pursuant to *Section 3.2(b)*) to reflect appropriate adjustments to such Percentage Interests and Capital Contributions.

3.2 *Additional Capital Contributions*.

(a) Except as set forth in *Section 3.1* and for Capital Contributions from each Member in proportion to such Member's then outstanding Percentage Interest in respect of the General Partner's Percentage for equity issuances by Rodeo, L.P., and for equity issuances approved pursuant to *Section 7.9(b)(ii)*, no Member shall be required to make any additional Capital Contribution.

(b) Subject to the approval of a Majority in Interest pursuant to *Section 7.9*, the Company may offer additional Membership Interests to any Person with the approval of the Board. Such approval of the Majority in Interest shall also include their approval of any related valuations of Gross Asset Value by the Board and, if such Majority in Interest approves such issuance without approving such valuation, Gross Asset Value shall be determined by a third Person familiar with the valuation of such transactions selected by the Majority in Interest not later than ten (10) days after their approval of such issuance or, if the Majority in Interest fails to so select a third Person, then such third Person will be selected in accordance with the rules and procedures of the American Arbitration Association in Houston, Texas. If any additional Capital Contributions are made by Members but not in proportion to their respective Percentage Interests, the Percentage Interest of each Member shall be adjusted such that each Member's revised Percentage Interest determined immediately following each such additional Capital Contribution shall be equal to a fraction (i) the numerator of which is the sum of (A) the positive Capital Account balance of the Member determined immediately preceding the date such additional Capital Contribution is made (such Capital Account to be computed by adjusting the book value for Capital Account purposes of each Company asset to equal its Gross Asset Value as of such date, as provided in subparagraph (b) of the definition herein of "Gross Asset Value"), and (B) such additional Capital Contribution, if any, made by such Member, and (ii) the denominator of which is the sum of the positive Capital Account balances immediately preceding the date such additional Capital Contribution is made plus additional Capital Contributions of all Members on the date of such additional Capital Contribution, including Capital Contributions of any

new Members (in each case calculated as provided in (i) above). The names, addresses and Capital Contributions of the Members shall be reflected in the books and records of the Company.

3.3 *Loans*.

(a) No Member shall be obligated to loan funds to the Company. Loans by a Member to the Company shall not be considered Capital Contributions. The amount of any such loan shall be a debt of the Company owed to such Member in accordance with the terms and conditions upon which such loan is made.

(b) A Member may (but shall not be obligated to) guarantee a loan made to the Company. If a Member guarantees a loan made to the Company and is required to make payment pursuant to such guarantee to the maker of the loan, then the amounts so paid to the maker of the loan shall be treated as a loan by such Member to the Company and not as an additional Capital Contribution.

3.4 *Maintenance of Capital Accounts*.

(a) The Company shall maintain for each Member a separate Capital Account with respect to the Membership Interest owned by such Member in accordance with the following provisions:

(i) To each Member's Capital Account there shall be credited (A) such Member's Capital Contributions, (B) such Member's share of Profits and (C) the amount of any Company liabilities assumed by such Member or which are secured by any Property distributed to such Member. The principal amount of a promissory note which is not readily traded on an established securities market and which is contributed to the Company by the maker of the note (or a Member related to the maker of the note within the meaning of Regulation Section 1.704-1(b)(2)(ii)(c)) shall not be included in the Capital Account of any Member until the Company makes a taxable disposition of the note or until (and only to the extent) principal payments are made on the note, all in accordance with Regulation Section 1.704-1(b)(2)(iv)(d)(2);

(ii) To each Member's Capital Account there shall be debited (A) the amount of money and the Gross Asset Value of any Property distributed or treated as an advance distribution to such Member pursuant to any provision of this Agreement (including without limitation any distributions pursuant to *Section 4.1*), (B) such Member's share of Losses and (C) the amount of any liabilities of such Member assumed by the Company or which are secured by any Property contributed by such Member to the Company;

(iii) In the event Membership Interests are Transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent such Capital Account relates to the Transferred Membership Interests; and

(iv) In determining the amount of any liability for purposes of *Sections 3.4(a)(i) and (ii)* there shall be taken into account Code Section 752(c) and any other applicable provisions of the Code and Regulations.

(v) For purposes hereof, the Capital Account of Rodeo, Inc. shall be increased by the fair market value of the subordinated units in Rodeo, L.P. delivered to employees of the Company by Rodeo or an affiliate of Rodeo pursuant to Section 1(d)(ii) of the Transition Agreement of even date herewith (the "***Compensatory Units***") and by an amount equal to the payment of transition bonuses to employees of the Company pursuant to the Transition Agreement for which a deduction is allocated to Rodeo, Inc. pursuant to *Section 5.3(d)*.

(b) The foregoing *Section 3.4(a)* and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulation Section 1.704-1(b) and, to the greatest extent practicable, shall be interpreted and applied in a manner consistent with such Regulation. The Board in its discretion and to the extent otherwise consistent with the terms of this Agreement shall (i) make any adjustments that are necessary or appropriate to maintain

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equality between the Capital Accounts of the Members and the amount of capital reflected on the Company's balance sheet, as computed for book purposes, in accordance with Regulation Section 1.704-1(b)(2)(iv)(q), and (ii) make any appropriate modifications in the event unanticipated events might otherwise cause this Agreement not to comply with Regulation Section 1.704-1(b).

3.5 *Capital Withdrawal Rights, Interest and Priority.* Except as expressly provided in this Agreement, no Member shall be entitled to (a) withdraw or reduce such Member's Capital Contribution or to receive any distributions from the Company, or (b) receive or be credited with any interest on the balance of such Member's Capital Contribution at any time.

ARTICLE 4
DISTRIBUTIONS

4.1 *Distributions of Available Cash.* An amount equal to 100% of Available Cash with respect to each fiscal quarter of the Partnership shall be distributed to the Members in proportion to their relative Percentage Interests within forty-five days after the end of such quarter.

4.2 *Persons Entitled to Distributions.* All distributions of Available Cash to Members for a fiscal quarter pursuant to *Section 4.1* shall be made to the Members shown on the records of the Company to be entitled thereto as of the last day of such quarter, unless the transferor and transferee of any Membership Interest otherwise agree in writing to a different distribution and such distribution is consented to in writing by the Board.

4.3 *Limitations on Distributions*.

(a) Notwithstanding any provision of this Agreement to the contrary, no distributions shall be made except pursuant to this *Article 4* or *Article 10*.

(b) Notwithstanding any provision of this Agreement to the contrary, no distribution hereunder shall be permitted if such distribution would violate Section 18-607 of the Act or other applicable law.

ARTICLE 5
ALLOCATIONS

5.1 *Profits.* Profits for any Taxable Year shall be allocated:

(a) first, to those Members to which Losses have previously been allocated pursuant to *Section 5.2(c)* hereof so as to bring each such Member's Capital Account to zero, pro rata in accordance with the sum of each such Member's Losses; and

(b) second, any remaining Profits shall be allocated among the Members in proportion to their respective Percentage Interests.

5.2 *Losses.* Losses for any Taxable Year shall be allocated:

(a) first, to the Members to which Profits have previously been allocated pursuant to Section 5.1(b) to the extent of such Profits;

(b) second, to Members in proportion to their positive Capital Account balances until such Capital Account balances have been reduced to zero; and

(c) third, any remaining Losses shall be allocated among the Members in proportion to their respective Percentage Interests.

5.3 *Regulatory Allocations*.

(a) *Gross Income Allocation*. In the event any Member has an Adjusted Capital Account Deficit at the end of any Taxable Year, such Member shall be specially allocated items of Company income and gain in the amount of such deficit balance as quickly as possible; *provided*, that an allocation pursuant to this *Section 5.3(a)* shall be made only if and to the extent that such Member would have an Adjusted Capital Account Deficit balance after all other allocations provided for in this *Article 5* have been made.

(b) *Qualified Income Offset*. In the event any Member unexpectedly receives any adjustments, allocations, or distributions described in Regulation Sections 1.704-1(b)(2)(ii)(*d*)(*4*), 1.704-1(b)(2)(ii)(*d*)(*5*) or 1.704-1(b)(2)(ii)(*d*)(*6*), items of Company income and gain shall be specially allocated to such Member in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account Deficit of such Member as quickly as possible, *provided*, that an allocation pursuant to this *Section 5.3(b)* shall be made only if and to the extent that such Member would have an Adjusted Capital Account Deficit after all other allocations provided for in this *Article 5* have been made.

