

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

CROWN ENERGY CORP  
Form 10-Q  
November 19, 2003

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

Commission file number 0-19365

CROWN ENERGY CORPORATION

-----  
(Exact name of registrant as specified in its charter)

Utah

87-0368981

-----  
(State or other jurisdiction  
of incorporation or organization)

-----  
(I.R.S. Employer Identification No.)

1710 West 2600 South, Woods Cross, Utah, 84087

-----  
(Address of principal executive offices, zip code)

(801) 296-0166

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

Not applicable

-----  
(Former name, former address and former fiscal year,  
if changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

There were 26,482,388 shares of \$0.02 par value common stock outstanding as of September 30, 2003.

# Edgar Filing: CROWN ENERGY CORP - Form 10-Q

## CROWN ENERGY CORPORATION

### INDEX

	PAGE (S)
PART I. Financial Information	
ITEM 1. Financial Statements	
Condensed Consolidated Balance Sheets at September 30, 2003 (unaudited) and December 31, 2002	3
Condensed Consolidated Statement of Operations for the Three Months ended September 30, 2003 and 2002 (unaudited) and the Nine Months ended September 30, 2003 and 2002 (unaudited)	5
Condensed Consolidated Statement of Cash Flows for the Nine Months ended September 30, 2003 and 2002 (unaudited)	7
Notes to Unaudited Condensed Consolidated Financial Statements	9
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
ITEM 3. Quantitative and Qualitative Disclosures about Market Risk	18
ITEM 4. Controls and Procedures	19
PART II. Other Information	
ITEM 1. Legal Proceedings	20
ITEM 2. Changes in Securities and Use of Proceeds	20
ITEM 3. Defaults upon Senior Securities	20
ITEM 4. Submission of Matters to a Vote of Security Holders	20
ITEM 5. Other Information	20
ITEM 6. Exhibits and Report on Form 8-K	21
Signatures	22
Certifications	23

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CROWN ENERGY CORPORATION

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2003 [unaudited]
	-----
CURRENT ASSETS:	
Cash and cash equivalents	\$ 1,104,680
Accounts receivable, net of allowance for uncollectible accounts of \$325,763 and \$175,927 respectively	3,311,550
Inventory	1,365,250
Prepaid and other current assets	143,027
	-----
Total Current Assets	5,924,507
PROPERTY PLANT, AND EQUIPMENT, Net	8,873,220
OTHER INTANGIBLE ASSETS, Net	-
OTHER ASSETS	207,527
	-----
TOTAL	\$15,005,254
	=====

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

3

CROWN ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2003 [unaudited]
	-----
CURRENT LIABILITIES	
Accounts payable	\$ 4,366,847
Preferred stock dividends payable	1,300,000
Accrued expenses	237,521
Accrued interest	300,298
Long-term debt - current portion	451,244
	-----
Total current liabilities	6,655,910
Long-term debt	2,485,151
Redeemable preferred stock	5,000,000
	-----
Total liabilities	14,141,061

## Edgar Filing: CROWN ENERGY CORP - Form 10-Q

MINORITY INTEREST IN CONSOLIDATED JOINT VENTURES	529,426
STOCKHOLDERS EQUITY:	
Stockholders' equity:	
Common Stock \$0.02 par value 50,000,000 shares authorized 26,482,388 shares outstanding for each period	529,647
Additional paid in Capital	3,619,417
Stock warrants	186,256
Accumulated deficit	(4,000,553)
	-----
Stockholders' equity	334,767
	-----
TOTAL	\$15,005,254 =====

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

4

### CROWN ENERGY CORPORATION [Unaudited] CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	For the Three Months Ended September
	2003
	-----
SALES, Net of demerits	\$9,318,111
COST OF SALES	8,549,195
	-----
GROSS PROFIT	768,916
GENERAL AND ADMINISTRATIVE EXPENSES	(374,990)
Bad debt recovery on accounts previously allowed for	--
	-----
INCOME FROM OPERATIONS	393,926
	-----
OTHER INCOME (EXPENSES):	
Interest income and other income	463
Interest expense	(70,727)
Gain/ (Loss) on Disposition of assets	-
	-----
Total other income (expense), net	(70,264)
	-----
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	323,662
	-----