(c) *Curative Allocations*. The allocations set forth in *Sections 5.3(a) and (b)* hereof (the "***Regulatory Allocations***") are intended to comply with certain requirements of the Regulations. It is the intent of the Members that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss or deduction pursuant to this *Section 5.3(c)*. Therefore, notwithstanding any other provision of this *Article 5* (other than the Regulatory Allocations), the Board shall make such offsetting special allocations of income, gain, loss or deduction in whatever manner it determines appropriate so that, after such offsetting allocations are made, each Member's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had if the Regulatory Allocations were not part of this Agreement and all such items were allocated pursuant to *Sections 5.1 and 5.2* without regard to the Regulatory Allocations.

(d) *Special Allocation*. Rodeo, Inc. shall be allocated any deductions arising from the delivery of Compensatory Units or the payment by Rodeo, Inc. or an affiliate of Rodeo, Inc. of transition bonuses pursuant to the Transition Agreement to employees of the Company.

5.4 *Tax Allocations: Code Section 704(c)*.

(a) Except as otherwise provided herein, for federal income tax purposes, (i) each item of income, gain, loss and deduction shall be allocated among the Members in the same manner as its correlative item of "book" income, gain, loss or deduction is allocated pursuant to *Sections 5.1 and 5.2*, and (ii) each tax credit shall be allocated to the Members in the same manner as the receipt or expenditure giving rise to such credit is allocated pursuant to *Section 5.1 or 5.2*.

(b) In accordance with Code Section 704(c) and the Regulations thereunder, income, gain, loss and deduction with respect to any Property contributed to the capital of the Company shall, solely for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such Property to the Company for federal income tax purposes and its initial Gross Asset Value (computed in accordance with the definition herein of "Gross Asset Value"). The Company shall use the remedial method of allocations specified in Treas. Reg. §1.704-3(d), or successor regulations, unless otherwise required by law, with respect to the initial contribution property set forth on Schedule I.

(c) In the event the Gross Asset Value of any Company asset is adjusted pursuant to subparagraph (b) of the definition herein of "Gross Asset Value", subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account of any variation

between the adjusted basis of such asset for federal income tax purposes and its Gross Asset Value in the same manner as under Code Section 704(c) and the Regulations thereunder.

(d) Any elections or other decisions relating to such allocations shall be made by the Board in any manner that reasonably reflects the purpose and intention of this Agreement; *provided*, that the Company, in the discretion of the Board, may make, or not make, "curative" or "remedial" allocations (within the meaning of the Regulations under Code Section 704(c)) including, but not limited to, "curative" allocations which offset the effect of the "ceiling rule" for a prior Taxable Year (within the meaning of Regulation Section 1.704-3(c)(3)(ii)) and "curative" allocations from disposition of contributed property (within the meaning of Regulation Section 1.704-3(c)(3)(iii)(B)). Allocations pursuant to this *Section 5.4* are solely for purposes of federal, state, and local taxes and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of Profits, Losses, other items, or distributions pursuant to any provision of this Agreement.

5.5 *Change in Percentage Interests.* In the event that the Members' Percentage Interests change during a Taxable Year, Profits and Losses shall be allocated taking into account the Members' varying Percentage Interests for such Taxable Year, determined on a daily, monthly or other basis as determined by the Board, using any permissible method under Code Section 706 and the Regulations thereunder.

5.6 *Withholding.* Each Member hereby authorizes the Company to withhold from income or distributions allocable to such Member and to pay over any taxes payable by the Company or any of its Affiliates as a result of such Member's participation in the Company; if and to the extent that the Company shall be required to withhold any such taxes, such Member shall be deemed for all purposes of this Agreement to have received a distribution from the Company as of the time such withholding is required to be paid, which distribution shall be deemed to be a distribution to such Member to the extent that the Member is then entitled to receive a distribution. To the extent that the aggregate of such distributions in respect of a Member for any period exceeds the distributions to which such Member is entitled for such period, the amount of such excess shall be considered a demand loan from the Company to such Member, with interest at the rate of interest per annum that Citibank, N.A., or any successor entity thereto, announces from time to time as its prime lending rate, which interest shall be treated as an item of Company income, until discharged by such Member by repayment, which may be made in the sole discretion of the Board out of distributions to which such Member would otherwise be subsequently entitled. The withholdings referred to in this *Section 5.6* shall be made at the maximum applicable statutory rate under applicable tax law unless the Board shall have received an opinion of counsel or other evidence, satisfactory to the Board, to the effect that a lower rate is applicable, or that no withholding is applicable.

ARTICLE 6
MEMBERS' MEETINGS

6.1 *Meetings of Members; Place of Meetings.* Regular meetings of the Members shall be held on an annual basis or more frequently as determined by a Majority in Interest. All meetings of the Members shall be held at a location either within or outside the State of Delaware as designated from time to time by the Board and stated in the Notice of the meeting or in a duly executed waiver of the Notice thereof. Special meetings of the Members may be held for any purpose or purposes, unless otherwise prohibited by law, and may be called by the Board or by a Majority in Interest. A Member expecting to be absent from a meeting shall be entitled to designate in writing (or orally; *provided*, that such oral designation is later confirmed in writing) a proxy (an "***Authorized Representative***") to act on behalf of such Member with respect to such meeting (to the same extent and with the same force and effect as the Member who has designated such Authorized Representative). Such Authorized Representative shall have full power and authority to act and take actions or refrain from taking

actions as the Member by whom such Authorized Representative has been designated. Members and Authorized Representatives may participate in a meeting of the Members by means of conference telephone or other similar communication equipment whereby all Members or Authorized Representatives participating in the meeting can hear each other. Participation in a meeting in this manner shall constitute presence in person at the meeting, except when a Member or Authorized Representative participates for the express purpose of objecting to the transaction of any business on the ground that the meeting was not lawfully called or convened.

6.2 *Quorum; Voting Requirement.* The presence, in person or by proxy, of a Majority in Interest of the Members shall constitute a quorum for the transaction of business by the Members. The affirmative vote of a Majority in Interest shall constitute a valid decision of the Members, except where a different vote is required by the Act or this Agreement.

6.3 *Proxies.* At any meeting of the Members, every Member having the right to vote thereat shall be entitled to vote in person or by proxy appointed by an instrument in writing signed by such Member and bearing a date not more than one year prior to the date of such meeting.

6.4 *Action Without Meeting.* Any action required or permitted to be taken at any meeting of Members of the Company may be taken without a meeting, without prior notice and without a vote if a consent in writing setting forth the action so taken is signed by Members having not less than the minimum Percentage Interest that would be necessary to authorize or take such action at a meeting of the Members. Prompt Notice of the taking of any action taken pursuant to this *Section 6.4* by less than the unanimous written consent of the Members shall be given to those Members who have not consented in writing.

6.5 *Notice.* Notice stating the place, day and hour of the meeting of Members and the purpose for which the meeting is called shall be delivered personally or sent by mail or by telecopier not less than two (2) Business Days nor more than sixty (60) days before the date of the meeting by or at the direction of the Board or other Persons calling the meeting, to each Member entitled to vote at such meeting.

6.6 *Waiver of Notice.* When any Notice is required to be given to any Member hereunder, a waiver thereof in writing signed by the Member, whether before, at or after the time stated therein, shall be equivalent to the giving of such Notice.

ARTICLE 7
MANAGEMENT AND CONTROL

7.1 *Board of Directors*.

(a) (i) Except as otherwise provided hereunder, the business and affairs of the Company shall be managed by or under the direction of the Board, which shall, subject to *Section 7.1(a)(iv)*, consist of seven (7) individuals designated as directors of the Company (the "***Directors***") as follows: (A) subject to Section 7.1(a)(iv), each Initial Designating Member shall be entitled to designate one (1) Director, (B) a Majority in Interest shall elect two (2) Directors, both of whom shall be Independent Directors, and (C) the Chief Executive Officer of the Company shall be a Director. As of the date hereof, the Directors shall be the individuals set forth on *Schedule 7.1* to this Agreement (the "***Initial Directors***"), each to hold office until his or her successor is elected pursuant to this *Section 7.1(a)* or until his or her earlier death, resignation or removal. Subject to Section 7.1(a)(iv), an Initial

Designating Member may assign its right to designate a Director in connection with the transfer of all of such Initial Designating Member's Membership Interest to a Permitted Transferee.