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

DEFERRED INCOME TAX BENEFIT	--
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED JOINT VENTURE	11,990 -----
NET INCOME	\$ 335,652 -----
NET INCOME PER COMMON SHARE: Basic and diluted	\$ 0.01 =====

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

5

CROWN ENERGY CORPORATION  
[Unaudited]  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	For the Nine Months Ended September 30, 2003 -----
SALES, Net of demerits	\$15,674,753
COST OF SALES	15,265,452 -----
GROSS PROFIT	409,301
GENERAL AND ADMINISTRATIVE EXPENSES	(1,113,901)
Bad debt recovery on accounts previously allowed for	323,524 -----
INCOME (LOSS) FROM OPERATIONS	(381,076) -----
OTHER INCOME (EXPENSES):	
Interest income and other income	45,836
Interest expense	(203,740)
Gain/ (Loss) on Disposition of assets	-
Gain on Divestiture of Affiliate	- -----
Total other income (expense), net	(157,904) -----
(LOSS) INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	(538,980) -----
DEFERRED INCOME TAX BENEFIT	--
MINORITY INTEREST IN EARNINGS OF	

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

CONSOLIDATED JOINT VENTURE	39,412
	-----
NET INCOME (LOSS)	\$ (499,568)
	-----
NET (LOSS) INCOME PER COMMON SHARE:	
Basic and diluted	\$ (0.03)
	=====

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

6

CROWN ENERGY CORPORATION  
[Unaudited]  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ending September 30,
	2003
	-----
Cash flows from operating activities:	
Net income (loss)	\$ (499,568)
Adjustments to reconcile net income (loss) to net cash used by operating activities:	
Amortization, depreciation and depletion	537,112
Recovery of doubtful accounts receivable	(323,524)
Gain on divestiture of affiliate	-
Loss on disposal of assets	
Minority interest	(39,412)
Change in assets and liabilities:	
Accounts receivable	(2,448,812)
Inventory	(761,144)
Prepaid and other assets	83,822
Deposits on settlement option	-
Accounts payable	2,017,605
Accrued expenses and interest	120,433
	-----
Total adjustments	(813,920)
	-----
Net cash used in operating activities	(1,313,488)
	-----
Cash flows used in investing activities:	
Purchase of property and equipment	(436,300)
	-----
Cash flows from financing activities:	
Capital contributions from partners	61,263

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

Proceeds from borrowings of long term debt	400,000
Payments on long-term debt	(329,863)
	-----
Net cash provided by (used in) financing activities	131,400
	-----

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

7

CROWN ENERGY CORPORATION  
[Unaudited]  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
[Continued]

	For the Nine September
	----- 2003 -----
Net Decrease in Cash:	(1,618,388)
Cash at Beginning of Period	\$ 2,723,068 =====
Cash at End of Period	\$ 1,104,680 =====
Supplemental Disclosure of Cash Flow Information	
Cash paid during the period:	
Interest	\$ 136,081 =====
Income taxes	\$ -- =====

Supplemental Schedule of Non-cash Investing and Financing Activities:

For the period ended September 30, 2003 we accrued dividends on preferred stock of \$300,000.

For the period ended September 30, 2002:

- \* We issued 13,793,103 shares of common stock to our preferred stockholders as a payment of preferred stock dividends payable totaling \$200,000.
- \* We accrued dividends on preferred stock of \$300,000 and \$28,302 of accretion on preferred stock.
- \* We acquired \$23,627 of equipment through term financing.

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

8

# Edgar Filing: CROWN ENERGY CORP - Form 10-Q

CROWN ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We have prepared the accompanying consolidated financial statements without an audit. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position as of September 30, 2003, results of operations for the three and nine months ended September 30, 2003 and 2002 and cash flows for the nine months ended September 30, 2003, and 2002 have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in our December 31, 2002 Annual Report on Form 10-K. The results of operations for the period ended September 30, 2003, are not necessarily indicative of the operating results for the full year.

Summary of Disputes - Four outstanding complaints have been filed against us. One filed by Geneva Rock Products, Inc., one filed by Oriental New Investments, Ltd., one filed by S & L Industrial, and one filed by GATX Financial Corporation. The first two of the foregoing actions were described in detail in our Annual Report on Form 10-K for the year ending December 31, 2002. The S & L Industrial and the GATX Financial Corporation actions are discussed in more detail in Part II. Item 1. Legal Proceedings of this report.

Organization - Crown Energy Corporation ("CEC") and its wholly-owned subsidiary, Crown Asphalt Products Company ("CAPCO"), and Crown Distribution, an entity in which CAPCO and CEC now own all interests (collectively referred to as the "Company"), are engaged in the production, manufacturing, distribution and selling of asphalt products. Crown Distribution owns a majority interest in Cowboy Asphalt Terminal, L.L.C. ("CAT, LLC"). CAT, LLC is a joint venture formed on September 16, 1998, between CAPCO and Foreland Asphalt Corporation ("Foreland"), which owns an asphalt terminal and storage facility. Crown Distribution owns 66.67% and Foreland owns 33.33% of CAT, LLC.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly or majority-owned subsidiaries. All significant inter-company transactions have been eliminated in consolidation.

Impairment of Long-Lived Assets - The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the estimated remaining life in measuring whether the assets are recoverable

Stock-Based Compensation - The Company accounts for stock options granted to employees under the recognition and measurement principles of APB



## Edgar Filing: CROWN ENERGY CORP - Form 10-Q

Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, and has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost is recognized in the financial statements when options granted under those plans have an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. The Company granted no options during the periods ending September 30, 2003 and 2002.

9

### CROWN ENERGY CORPORATION

#### NOTES TO UNAUDITED CONDENSED CONSOLIDATED

##### FINANCIAL STATEMENTS [Continued]

Going Concern - The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As of September 30, 2003, the Company had a working capital deficit, an accumulated deficit and has had substantial recurring losses. The consolidated operations of the Company have not had sustained profitability and the Company has relied upon debt financing to satisfy its obligations. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Company's ability to continue as a going concern is subject to the attainment of profitable operations or obtaining necessary funding from outside sources to fund its cash flow requirements to purchase inventory. Management is attempting to secure financing for inventory purchases with inventory suppliers or other financing institutions. There can be no assurance that the Company will be successful in its attempts to obtain financing for its inventory purchases. In addition, management is continuing its plans to reduce overhead and other costs. Management is also considering consolidation of manufacturing facilities to maximize operating efficiency and margins on product sales. However, there can be no assurance that management will be successful in these efforts.

#### NOTE 2 - LONG-TERM DEBT

During 2003 we entered into a financing arrangement with GE Capital for \$400,000 to finance an expansion of the emulsion facility at our Rawlins facility to increase production capacity. The loan bears interest at 8.77% is payable in equal monthly installments over 5 years, matures in June 2008 and is secured by property and equipment.

#### NOTE 3 - CAPITAL TRANSACTIONS

Preferred Stock and Related Warrant - In September 1997, we sold to an unrelated third party for \$5.0 million in cash 500,000 shares of \$10 Series A Cumulative Convertible Preferred Stock and a warrant to purchase 925,771 shares of common stock at \$0.002 per share. In February 2002, the Series A Preferred Stock, the warrant, and all associated rights were purchased from the original holder by Manhattan Goose, LLC, which was then owned 32.5% by Jay Mealey, our Chief Executive Officer, President and a director, and 67.5% by other directors and unrelated parties. During 2002, we paid accrued dividends on the Series A Preferred Stock of \$400,000 in cash and \$200,000 in 13,793,103 shares of common stock, or at \$0.0145 per

## Edgar Filing: CROWN ENERGY CORP - Form 10-Q

share, the approximate market price on the date of payment. In November 2002, Jay Mealey acquired the other 67.5% membership interests in Manhattan Goose and simultaneously conveyed all membership interests to the Mealey Family Limited Partnership, which is the current holder of the Series A Preferred Stock, the warrant, all associated rights, and accrued dividends. Mr. Mealey owns 48.5% of the Mealey Family Limited Partnership and is its general partner and his immediate family is its beneficiary.