(ii) [as amended on September 16, 2003] At each annual meeting of the Members and at each special meeting of the Members called for the purpose of electing Directors (subject to

the third to last sentence of this *Section 7.1(a)(ii)*), each Member shall be entitled to designate the number of Directors as set forth in *Section 7.1(a)(i)*. Each Member shall cooperate with respect to calling and attending meetings of Members and electing the Directors designated by the Members, including voting in favor of Directors designated pursuant to *Section 7.1(a)(i)* and any replacement Directors pursuant to *Section 7.1(a)(iii); provided*, that the failure to hold any such meetings shall not limit or eliminate a Member's right to designate Directors pursuant to *Section 7.1(a)(i)*. The initial term of the Initial Directors, and any successors thereto, will expire on August 31, 2004 or when their successors are duly elected. Thereafter, Directors shall be elected to serve annual terms expiring on the date of the annual meeting of Members following such election. Each Director shall hold office until his or her successor is elected pursuant to this *Section 7.1(a)* or until his or her earlier death, resignation or removal. The provisions of *Section 7.1(a)(i), (ii) and (iii)* are subject to the limitations contained in *Section 7.1(a)(iv)*.

(iii) Any individual designated by a Member as a Director (other than Independent Directors and the Chief Executive Officer of the Company) may be removed at any time, with or without cause, only by such designating Member and the Members shall cooperate with respect to such removal, including voting in favor of such removal. Persons elected as an Independent Director may be removed at any time, with or without cause, by a vote of a Majority in Interest. Subject to *Section 7.1(a)(iv)*, in the event of the death, resignation or removal of a Director (other than an Independent Director, the Chief Executive Officer of the Company), the Member that designated such Director may designate a replacement Director. In the event of the death, resignation or removal of an Independent Director, a Majority in Interest may designate a replacement Director. In the event the individual serving as Chief Executive Officer of the Company no longer holds such office for any reason, such individual shall be automatically removed as a Director and the successor to such individual as Chief Executive Officer of the Company shall, by virtue of such appointment, be designated to replace such individual as a Director.

(iv) Each Initial Designating Member shall have the right to designate a Director pursuant to *Section 7.1(a)(i)(A)* so long as such Member's Percentage Interest is greater than 10% of all Membership Interests or, in the case of E-Holdings, 9% of all Membership Interests. In the event a Member ceases to have the right to designate a Director pursuant to *Section 7.1(a)(i)(A)*, such individual designated by such Member shall be automatically removed as a Director and any Member with a Percentage Interest of greater than 25% and not otherwise entitled to designate a Director shall designate a replacement Director, or, if there is no such Member, a Majority in Interest shall elect a replacement Director and in either case such Director shall serve a term expiring on the date of the annual meeting of Members following such election and shall hold office until his or her successor is elected; *provided, however*, in the event that there is more than one Member with a Percentage Interest greater than 25% and not otherwise entitled to designate a Director, the Member who first accumulated a Percentage Interest of 25% or greater shall be entitled to designate the replacement Director. At such time as no Member has the right to designate Directors pursuant to *Section 7.1(a)(i)(A)* or this Section 7.1(a)(iv), then the provisions of *Sections 7.1(a)(i), (ii) and (iii)* and the second sentence of this Section 7.2(a)(iv) shall terminate and the number of Directors comprising the Board shall be seven (7) and shall consist of at least two (2) Independent Directors and the Chief Executive Officer of the Company. All such Directors shall be elected by a Majority in Interest and shall serve annual terms expiring on the date of the annual meeting of Members following such election. Each such Director shall hold office until his or her successor is elected pursuant to this *Section 7.1(a)(iv)* or until his or her earlier death, resignation or removal. Any Director elected pursuant to this *Section 7.1(a)(iv)* may be removed, with or without cause, by a Majority in Interest. In the

event of the death, resignation or removal of a Director, the remaining Directors may appoint a replacement Director. Notwithstanding any other provision of this Agreement, in no event shall both a Member and its Permitted Transferee be entitled to designate a Director pursuant to *Section 7.1(a)(i)(A)*.

(b) Except as otherwise expressly provided herein, the power and authority granted to the Board hereunder shall include all those necessary or convenient for the furtherance of the purposes of the Company and shall include the power to make or delegate to Officers all decisions with regard to the management, operations, assets, financing and capitalization of the Company.

7.2 *Meetings of the Board.* The Board may hold meetings, both regular and special, within or outside the State of Delaware. Regular meetings of the Board may be called by the Chief Executive Officer or two or more of the Directors upon delivery of written Notice at least ten (10) days prior to the date of such meeting. Special meetings of the Board may be called at the request of the Chief Executive Officer or any two or more of the Directors upon delivery of written Notice sent to each other Director by the means most likely to reach such Director as may be determined by the Secretary in his best judgment so as to be received at least twenty-four (24) hours prior to the time of such meeting. Notwithstanding anything contained herein to the contrary, such Notice may be telephonic if no other reasonable means are available. Such Notices shall be accompanied by a proposed agenda or statement of purpose.

7.3 *Quorum and Acts of the Board*. A majority of the Directors shall constitute a quorum for the transaction of business at all meetings of the Board, and, except as otherwise provided in this Agreement, the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board. If a quorum shall not be present at any meeting of the Board, the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

7.4 *Electronic Communications.* Members of the Board, or any committee designated by the Board, may participate in a meeting of the Board or any committee thereof by means of conference telephone or similar communications equipment through which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting. If all the participants are participating by conference telephone or similar communications equipment, the meeting shall be deemed to be held at the Company's principal place of business.

7.5 *Committees of Directors.* The Board, by unanimous resolution of all Directors present and voting at a duly constituted meeting of the Board or by unanimous written consent, may designate one or more committees, each committee to consist of one (1) or more of the Directors. In the event of the disqualification or resignation of a committee member, the Board shall appoint another member of the Board to fill such vacancy. Any such committee, to the extent provided in the Board's resolution, shall have and may exercise all the powers and authority of the Board in the management of the Company's business and affairs subject to any limitations contained herein or in the Act. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board. Each committee shall keep regular minutes of its meetings and report the same to the Board when required.

7.6 *Compensation of Directors.* Each Director shall be entitled to reimbursement from the Company for all reasonable direct out-of-pocket expenses incurred by such Director in connection with attending Board meetings and such compensation as may be approved by a Majority in Interest.

7.7 *Directors as Agents.* The Board, acting as a body pursuant to this Agreement, shall constitute a "manager" for purposes of the Act. No Director, in such capacity, acting singly or with any other Director, shall have any authority or right to act on behalf of or bind the Company other than by exercising the Director's voting power as a member of the Board, unless specifically authorized by the Board in each instance.

7.8 *Officers; Agents.* The Board shall have the power to appoint any Person or Persons as the Company's officers (the "***Officers***") to act for the Company and to delegate to such Officers such of the powers as are granted to the Board hereunder. Any decision or act of an Officer within the scope of the Officer's designated or delegated authority shall control and shall bind the Company (and any business entity for which the Company exercises direct or indirect executory authority). The Officers may have such titles as the Board shall deem appropriate, which may include (but need not be limited to) Chairman of the Board, President, Chief Executive Officer, Executive Vice President, Vice President, Chief Operating Officer, Chief Financial Officer, Treasurer, Controller or Secretary. A Director may be an Officer. The initial Officers are set forth on *Schedule 7.4*. Unless the authority of an Officer is limited by the Board, any Officer so appointed shall have the same authority to act for the Company as a corresponding officer of a Delaware corporation would have to act for a Delaware corporation in the absence of a specific delegation of authority. The Officers shall hold office until their respective successors are chosen and qualify or until their earlier death, resignation or removal. Any Officer elected or appointed by the Board may be removed at any time by the affirmative vote of a majority of the Board. Any vacancy occurring in any office of the Company shall be filled by a majority of the Board.

7.9 *Matters Requiring Member Approval.* (a) Without the prior written consent of a Super Majority in Interest, the Company shall not, and shall not permit any of its Subsidiaries to, effect any:

(i) Merger, consolidation or share exchange into or with any other Person, or any other similar business combination transaction (other than any such transaction entered into solely between the Company and any of its Subsidiaries or among any of them) involving the Company or any of its Significant Subsidiaries (as defined in Rule 1-02(w) of Regulation S-X promulgated by the Securities and Exchange Commission, as amended and which shall be deemed to include Rodeo L.P.) or financial restructuring of the Company or the Partnership; *provided*, *however*, that in the event not all Members receive identical consideration, whether in their capacity as a Member or as a limited partner of the Partnership, both in form and amount (in proportion to their Membership Interests or Limited Partner Interests, as the case may be) in such transaction, such transaction shall require the prior written consent of any Member receiving consideration that differs from the consideration to be received by a Majority in Interest;

(ii) voluntary filing for bankruptcy, liquidation, dissolution or winding up of the Company or any of its Subsidiaries or any event that would cause a dissolution or winding up of the Company or any of its Subsidiaries or any consent by the Company or any of its Subsidiaries to any action brought by any other Person relating to any of the foregoing;