As of December 31, 2002, and September 30, 2003, there were dividends payable to the holder of the Series A Preferred Stock of \$1.0 million and \$1.3 million, respectively. Future dividends of 8% per annum may, at the election of the holder, be taken in cash or common stock. At the market price of \$0.01 per share as of September 30, 2003, 130.0 million shares of common stock would have to be issued to satisfy the dividend payable. The Series A Preferred Stock is convertible to 4,285,000 shares of common stock, if so elected by the holder of the Series A Preferred Stock.

10

### CROWN ENERGY CORPORATION

#### NOTES TO UNAUDITED CONDENSED CONSOLIDATED

#### FINANCIAL STATEMENTS [Continued]

We currently have an authorized capital of 50.0 million shares of common stock, of which approximately 26.5 million shares are issued and outstanding and approximately 3.1 million shares are reserved for issuance on the exercise of outstanding options and warrants, for a total of approximately 29.6 million shares, excluding the shares issuable on conversion of the Series A Preferred Stock, the payment in common stock of dividends that may accrue in the future thereon, and exercise of the warrant. Therefore, there are only approximately 20.4 million shares available for issuance, and we could not satisfy all of our current obligations under the Series A Preferred Stock on conversion or the payment of dividends or on exercise of the warrant. We have not undertaken to renegotiate with the Mealey Family Limited Partnership any of the terms of the Series A Preferred Stock or the warrant, do not know whether we will attempt to do so, and have not analyzed our obligations or responsibilities if the Mealey Family Limited Partnership would elect to convert the Series A Preferred Stock, demand payment of the dividends in common stock, or exercise the warrant.

#### NOTE 4 - PROFIT/ LOSS PER SHARE

The following table is a reconciliation of the net loss numerator of basic and diluted net loss per common share for the three - and nine month periods ended September 30, 2003 and September 30, 2002:

	Nine Months 2003		Nine Months 2002		Three Months 2003	
	Loss	Per Share	Profit	Per Share	Profit	Per Share
Net Profit (Loss)	(\$499,568)		\$1,093,539		\$335,652	
Redeemable preferred stock dividends and accretion	(300,000)		(328,302)		(100,000)	

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

Add back stock dividends and accretion	--	328,302	100,000
	-----	-----	-----
Net profit (loss) attributable to common stockholders	(\$799,568)	(\$0.03)	\$1,093,539
		\$0.043	\$335,652
			\$0.01
Weighted average common shares basic	26,482,388	24,447,757	26,482,388
Weighted average common shares outstanding - basic and diluted	26,482,388	29,658,528	31,693,159

11

CROWN ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS [Continued]

We had at September 30, 2003, and December 31, 2002, incremental options and warrants to purchase, 3,988,919 shares and 3,163,148 shares of common stock, respectively, that were not included in the computation of diluted earnings (loss) per share because their effect was anti-dilutive. We also had preferred stock outstanding at September 30, 2003, and September 30, 2002, which is convertible into approximately 4,285,000 shares of common stock that was not included in the computation of diluted loss per share as its effect was anti-dilutive. Accordingly, diluted loss per share does not differ from basic loss. As of September 30, 2003, there were preferred stock dividends payable in the amount of \$1,300,000. Pursuant to the designations and preferences of the preferred stock, the holder of the preferred stock can elect to require us to pay dividends accruing in the future, by the issuance of common stock in lieu of cash payments at a price generally equivalent to the trading price for our common stock in the over-the-counter market, as detailed in the designations and preferences. The market price for our common stock was \$0.01 per share as of September 30, 2003.