(iii) amendment or repeal of the Certificate, the Partnership Agreement or the Partnership's certificate of limited partnership; *provided*, *however*, that if any amendment to the Partnership Agreement that would, if proposed with respect to this Agreement, require the prior written consent of a particular Member, then such amendment shall require the prior written consent of such Member in its capacity as a limited partner of the Partnership;

(iv) sale, lease, transfer, pledge or other disposition of all or substantially all of the properties or assets of the Company or the Company and any of its Subsidiaries taken as a whole, other than sales, leases, transfers, pledges or other dispositions of assets in the ordinary course of business or refinancing of the Credit Agreements;

(b) Without the prior written consent of a Majority in Interest, the Company shall not, and shall not permit the Partnership to, effect any:

(i) except for distributions of Available Cash pursuant to *Section 4.1* and distributions pursuant to *Section 10.3*, and distributions required pursuant to the Partnership Agreement (as amended from time to time in accordance with the terms thereof), declaration or payment of any dividends or other distributions on the Membership Interests, partnership interests, capital stock or other debt or equity securities by the Company or the Partnership, including, without limitation, any dividend or other distribution by means of a redemption or repurchase of such securities;

(ii) other than equity securities issued upon exercise of convertible securities outstanding on the date hereof or subsequently approved pursuant to this *Section 7.9*, authorization, sale and/or issuance by the Company or the Partnership of any of their respective Membership Interests, partnership interests, capital stock, or other equity securities, whether in a private or public offering, including an initial public offering, or the grant, sale or issuance of other securities (including rights, warrants and options) convertible into, exchangeable for or exercisable for any of their respective Membership Interests, partnership interests, capital stock, or other equity securities, whether or not presently convertible, exchangeable or exercisable;

(iii) (a) incurrence of any indebtedness by the Company or the Partnership, (b) the assumption, incurrence, or undertaking by the Company or the Partnership of, or the grant by the Company or the Partnership of any security (other than a pledge of substantially all of the properties or

assets of the Company or the Company and any of its Subsidiaries taken as a whole) for, any financial commitment of any type whatsoever, including without limitation, any purchase, sale, lease, loan, contract, borrowing or expenditure, or (c) the lending of money by the Company or the Partnership to, or the guarantee by the Company or the Partnership of the debts of, any other Person;

(iv) capital expenditures, or commitment to make capital expenditures, in excess of fifteen percent (15%) of the amount budgeted for capital expenditures in any fiscal year by the Company or the Partnership; or

(v) any repurchase or redemption by the Company of any of its Membership Interests, or other debt or equity securities.

ARTICLE 8
LIABILITY AND INDEMNIFICATION

8.1 *Limitation on Liability of Members, Directors and Officers.* No Member (when not acting in violation of this Agreement or applicable law), Director or Officer shall have any liability to the Company or the Members for any losses sustained or liabilities incurred as a result of any act or omission of such Member, Director or Officer in connection with the conduct of the business of the Company if, in the case of an Officer, the Officer acted in a manner he or she reasonably believed to be in, or not opposed to, the interests of the Company or applicable law and to be within the scope of his or her authority and, in the case of a Member (when not acting in violation of this Agreement or applicable law), Director or Officer, the conduct did not constitute bad faith, fraud, gross negligence or willful misconduct. To the fullest extent permitted by Section 18-1101(c) of the Act, a Director (other than Independent Directors), in performing his or her obligations under this Agreement, shall be entitled to act or omit to act at the direction of the Member who designated such Director, considering only such factors, including the separate interests of the designating Member, as such Director or the designating Member chooses to consider, and any action of a Director or failure to act, taken or omitted in good faith reliance on the foregoing provisions of this *Section 8.1* shall not constitute a

breach of any duty including any fiduciary duty on the part of the Director or designating Member to the Company or any other Member or Director. Except as required by the Act, the Company's debts, obligations, and liabilities, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and no Officer, Member or Director shall be personally responsible for any such debt, obligation or liability of the Company solely by reason of being an Officer, Member or Director. The Members shall be liable to the Company for the capital contributions specified in *Section 3.1*. No Member shall be responsible for any debts, obligations or liabilities, whether arising in contract, tort or otherwise, of any other Member.

8.2 *Indemnification*.

(a) [as amended on September 16, 2003] The Company shall indemnify and hold harmless the Members (when not acting in violation of this Agreement or applicable law), Directors and Officers (individually a "***Company Affiliate***") from and against any and all losses, claims, demands, costs, damages, liabilities, expenses of any nature (including reasonable attorneys' fees and disbursements), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, in which a Company Affiliate may be involved, or threatened to be involved, as a party or otherwise, by reason of his, her or its status as a Company Affiliate, regardless of whether a Company Affiliate continues to be a Company Affiliate at the time any such liability or expense is paid or incurred, if such Company Affiliate acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the interests of the Company and with respect to any criminal proceeding, had no reason to believe his, her or its conduct was unlawful.

(b) Expenses incurred by a Company Affiliate in defending any claim, demand, action, suit or proceeding subject to *Section 8.2(a)* shall, from time to time, be advanced by the Company prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Company of an undertaking by or on behalf of the Company Affiliate to repay such amounts if it is ultimately determined that the Company Affiliate is not entitled to be indemnified as authorized in this *Section 8.2*.

(c) The indemnification provided by this *Section 8.2* shall be in addition to any other rights to which a Company Affiliate may be entitled pursuant to any approval of a Majority in Interest, as a matter of law or equity, or otherwise, and shall continue as to a Company Affiliate who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns, and administrators of such Company Affiliate; *provided, however*, that in the event such Company Affiliate is also an Affiliate of a Member, such Member's Percentage Interest shall be disregarded for purposes of determining a Majority in Interest for purposes of this Section 8.2(c). The Company shall not be required to indemnify any Member in connection with any losses, claims, demands, actions, disputes, suits or proceedings, of any Member against any other Member.

(d) The Company may purchase and maintain directors and officers insurance or similar coverage for its Directors and Officers in such amounts and with such deductibles or self-insured retentions as determined in the sole discretion of the Board.

(e) Any indemnification hereunder shall be satisfied only out of the assets of the Company, and the Members shall not be subject to personal liability by reason of the indemnification provisions under this *Section 8.2*.

(f) A Company Affiliate shall not be denied indemnification in whole or in part under this *Section 8.2* because the Company Affiliate had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement and all material facts relating to such indemnitee's interest were adequately disclosed to the Board at the time the transaction was consummated.

(g) Subject to *Section 8.2(c)*, the provisions of this *Section 8.2* are for the benefit of the Company Affiliates and the heirs, successors, assigns and administrators of the Company Affiliates and shall not be deemed to create any rights for the benefit of any other Persons.

(h) Any repeal or amendment of any provisions of this *Section 8.2* shall be prospective only and shall not adversely affect any Company Affiliates' rights existing at the time of such repeal or amendment.

ARTICLE 9
TRANSFERS OF MEMBERSHIP INTERESTS

9.1 *General Restrictions*.

(a) No Member may Transfer all or any part of such Member's Membership Interest to any Person except (i) to a Permitted Transferee pursuant to *Section 9.2*, (ii) pursuant to the terms of *Section 9.8*, or (iii) in the case of Kafu, a transfer of up to a 6% Membership Interest to First Union Investors, Inc. ("***First Union***") within 90 days from the date hereof; *provided, however*, any such Transfer under (i), (ii) or (iii) above shall comply with the terms of *Section 9.1(b)*. Any purported Transfer of a Membership Interest or a portion thereof in violation of the terms of this Agreement shall be null and void and of no force and effect. Except upon a Transfer of all of a Member's Membership Interest in accordance with this *Section 9.1*, no Member shall have the right to withdraw as a Member of the Company.

(b) As a condition to a Transfer by a Member of all or any part of such Member's Membership Interest to a transferee as permitted under *Section 9.1(a)(i)* or *(ii)*, (a "***Membership Transfer***"), such Member shall simultaneously Transfer (the "***Partnership Transfer***") to such transferee an amount of such Member's Limited Partnership Interest equal to: (i) such Member's Limited Partnership Interest, multiplied by (ii) a percentage equal to (1) the Percentage Interest of such Member to be Transferred to such transferee, divided by (2) such Member's Percentage Interest immediately before such Transfer. If for any reason the Partnership Transfer does not occur simultaneously with the Membership Transfer, then the Membership Transfer and the Partnership Transfer shall be null and void and of no force and effect.

(c) Notwithstanding any other provision of this Agreement, no Member may pledge, mortgage or otherwise subject its Member Interest to any Encumbrance.

(d) So long as it or its Permitted Transferee remains a Member, Sable may not effect a Sable Change of Control.

(e) In the event that JCF resigns, other than for Good Reason, from his position as Chief Executive Officer of Rodeo, or is terminated for Cause, during the eighteen month period ending November 8, 2002, the occurrence of such event shall be deemed a Transfer to a Non-Qualifying Transferee of the Membership Interest of Sable Investments; *provided*; *however*, that fair market value, with respect to such deemed Transfer for purposes of *Section 9.2*, shall not be less than Sable's initial Capital Contribution.

9.2 *Permitted Transferees*.

(a) Notwithstanding the provisions of *Section 9.8*, each Member shall, subject to *Section 9.1(b)*, have the right to Transfer (but not to substitute the transferee as a substitute Member in such Member's place, except in accordance with *Section 9.3*), by a written instrument, all or any part of a Member's Membership Interest to a Permitted Transferee. Notwithstanding the previous sentence, if the Permitted Transferee is such because it was an Affiliate of the transferring Member at the time of such Transfer or the Transfer was a Permitted Transfer under clause (a) of the definition of Permitted Transfer and, at any time after such Transfer, such Permitted Transferee

ceases to be an Affiliate of such Member or such Transfer or such Permitted Transferee ceases to qualify under such clause (a) (a "***Non-Qualifying Transferee***"), such Transfer shall be deemed to not be a Permitted Transfer and shall be subject to *Section 9.8*. Pursuant to *Section 9.8*, such transferring Member, or such transferring Member's legal representative, shall deliver the First Refusal Notice promptly after the time when such transferee ceases to be an Affiliate of such transferring Member, or such Transfer or such Permitted Transferee ceases to qualify under clause (a) of the definition of Permitted Transfer, and such transferring Member shall otherwise comply with the terms of *Section 9.8* with respect to such Transfer; *provided*, that the purchase price for such Transfer for purposes of *Section 9.8* shall be an amount agreed upon by such transferring Member and a Majority in Interest (excluding such transferring Member's Percentage Interest) or, if such Member and such Majority in Interest cannot agree on a price within five (5) Business Days after delivery of the First Refusal Notice, such price shall be the fair market value of the Membership Interest transferred pursuant to the Transfer as of the date the transferee ceased to be an Affiliate of such transferring Member or such Transfer or such Permitted Transferee ceases to qualify under clause (a) of the definition of Permitted Transfer (such date, the "Non-Qualifying Date"), as determined at the Company's expense by a nationally recognized investment banking firm mutually selected by such transferring Member and a Majority in Interest (excluding such transferring Member's Percentage Interest). If such transferring Member and such Majority in Interest are unable, within ten (10) days after the expiration of such five (5) Business Day period, to mutually agree upon an investment banking firm, then each of such transferring Member and such Majority in Interest shall choose a nationally recognized investment banking firm and the two investment banking firms so chosen shall choose a third nationally recognized investment banking firm which shall determine the fair market value of the Membership Interest transferred pursuant to such Transfer at the Company's expense. The determination of fair market value shall be based on the value that a willing buyer with knowledge of all relevant facts would pay a willing seller for all the outstanding equity securities of the Company in connection with an auction for the Company as a going concern and shall not take into account any acquisitions made by the Company or its Affiliates or any other events subsequent to the Non-Qualifying Date and shall not be subject to any discount for a sale of a minority interest. If such transferring Member fails to comply with all the terms of *Section 9.8*, such Transfer shall be null and void and of no force and effect. No Non-Qualifying Transferee shall be entitled to receive any distributions from the Company on or after the Non-Qualifying Date and any distributions made in respect of the Membership Interests on or after the Non-Qualifying Date and held by such Non-Qualifying Members shall be paid to the Member who transferred such Membership Interest or otherwise to the rightful owner thereof as reasonably determined by the Board.

(b) Unless and until admitted as a substitute Member pursuant to *Section 9.3*, a transferee of a Member's Membership Interest in whole or in part shall be an assignee with respect to such Transferred Membership Interest and shall not be entitled to participate in the management of the business and affairs of the Company or to become, or to exercise the rights of, a Member, including the right to appoint Directors, the right to vote, the right to require any information or accounting of the Company's business, or the right to inspect the Company's books and records. Such transferee shall only be entitled to receive, to the extent of the Membership Interest Transferred to such transferee, the share of distributions and profits, including distributions representing the return of Capital Contributions, to which the transferor would otherwise be entitled with respect to the Transferred Membership Interest. The transferor shall have the right to vote such Transferred Membership Interest until the transferee is admitted to the Company as a substitute Member with respect to the Transferred Membership Interest.

9.3 *Substitute Members.* No transferee of all or part of a Member's Membership Interest shall become a substitute Member in place of the transferor unless and until:

(a) Such Transfer is in compliance with the terms of *Section 9.1*;

(b) the transferee has executed an instrument in form and substance reasonably satisfactory to the Board accepting and adopting, and agreeing to be bound by, the terms and provisions of the Certificate and this Agreement; and

(c) the transferee has caused to be paid all reasonable expenses of the Company in connection with the admission of the transferee as a substitute Member.

Upon satisfaction of all the foregoing conditions with respect to a particular transferee, the President and Chief Executive Officer shall cause the books and records of the Company to reflect the admission of the transferee as a substitute Member to the extent of the Transferred Membership Interest held by such transferee.

9.4 *Effect of Admission as a Substitute Member*. A transferee who has become a substitute Member has, to the extent of the Transferred Membership Interest, all the rights, powers and benefits of, and is subject to the obligations, restrictions and liabilities of a Member under, the Certificate, this Agreement and the Act. Upon admission of a transferee as a substitute Member, the transferor of the Membership Interest so held by the substitute Member shall cease to be a Member of the Company to the extent of such Transferred Membership Interest.

9.5 *Consent.* Each Member hereby agrees that upon satisfaction of the terms and conditions of this *Article 9* with respect to any proposed Transfer, the transferee may be admitted as a Member without any further action by a Member hereunder.

9.6 *No Dissolution.* If a Member Transfers all of its Membership Interest pursuant to this *Article 9* and the transferee of such Membership Interest is admitted as a Member pursuant to *Section 9.3*, such Person shall be admitted to the Company as a Member effective on the effective date of the Transfer and the Company shall not dissolve pursuant to *Section 10.1*.

9.7 *Additional Members.* Subject to *Section 3.2 and Section 7.9*, any Person acceptable to the Board may become an additional Member of the Company for such consideration as the Board shall determine, *provided* that such additional Member complies with all the requirements of a transferee under *Section 9.3(b)* and *(c)*.

9.8 *Right of First Refusal.* The Members shall have the following right of first refusal:

(a) If at any time any of the Members (a "***Selling Member***") has received and wishes to accept a *bona fide* offer (the "***Offer***") for cash from a third party (the "***Offeror***") for all or part of such Selling Member's Membership Interest (and a proportionate amount of such Selling Member's Limited Partnership Interest in accordance with *Section 9.1(b)*), such Selling Member shall give Notice thereof (the "***First Refusal Notice***") to each of the other Members, other than any Non-Purchasing Members (as hereinafter defined), and the Company. The First Refusal Notice shall state the portion of the Selling Member's Membership Interest and Limited Partnership Interest that the Selling Member wishes to sell (the "***Optioned Interest***"), the price and all other material terms of the Offer, the name of the Offeror, and certification from the Selling Member affirming that the Offer is *bona fide* and that the description thereof is true and correct, and that the Offeror has stated that it will purchase the Optioned Interest if the rights of first refusal herein described are not exercised.

(b) Each of the Members other than the Selling Member and any Non-Purchasing Member (the "***Non-Selling Members***") shall have the right exercisable by Notice (an "***Acceptance Notice***") given to the Selling Member and the Company within twenty (20) days after receipt of the First

Refusal Notice, to agree that it will purchase up to 100% of the Optioned Interest on the terms set forth in the First Refusal Notice; *provided, however*, if the Non-Selling Members in the aggregate desire to purchase more than 100% of the Optioned Interest, each such Non-Selling Member's right to purchase the Optioned Interest shall be reduced (pro rata based on the percentage of Optioned Interest for which such Non-Selling Member has exercised its right to purchase hereunder compared to all other Non-Selling Members, but not below such Non-Selling Member's Membership Interest as a percentage of the aggregate Membership Interests of all Non-Selling Members who have exercised their right to purchase) so that such Non-Selling Members purchase no more than 100% of the Optioned Interest. If a Non-Selling Member does not submit an Acceptance Notice within the twenty (20) day period set forth in this *Section 9.8(b)*, such Non-Selling Member shall be deemed to have rejected the offer to purchase any portion of the Optioned Interest.