NOTE 5 - BAD DEBT RECOVERY ON ACCOUNTS PREVIOUSLY ALLOWED FOR

During the three months ended September 30, 2003 the Company had no collections on significant receivables it had provided an allowance for in a prior year. During 2003 the Company has collected on significant receivables it had provided for in a prior year in the amount of \$323,524. The Company has recognized this collection through operations as a bad debt recovery.

NOTE 6 - RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46), which addresses consolidation by business enterprises of variable interest entities. FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46

## Edgar Filing: CROWN ENERGY CORP - Form 10-Q

applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. In the event a variable interest entity is identified this pronouncement may have a material impact on its financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN No. 45). FIN No. 45 requires certain guarantees to be recorded at fair value, which is different from current practice to record a liability only when a loss is probable and reasonably estimable, as those terms are defined in FASB Statement No. 5, "Accounting for Contingencies". FIN No. 45 also requires the Company to make significant new disclosures about guarantees. The disclosure requirements of FIN No. 45 are effective for the Company in the first quarter of fiscal year 2003. FIN No. 45's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company's previous accounting for guarantees issued prior to the date of the initial application of FIN No. 45 will not be revised or restated to reflect the provisions of FIN No. 45. The Company does not expect the adoption of FIN No. 45 to have a material impact on its consolidated financial position, results of operations or cash flows.

12

### CROWN ENERGY CORPORATION

#### NOTES TO UNAUDITED CONDENSED CONSOLIDATED

#### FINANCIAL STATEMENTS [Continued]

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. Management is currently evaluating the effect of the adoption of SFAS No. 149.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 requires that certain financial instruments, which under previous guidance may have been accounted for as equity, must now be accounted for as liabilities (or an asset in some circumstances). The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock.

This Statement is effective for all such financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS 150 was adopted in the quarter ended September 30, 2003 and did not have a material

## Edgar Filing: CROWN ENERGY CORP - Form 10-Q

impact on results of operations or financial position.

13

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

The following discussion and analysis of our financial condition, results of operations and related matters includes a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include, by way of illustration and not limitation, statements containing the words "anticipates," "believes," "expects," "intends," "future" and words of similar import that express, either directly or by implication, management's beliefs, expectations or intentions regarding our future performance or future events or trends that may affect us or our results of operations.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors, including, but not limited to changes in economic conditions generally or with respect to our asphalt products market in particular, new or increased governmental regulation, increased competition, shortages in labor or materials, delays or other difficulties in shipping or transporting, the risk of loss of certain operating assets serving as collateral to secure financing, and other similar risks inherent in our operations or in business operations generally. Any such risks or uncertainties, either alone or in combination with other factors, may cause our actual results, performance or achievements to differ materially from our anticipated future results, performance or achievements (which may be expressed or implied by such forward-looking statements). Consequently, the following management's discussion and analysis, including all forward-looking statements contained therein, is qualified and limited by the foregoing cautionary factors. Interested persons are advised to consider all forward-looking statements within the context of such cautionary factors.

#### Liquidity and Capital Resources

At September 30, 2003, we had cash and other current assets of \$5.9 million, as compared to cash and other current assets of \$4.0 million at December 31, 2002. The increase of approximately \$1.9 million was generally due to an increase in accounts receivable and inventory which is more than offset by a corresponding increase in accounts payable, preferred stock dividends payable and a decrease in cash used in operations.

Our business requires a large amount of working capital to fund raw material purchases and accounts receivable. During the colder quarters ending December 31 and March 31, we require working capital to purchase raw materials when prices are typically at their annual low and store these materials until they are processed and sold during the warmer summer months when most paving occurs. As discussed below, in recent years we have not had sufficient working capital to take advantage of low raw material prices during the winter months and have, therefore, been required to fill our raw material needs in the warmer summer months when prices are typically higher. We typically generate a large majority of our sales during the warmer summer months. For example, during the preceding year we generated approximately 85% of our annual sales during the quarters ended June 30 and September 30, 2002. Therefore, during these periods we require large amounts of working capital to fund accounts receivable and general operations. We do not have adequate working capital to operate our business currently and must rely on outside third-party sources to finance that requirement. We have not had outside working capital financing since 1999 and, to date, we have been unable to obtain adequate financing on acceptable terms,