(c) If the Non-Selling Members do not in the aggregate exercise the right to purchase all of the Optioned Interest by the expiration of the twenty (20) day period set forth in *Section 9.8(b)*, then any Acceptance Notice shall be void and of no effect, and the Selling Member shall be entitled to complete the proposed sale at any time in the thirty (30) day period commencing on the date of the First Refusal Notice, but only upon the terms set forth in the First Refusal Notice. If no such sale is completed in such thirty (30) day period, the provisions hereof shall apply again to any proposed sale of the Optioned Interest.

(d) If any Non-Selling Member exercises the right to purchase the Optioned Interest as provided herein and such Non-Selling Member(s) have elected to purchase all of the Optioned Interest, the purchase of such Optioned Interest shall be completed within the thirty (30) day period commencing on the date of delivery of the First Refusal Notice. If such Non-Selling Member does not consummate the Purchase of such Optioned Interest, (x) the Selling Member shall be entitled to all expenses of collection and (y) such Non-Selling Member shall be deemed a "***Non-Purchasing Member***" for the duration of this Agreement.

9.9 *Registration Rights Agreement.* Each of the Initial Members as of the date hereof and Rodeo, L.P. shall enter into a Registration Rights Agreement, substantially in the form attached hereto as *Exhibit A*, on the date hereof.

9.10 *Transfer to Management Entity* Notwithstanding any other provision of this Agreement, Rodeo, Inc. may, within ninety (90) days from the date hereof sell up to 2% of the total Membership Interests as of that date (the "***Management Sale***") to the Management Entity. The Management Sale shall be on

substantially the same economic terms as the initial capital contribution of each of Sable, Kafu, E-Holdings, Strome, Raymond, Strome Hedgecap and the Management Entity.

ARTICLE 10
DISSOLUTION AND TERMINATION

10.1 *Events Causing Dissolution*.

(a) The Company shall be dissolved and its affairs wound up upon the first to occur of the following events:

(i) The affirmative vote of a Super Majority in Interest to dissolve;

(ii) The Transfer of all or substantially all of the assets of the Company and the receipt and distribution of all the proceeds therefrom; or

(iii) The entry of a decree of judicial dissolution pursuant to Section 18-802 of the Act.

(b) The withdrawal, death, retirement, resignation, expulsion, bankruptcy or dissolution of any Member or the occurrence of any other event that terminates the continued membership of any Member in the Company shall not, in and of itself, cause the Company's dissolution.

10.2 *Final Accounting.* Upon dissolution and winding up of the Company, an accounting will be made of the accounts of the Company and each Member and of the Company's assets, liabilities and operations from the date of the last previous accounting to the date of such dissolution.

10.3 *Distributions Following Dissolution and Termination*.

(a) *Liquidating Trustee*. Upon the dissolution of the Company, such party as is designated by a Majority in Interest will act as liquidating trustee of the Company (the *"**Liquidating Trustee**"*) and proceed to wind up the business and affairs of the Company in accordance with the terms of this Agreement and applicable law. The Liquidating Trustee will use its reasonable best efforts to sell all Company assets (except cash) in the exercise of its best judgment under the circumstances then presented, that it deems in the best interest of the Members. The Liquidating Trustee will attempt to convert all assets of the Company to cash so long as it can do so consistently with prudent business practice. The Members and their respective designees will have the right to purchase any Company property to be sold on liquidation, provided that the terms on which such sale is made are no less favorable than would otherwise be available from third parties. The gains and losses from the sale of the Company assets, together with all other revenue, income, gain, deduction, expense, loss and credit during the period, will be allocated in accordance with *Article 5*. A reasonable amount of time shall be allowed for the period of winding up in light of prevailing market conditions and so as to avoid undue loss in connection with any sale of Company assets. This Agreement shall remain in full force and effect during the period of winding up. In addition, upon request of the Board and if the Liquidating Trustee determines that it would be imprudent to dispose of any non-cash assets of the Company, such assets may be distributed in kind to the Members in lieu of cash, proportionately to their right to receive cash distributions hereunder.

(b) *Accounting*. The Liquidating Trustee will then cause proper accounting to be made of the Capital Account of each Member, including recognition of gain or loss on any asset to be distributed in kind as if such asset had been sold for consideration equal to the fair market value of the asset at the time of the distribution. The Members intend that the allocations provided herein shall result in Capital Account balances in proportion to the Percentage Interests of the Members.

(c) *Liquidating Distributions*. In settling accounts after dissolution of the Company, the assets of the Company shall be paid to creditors of the Company and to the Members in the following order:

(i) to creditors of the Company (including Members) in the order of priority as provided by law whether by payment or the making of reasonable provision for payment thereof, and in connection therewith there shall be withheld such reasonable reserves for contingent, conditioned or unconditioned liabilities as the Liquidating Trustee in its reasonable discretion deems adequate, such reserves (or balances thereof) to be held and distributed in such manner and at such times as the Liquidating Trustee, in its discretion, deems reasonably advisable; *provided, however*, that such amounts be maintained in a separate bank account and that any amounts in such bank account remaining after three years be distributed to the Members or their successors and assigns as if such amount had been available for distribution under *Section 10.3(c)(ii);* and then

(ii) to the Members in proportion to the positive balances of their Capital Accounts, as fully adjusted pursuant to *Section 3.4*, including adjustment for all gains and losses actually or

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deemed realized upon disposition or distribution of assets in connection with the liquidation and winding up of the Company.

(iii) Any distribution to the Members in liquidation of the Company shall be made by the later of the end of the taxable year in which the liquidation occurs or 90 days after the date of such liquidation. For purposes of the preceding sentence, the term "liquidation" shall have the same meaning as set forth in Regulation Section 1.704-1(b)(2)(ii) as in effect at such time and liquidating distributions shall be further deemed to be made pursuant to this Agreement upon the event of a liquidation as defined in such Regulation for which no actual liquidation occurs with a deemed recontribution by the Members of such deemed liquidating distributions to the continuing Company pursuant to this Agreement.

(d) The provisions of this Agreement, including, without limitation, this *Section 10.3*, are intended solely to benefit the Members and, to the fullest extent permitted by law, shall not be construed as conferring any benefit upon any creditor of the Company, and no such creditor of the Company shall be

a third-party beneficiary of this Agreement, and no Member or Director shall have any duty or obligation to any creditor of the Company to issue any call for capital pursuant to this Agreement.

10.4 *Termination of the Company.* The Company shall terminate when all assets of the Company, after payment or due provision for all debts, liabilities and obligations of the Company, shall have been distributed to the Members in the manner provided for in this *Article 10*, and the Certificate shall have been canceled in the manner required by the Act.

10.5 *No Action for Dissolution.* The Members acknowledge that irreparable damage would be done to the goodwill and reputation of the Company if any Member should bring an action in court to dissolve the Company under circumstances where dissolution is not required by *Section 10.1*. Accordingly, except where the Board has failed to cause the liquidation of the Company as required by *Section 10.1* and except as specifically provided in Section 18-802, each Member hereby to the fullest extent permitted by law waives and renounces his right to initiate legal action to seek dissolution of the Company or to seek the appointment of a receiver or trustee to wind up the affairs of the Company, except in the cases of fraud, violation of law, bad faith, gross negligence, willful misconduct or willful violation of this Agreement.

ARTICLE 11
TAX MATTERS

11.1 *Tax Matters Member.* Rodeo, Inc. shall be the Tax Matters Member of the Company as provided in the Regulations under Section 6231 of the Code and analogous provisions of state law. The Board shall have the authority to remove or replace the Tax Matters Member of the Company and designate its successor.

11.2 *Certain Authorizations.* The Tax Matters Member shall represent the Company, at the Company's expense, in connection with all examinations of the Company's affairs by tax authorities including any resulting administrative or judicial proceedings. Without limiting the generality of the foregoing, and subject to the restrictions set forth herein, the Tax Matters Member, but only with the consent of a Majority in Interest, is hereby authorized:

(a) to enter into any settlement agreement with respect to any tax audit or judicial review, in which agreement the Tax Matters Member may expressly state that such agreement shall bind the other Members except that such settlement agreement shall not bind any Member that has not approved such settlement agreement in writing;

(b) if a notice of a final administrative adjustment at the Company level of any item required to be taken into account by a Member for tax purposes is mailed to the Tax Matters Member, to

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seek judicial review of such final adjustment, including the filing of a petition for readjustment with the Tax Court, the District Court of the United States for the district in which the Company's principal place of business is located, or elsewhere as allowed by law, or the United States Claims Court;

(c) to intervene in any action brought by any other Member for judicial review of a final adjustment;

(d) to file a request for an administrative adjustment at any time and, if any part of such request is not allowed, to file a petition for judicial review with respect to such request;

(e) to enter into an agreement with the Internal Revenue Service to extend the period for assessing any tax that is attributable to any item required to be taken into account by a Member for tax purposes, or an item affected by such item; and

(f) to take any other action on behalf of the Members (with respect to the Company) or the Company in connection with any administrative or judicial tax proceeding to the extent permitted by applicable law or the Regulations.

Each Member shall have the right to participate in any such actions and proceedings to the extent provided for under the Code and Regulations.

11.3 *Indemnity of Tax Matters Member.* To the maximum extent permitted by applicable law and without limiting *Article 8*, the Company shall indemnify and reimburse the Tax Matters Member for all expenses (including reasonable legal and accounting fees) incurred as Tax Matters Member pursuant to this *Article 11* in connection with any administrative or judicial proceeding with respect to the tax liability of the Members as long as the Tax Matters Member has determined in good faith that the Tax Matters Member's course of conduct was in, or not opposed to, the best interest of the Company. The taking of any action and the incurring of any expense by the Tax Matters Member in connection with any such proceeding, except to the extent provided herein or required by law, is a matter in the sole discretion of the Tax Matters Member.

11.4 *Information Furnished.* To the extent and in the manner provided by applicable law and Regulations, the Tax Matters Member shall furnish the name, address, profits and loss interest, and taxpayer identification number of each Member to the Internal Revenue Service.

11.5 *Notice of Proceedings, etc.* The Tax Matters Member shall use its reasonable best efforts to keep each Member informed of any administrative and judicial proceedings for the adjustment at the Company level of any item required to be taken into account by a Member for income tax purposes or any extension of the period of limitations for making assessments of any tax against a Member with respect to any Company item, or of any agreement with the Internal Revenue Service that would result in any material change either in Profits or Losses as previously reported.

11.6 *Notices to Tax Matters Member.* Any Member that receives a notice of an administrative proceeding under Section 6233 of the Code relating to the Company shall promptly provide Notice to the Tax Matters Member of the treatment of any Company item on such Member's Federal income tax return that is or may be inconsistent with the treatment of that item on the Company's return. Any Member that enters into a settlement agreement with the Internal Revenue Service or any other government agency or official with respect to any Company item shall provide Notice to the Tax Matters Member of such agreement and its terms within sixty (60) days after the date of such agreement.

11.7 *Preparation of Tax Returns.* The Tax Matters Member shall arrange for the preparation and timely filing of all returns of Company income, gains, deductions, losses and other items necessary for Federal, state and local income tax purposes and shall use all reasonable efforts to furnish to the Members within ninety (90) days of the close of the taxable year a Schedule K-1 and such other tax

information reasonably required for Federal, state and local income tax reporting purposes. The classification, realization and recognition of income, gain, losses and deductions and other items shall be on the cash or accrual method of accounting for Federal income tax purposes, as the Board shall determine in its sole discretion in accordance with applicable law.

11.8 *Tax Elections.* Subject to Section 11.9, a Majority in Interest shall, in its sole discretion, determine whether to make any available election.

11.9 *Taxation as a Partnership.* No election shall be made by the Company or any Member for the Company to be excluded from the application of any of the provisions of Subchapter K, Chapter I of Subtitle A of the Code or from any similar provisions of any state tax laws or to be treated as a corporation for federal tax purposes.

ARTICLE 12
ACCOUNTING AND BANK ACCOUNTS

12.1 *Fiscal Year and Accounting Method.* The fiscal year and taxable year of the Company shall be the calendar year. The Company shall use an accrual method of accounting.

12.2 *Books and Records.* The Company shall maintain at its principal office, or such other office as may be determined by the Board, all the following:

(a) A current list of the full name and last known business or residence address of each Member, and of each member of the Board, together with information regarding the amount of cash and a description and statement of the agreed value of any other property or services contributed by each Member and which each Member has agreed to contribute in the future, and the date on which each Member became a Member of the Company;

(b) A copy of the Certificate and this Agreement, including any and all amendments to either thereof, together with executed copies of any powers of attorney pursuant to which the Certificate, this Agreement, or any amendments have been executed;

(c) Copies of the Company's Federal, state, and local income tax or information returns and reports, if any, which shall be retained for at least six fiscal years;

(d) The financial statements of the Company; and

(e) The Company's books and records.

12.3 *Delivery to Members; Inspection.* Upon the request of any Member, for any purpose reasonably related to such Member's interest as a member of the Company, the Board shall cause to be made available to the requesting Member the information required to be maintained by clauses (a) through (e) of *Section 12.2* and such other information regarding the business and affairs and financial condition of the Company as any Member may reasonably request.

12.4 *Financial Statements.* The Board shall cause to be prepared for the Members at least annually, at the Company's expense, financial statements of the Company, and its subsidiaries, prepared in accordance with generally accepted accounting principles and audited by a nationally recognized accounting firm. The financial statements so furnished shall include a balance sheet, statement of income or loss, statement of cash flows, and statement of Members' equity. In addition, the Board shall provide on a timely basis to the Members monthly and quarterly financials, statements of cash flow, any available internal budgets or forecast or other available financial reports, as well as any reports or notices as are provided by the Company, or any of its Subsidiaries to any financial institution.

12.5 *Filings.* At the Company's expense, the Board shall cause the income tax returns for the Company to be prepared and timely filed with the appropriate authorities and to have prepared and to furnish to each Member such information with respect to the Company as is necessary (or as may be

reasonably requested by a Member) to enable the Members to prepare their Federal, state and local income tax returns. The Board, at the Company's expense, shall also cause to be prepared and timely filed, with appropriate Federal, state and local regulatory and administrative bodies, all reports required to be filed by the Company with those entities under then current applicable laws, rules, and regulations. The reports shall be prepared on the accounting or reporting basis required by the regulatory bodies.

12.6 *Non-Disclosure.* Each Member agrees that, except as otherwise consented to by the Board in writing, all non-public and confidential information furnished to it pursuant to this Agreement will be kept confidential and will not be disclosed by such Member, or by any of its agents, representatives, or employees, in any manner whatsoever, in whole or in part, except that (a) each Member shall be permitted to disclose such information to those of its agents, representatives, and employees who need to be familiar with such information in connection with such Member's investment in the Company (collectively, "Representatives") and are apprised of the confidential nature of such information, (b) each Member shall be permitted to disclose information to the extent required by law, legal process or regulatory requirements, so long as such Member shall have used its reasonable efforts to first afford the Company with a reasonable opportunity to contest the necessity of disclosing such information, (c) each Member shall be permitted to disclose such information to possible purchasers of all or a portion of the Member's Membership Interest, provided that such prospective purchaser shall execute a suitable confidentiality agreement in a form approved by the Company containing terms not less restrictive than the terms set forth herein, and (d) each Member shall be permitted to disclose information to the extent necessary for the enforcement of any right of such Member arising under this Agreement. Each Member shall be responsible for any breach of this Section 12.6 by its Representatives.

ARTICLE 13
NON-COMPETITION AND NON-SOLICITATION

13.1 *Non-Competition.* Each of the Members hereby acknowledges that the Company and Rodeo L.P. operate in a competitive business and compete with other Persons operating in the midstream segment of the oil and gas industry for acquisition opportunities. Each of the Members agrees that during the period that it is a Member, it shall not, directly or indirectly, use any of the confidential information it receives as a Member or which its designee receives as a Director of the Company to compete, or to engage in or become interested financially in as a principal, employee, partner, shareholder, agent, manager, owner, advisor, lender, guarantor of any Person that competes in North America with the business conducted by the Company, the Partnership and Rodeo L.P. Each of the Members also acknowledge that EnCap Investments L.L.C. and Persons that it controls ("***EnCap***"), Kayne Anderson Capital Advisors L.P. and its Affiliates ("***Kayne Anderson***") and First Union and its affiliates may make and manage investments in the energy industry in the ordinary course of business (such investments "**Institutional Investments**"). The Members agree that EnCap, Kayne Anderson and First Union and its affiliates may make Institutional Investments, even if such Institutional Investments are competitive with the Company's and its Subsidiaries' business, so long as such Institutional Investments are not in violation of the provisions of Section 12.6 or the second sentence of this Section 13.1 or obligations owed to the Company under applicable law with respect to usurption of an opportunity legally belonging to the Company or its Subsidiaries. Each of the Members confirms that the restrictions in this Section 13.1 are reasonable and valid and all defenses to the strict enforcement thereof are hereby waived by each of the Members. The restrictions contained in this Section 13.1 shall in no way impair the rights granted (i) to JCF pursuant to the Flores Employment Agreement or (ii) to Raymond pursuant to any employment agreement between Raymond and Rodeo.