## Edgar Filing: CROWN ENERGY CORP - Form 10-Q

and cannot assure that we will be able to. We continue to explore avenues to obtain working capital financing, including supplier financing, through-put arrangements, structured supply arrangements and joint ventures with industry participants, facility leasing and conventional financing from commercial sources. Given our financial condition, generally, outside working capital funding requires significant equity and personal guarantees, that our officers and directors are unwilling to provide for our benefit as a publicly-held company. We do not believe that working capital financing will be available because of our poor operating history and our corporate structure as a public company. Failure to obtain the necessary working capital financing will likely continue to have a significant negative impact on our future operations and may make it unable for us to continue as a going concern.

A portion of our accounts receivable is subject to the risks and uncertainties of litigation and related collection risks. In the event that we are unable to collect our current accounts receivables, we are unable to secure the necessary working capital line of credit for our operations, our operating

14

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

losses and working capital deficits continue, or if we are unable to recoup our losses, we may not have sufficient capital to operate through 2003 and into 2004.

As of September 30, 2003, we had a working capital deficit of approximately \$0.7 million, an accumulated deficit of \$4.0 million, and total stockholders' equity of \$334,767. Due to the seasonal nature of our business as discussed above, our quarter end financial condition has typically been the best at the end of the third quarter ending September 30 when the positive effects of summer sales are most conspicuous and have not been offset by our results of operations for the last quarter when sales decline substantially but operating costs continue. We expect that our net loss of approximately \$500,000 for the nine months ended September 30, 2003, will increase by year end, correspondingly increasing our accumulated deficit and reducing or eliminating our stockholders' equity.

Our auditor's report on our financial statements for the year ended December 31, 2002, as for prior years, contained an explanatory paragraph about our ability to continue as a going concern. We continue to suffer from shortages of working capital needed to optimize operating economies. Further, our operating history and the prevailing current conditions in the investment markets generally have made it difficult to obtain outside equity capital. Given our financial condition, generally, outside working capital funding requires significant equity and personal guarantees that our officers and directors are unwilling to provide for our benefit as a publicly-held company. The market price for our common stock has ranged from a low of \$0.010 to a high of \$0.025 during 2003, closing on September 30, 2003, at \$0.01 per share, with actual trades reported sporadically. The accounting and legal costs required to meet regulatory and stockholder requirements associated with being a publicly held company subject to the periodic reporting, proxy and other requirements under the Securities Exchange Act along with the increased cost of insurance and other burdens have become prohibitive and threaten the Company's survival. The enactment of the Sarbanes-Oxley Act of 2002 and the adoption of related regulations have increased the costs of compliance. These new laws and regulations have also made it more difficult for us to attract qualified persons as directors.

## Edgar Filing: CROWN ENERGY CORP - Form 10-Q

In view of the foregoing, in March 2003, our board of directors, which includes affiliates of our principal stockholders, authorized management to investigate available alternatives for a so-called "going private" transaction, with the effect that we would become privately held by our current principal stockholders, subject to satisfying various regulatory requirements. This investigation included a review of available alternatives and their related legal, financial, regulatory and related considerations. After careful consideration of all the alternatives, the Board of Directors believes it is in the best interest of the Company and its stockholders to become privately held by its principal stockholders through a reverse stock split. Management is seeking a third-party valuation of our Company and the interests of our minority stockholders from a financial point of view. We continue to anticipate that a proxy statement will be prepared to outline the terms of the reverse split and will be forwarded to the shareholders in the near future. We recently engaged an independent firm to advise our board of directors regarding valuation considerations applicable to a possible going private transaction.

We continue to consider other asphalt-related business opportunities to complement our existing asphalt distribution capabilities. However, we anticipate that many opportunities may require additional capital, and we cannot assure that we can obtain additional capital required to finance such opportunities on acceptable terms and conditions.

The consolidated operations of the Company have not sustained profitability and the Company has relied on debt financing to satisfy its obligations. The Company's ability to continue as a going concern is subject to the attainment of profitable operations or obtaining necessary funding from outside sources to fund its cash flow requirements to purchase inventory. Management is attempting to secure financing for inventory purchases with inventory suppliers or other financing institutions. There can be no assurance that the Company will be successful in its attempts to obtain financing for its inventory purchases. In addition, Management is continuing its plans to reduce overhead and other costs, and continues to evaluate the manufacturing facilities

15

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

to maximize operating efficiency and margins on product sales. However, there can be no assurance that Management will be successful in these efforts.

#### Critical Accounting Policies

Inventory consists principally of refined products and chemical supplies, which are valued at the lower of cost (computed on a first in, first out basis) or market.

Revenue recognition for sales of product is recognized when a contract is executed or a valid purchase order has been received, product has been shipped, the selling price is fixed or determinable, and collectibility is reasonably assured.

Property, plant and equipment are recorded at cost and are depreciated over the estimated useful lives of the related assets. Depreciation is computed using the straight-line method for financial reporting purposes. The estimated useful lives of property, plant and equipment are as follows:

Plant and improvements and tankage	10-30 years
Equipment	7 years

## Edgar Filing: CROWN ENERGY CORP - Form 10-Q

Vehicles	5 years
Computer equipment, furniture and fixtures	3 years

The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the estimated remaining life in measuring whether the assets are recoverable.

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of receivables. In the normal course of business, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses that, when realized, have been within the range of management's expectations.

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

### Results of Operations

For the three month period ending September 30, 2003, compared to the three month period ending September 30, 2002

Total revenue increased from \$9,015,384 for the three-month period ended September 30, 2002, to \$9,318,111 for the three-month period ended September 30, 2003, an increase of \$302,727. Cost of sales increased from \$7,741,964 for the same period in 2002 to \$8,549,195 for the same period in 2003, an increase of \$807,231. The increase in revenues was primarily the result of an increase in sales volume of approximately 6,947 tons and an increase in the average selling price per ton of approximately \$11.00 in the three-month period. The increase in cost of sales in the 2003 interim period is primarily the result of increased raw material base stock costs for the volume of sales.

16

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

General and administrative expenses decreased from \$750,151 for the three-month period ended September 30, 2002, to \$374,980 for the three-month period ended September 30, 2003, a decrease of \$375,161. This decrease is primarily due to decreased rent expense for our administrative offices and a reduction in salaries and wages.

Net other income/expenses decreased from an expense of \$767,760 for the three-month period ended September 30, 2002, to an expense of \$70,264 for the three-month period ended September 30, 2003, a decrease of \$697,496. This decrease is primarily due to a reduction in interest expense subsequent to a settlement with MCNIC Pipeline and Processing Company ("MCNIC") which was included in our financial results for the three-month period ended September 31, 2002.

Minority interest of \$11,990 represents Foreland's approximate 33% interest in the loss of CAT, LLC.

For the nine month period ended September 30, 2003, compared to the



## Edgar Filing: CROWN ENERGY CORP - Form 10-Q

nine-month period ended September 30, 2002

Total revenue increased from \$15,667,841 for the period ended September 30, 2002 to \$15,674,753 for the period ended September 30, 2003, an increase of \$6,912. Cost of sales increased from \$14,740,129 for the period ended September 30, 2002, to \$15,265,452 for the period ended September 30, 2003, an increase of \$525,323. The increase in revenues was primarily due to an increase in sales volume of approximately 7,061 tons offset partially by a reduction in sales revenue per ton of approximately \$2.38. The increase in cost of sales during 2003 is primarily the result of increased raw material base stock costs for the increased sales volume, offset partially by a reduction in overall costs due primarily to a reduction in operating expenses of approximately \$10.00/ton.

General and administrative expenses decreased from \$2,027,491 for the period ended September 30, 2002 to \$1,113,901 for the period ended September 30, 2003, a decrease of \$913,590. This decrease is primarily due to decreased legal expenses, rent expense on the administrative offices and labor efficiencies. Collection on a bad debt recovery in the amount of \$323,524 was recorded as described in Note 5 to the financial statements included in Item I of Part I of this report.