13.2 *Non-Solicitation.* Each of the Members undertakes toward the Company and is obligated, without the prior written consent of the Company, during the period that it is a Member and for a

period of one year thereafter, not to solicit or hire, directly or indirectly, in any manner whatsoever (except in response to a general solicitation or a non-directed executive search), in the capacity of employee, consultant or in any other capacity whatsoever, one or more of the employees, directors or officers or other Persons (hereinafter collectively referred to as "***Employees***") who at the time of solicitation or hire, or in the 90-day period prior thereto, are working full-time or part-time for the Company or any of its Affiliates and not to endeavor, directly or indirectly, in any manner whatsoever, to encourage any of said Employees to leave his or her job with the Company or any of its Affiliates and not to endeavor, directly or indirectly, and in any manner whatsoever, to incite or induce any client of the Company or any of its Affiliates to terminate, in whole or in part, its business relations with the Company or any of its Affiliates.

13.3 *Damages.* Each of the Members acknowledges that damages may not be an adequate compensation for the losses which may be suffered by the Company as a result of the breach by such Member of the covenants contained in this *Article 13* and that the Company shall be entitled to seek injunctive relief with respect to any such breach in lieu of or in addition to any recourse in damages without the posting of a bond or other security.

13.4 *Limitations.* In the event that a court of competent jurisdiction decides that the limitations set forth in *Section 13.1* hereof are too broad, such limitations shall be reduced to those limitations that such court deems reasonable.

ARTICLE 14
MISCELLANEOUS

14.1 *Waiver of Default.* No consent or waiver, express or implied, by the Company or a Member with respect to any breach or default by the Company or a Member hereunder shall be deemed or construed to be a consent or waiver with respect to any other breach or default by any party of the same provision or any other provision of this Agreement. Failure on the part of the Company or a Member to complain of any act or failure to act of the Company or a Member or to declare such party in default shall not be deemed or constitute a waiver by the Company or the Member of any rights hereunder.

14.2 *Amendment*.

(a) Except as otherwise expressly provided elsewhere in this Agreement, this Agreement shall not be altered, modified or changed except by an amendment approved by a Super Majority in Interest; *provided, however*, that no modification of the terms of this Agreement that (i) increases or extends any financial obligation or liability of a Member, (ii) alters the method of division of profits and losses or a method of distributions made to a Member, (iii) adversely affects a Member's ability to designate Directors or (iv) otherwise adversely affects the obligations or rights of a Member (as a Member under this Agreement) in a manner different than a Majority in Interest shall be effective without the prior written consent of such Member; *provided*, *further*, that no amendment of Section 7.3, 7.9(a)(iii), 13.1 or this Section 14.2 that adversely affects the obligations or rights of a Member shall be effective as to any Member without the prior written consent of that Member.

(b) In addition to any amendments otherwise authorized herein, the Board may make any amendments to any of the Schedules to this Agreement from time to time to reflect transfers of Membership Interests and issuances of additional Membership Interests. Copies of such amendments shall be delivered to the Members upon execution thereof.

(c) The Board shall cause to be prepared and filed any amendment to the Certificate that may be required to be filed under the Act as a consequence of any amendment to this Agreement.

(d) Any modification or amendment to this Agreement or the Certificate made in accordance with this *Section 14.2* shall be binding on all Members and the Board.

14.3 *No Third Party Rights.* Except as provided in *Article 8*, none of the provisions contained in this Agreement shall be for the benefit of or enforceable by any third parties, including creditors of the Company.

14.4 *Severability.* In the event any provision of this Agreement is held to be illegal, invalid or unenforceable to any extent, the legality, validity and enforceability of the remainder of this Agreement shall not be affected thereby and shall remain in full force and effect and shall be enforced to the greatest extent permitted by law.

14.5 *Nature of Interest in the Company*. A Member's Membership Interest shall be personal property for all purposes.

14.6 *Binding Agreement.* Subject to the restrictions on the disposition of Membership Interests herein contained, the provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective heirs, personal representatives, successors and permitted assigns.

14.7 *Headings.* The headings of the sections of this Agreement are for convenience only and shall not be considered in construing or interpreting any of the terms or provisions hereof.

14.8 *Word Meanings.* The words "herein", "hereinafter", "hereof", and "hereunder" refer to this Agreement as a whole and not merely to a subdivision in which such words appear unless the context otherwise requires. The singular shall include the plural, and vice versa, unless the context otherwise requires. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." When verbs are used as nouns, the nouns correspond to such verbs and vice versa.

14.9 *Counterparts.* This Agreement may be executed in several counterparts, all of which together shall constitute one agreement binding on all parties hereto, notwithstanding that all the parties have not signed the same counterpart.

14.10 *Entire Agreement.* This Agreement contains the entire agreement between the parties hereto and thereto and supersedes all prior writings or agreements with respect to the subject matter hereof.

14.11 *Partition.* The Members agree that the Property is not and will not be suitable for partition. Accordingly, each of the Members hereby irrevocably waives any and all right such Member may have to maintain any action for partition of any of the Property. No Member shall have any right to any specific assets of the Company upon the liquidation of, or any distribution from, the Company.

14.12 *Governing Law; Consent to Jurisdiction and Venue.* This Agreement shall be construed according to and governed by the laws of the State of Delaware without regard to principles of conflict of laws. The parties hereby submit to the exclusive jurisdiction and venue of the state courts of Harris County, Texas or to the Court of Chancery of the State of Delaware and the United States District Court for the Southern District of Texas and of the United States District Court for the District of Delaware, as the case may be, and agree that the Company or Members may, at their option, enforce their rights hereunder in such courts.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first written above.

PLAINS ALL AMERICAN, INC.

By: ______________________

Name: ______________________

Title: ______________________

SABLE INVESTMENTS, L.P.

By: Sable Investments, LLC, its general partner

By: ______________________

Name: ______________________

Title: ______________________

KAFU HOLDINGS, L.P.

By: Kafu Holdings, LLC, its general partner

By: ______________________

Name: ______________________

Title: ______________________

E-HOLDINGS III, L.P.

By: E-Holdings III GP, LLC, its general partner

By: ____________________

Name: ____________________

Title: ____________________

PAA MANAGEMENT, L.P.

By: PAA Management LLC, its general partner

By: ____________________

Name: ____________________

Title: ____________________

____

John T. Raymond

____

Mark E. Strome

STROME HEDGECAP FUND, L.P.

By: Strome Investment Management, L.P., its general partner

By: SSCO, Inc., its general partner

By: ____________________

Name: ____________________

Title: ____________________

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Exhibit 3.1

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EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PLAINS ALL AMERICAN PIPELINE, L.P.

I, Greg L. Armstrong, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Plains All American Pipeline, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [intentionally omitted pursuant to SEC Release No. 34-47986];

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end the period covered by the report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2003

/s/ GREG L. ARMSTRONG

Greg L. Armstrong
Chief Executive Officer

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EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PLAINS ALL AMERICAN PIPELINE, L.P.

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EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PLAINS ALL AMERICAN PIPELINE, L.P.

I, Phil Kramer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Plains All American Pipeline, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [intentionally omitted pursuant to SEC Release No. 34-47986];

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end the period covered by the report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2003

/s/ PHIL KRAMER

Phil Kramer
Chief Financial Officer

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EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PLAINS ALL AMERICAN PIPELINE, L.P.

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EXHIBIT 32.1

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
OF PLAINS ALL AMERICAN PIPELINE, L.P.
PURSUANT TO 18 U.S.C. § 1350

I, Greg L. Armstrong, Chief Executive Officer of Plains All American Pipeline, L.P. (the "Company"), hereby certify that:

(i) the accompanying report on Form 10-Q for the period ending September 30, 2003 and filed with the Securities and Exchange Commission on the date hereof (the "Report") by the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to Plains All American Pipeline, L.P. and will be retained by Plains All American Pipeline, L.P. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ GREG L. ARMSTRONG

Name: Greg L. Armstrong
Date: November 7, 2003

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EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF PLAINS ALL AMERICAN PIPELINE, L.P. PURSUANT TO 18 U.S.C. § 1350

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EXHIBIT 32.2

**CERTIFICATION OF
CHIEF FINANCIAL OFFICER
OF PLAINS ALL AMERICAN PIPELINE, L.P.
PURSUANT TO 18 U.S.C. § 1350**

I, Phil Kramer, Chief Financial Officer of Plains All American Pipeline, L.P. (the "Company"), hereby certify that:

(i) the accompanying report on Form 10-Q for the period ending September 30, 2003 and filed with the Securities and Exchange Commission on the date hereof (the "Report") by the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to Plains All American Pipeline, L.P. and will be retained by Plains All American Pipeline, L.P. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ PHIL KRAMER

Name: Phil Kramer
Date: November 7, 2003

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EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER OF PLAINS ALL AMERICAN PIPELINE, L.P. PURSUANT TO 18 U.S.C. § 1350