Net other income/expenses decreased from income of \$767,118 for the period ended September 30, 2002 to an expense of \$157,904 for the period ended September 30, 2003, a decrease of \$925,022. The 2002 total was comprised of \$1,990,571 interest related to the Company's credit facility and the Preferential Capital Contribution for its asphalt distribution business. This amount was offset by a non-recurring gain on the divestiture of the Crown Ridge interest to MCNIC of \$2,998,176 which was included in period ended September 30, 2002. Neither of these items reoccurred in the period ended September 30, 2003. Interest income and other income of \$45,836 were recorded during this period in 2003.

Minority interest of \$39,412 represents Foreland's approximate 33% interest in the loss of CAT, LLC.

17

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not engage in transactions involving market risk sensitive instruments intended to reduce our exposure to interest rate risks, foreign currency exchange rate risks, commodity price risks or similar risks, and therefore we do not believe we are subject to material market risks resulting from such market rate sensitive instruments. However, we are subject to general market fluctuations related to the purchase of base stock asphalt and may suffer reduced operating margins to the extent our increased costs cannot be passed through to our customers. Such prices generally fluctuate with the price of crude oil.

We are also subject to certain price escalation and de-escalation clauses in our asphalt distribution sales contracts. We supply asphalt to projects in certain states where regulations provide for escalation and de-escalation of the price for such asphalt relative to the price difference from the time the project is awarded to the successful bidding company and the time the project is completed. We factor such deescalation risk into our bid prices and do not believe we have material exposure to risk resulting from these regulations.

18

## Edgar Filing: CROWN ENERGY CORP - Form 10-Q

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) Evaluation of disclosure controls and procedures:

Based on their evaluations as of the filing date of this report, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act) are effective to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

#### (b) Changes in internal controls:

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these internal controls subsequent to the date of the most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

19

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On April 9, 2003, S & L Industrial filed legal action against us in the Fifth Judicial District of Big Horn County, Wyoming. The action was removed to the United States District Court for Wyoming on May 20, 2003. In the action, S & L seeks to recover amounts that we offset against the purchase price of the Rawlins, Wyoming facility in 1999 for items that were warranted by S & L pursuant to the terms of the asset purchase agreement. S & L disputes our right to offset such amounts and is seeking payment of \$90,000, plus interest in the amount of \$45,705.38 accrued to March 24th, 2003, plus any other interest and principal accrued to date via the legal action. On June 16, 2003, we answered S & L's claim and asserted a counterclaim in the amount of \$230,000 plus other accruing costs, and we intend to vigorously contest S & L's claims. This legal dispute is in its early stages and there can be no assurance that we will ultimately prevail or what the outcome will be.

On May 22, 2003, GATX Financial Corporation filed a complaint against us in the Third Judicial District Court of Salt Lake County, Utah. On June 19, 2003, we answered GATX's complaint and made a counterclaim. Terms of an agreement to settle the matter have been agreed to between the parties and formal documentation is being prepared as of the date of this Form 10Q.

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As of September 30, 2003, there were arrearages in the amount of \$1,300,000 on dividends on our preferred stock.

## Edgar Filing: CROWN ENERGY CORP - Form 10-Q

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

### ITEM 5. OTHER INFORMATION

None.

20

### ITEM 6. EXHIBITS AND REPORT ON FORM 8-K

(a) Exhibits: The following exhibits are included as part of this report:

Exhibit Number	SEC Reference Number	Title of Document	Location
-----	-----	-----	-----
31.01	31	Certification of Chief Executive Officer Pursuant to Rule 13a-14	This filing
31.02	31	Certification of Chief Financial Officer Pursuant to Rule 13a-14	This filing
32.01	32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)	This filing
32.02	32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)	This filing

(b) Reports on Form 8-K: We did not file any reports on Form 8-K for the quarter ended September 30, 2003.

21

### 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 thereunto duly authorized.

CROWN ENERGY CORPORATION  
(Registrant)

Date: November 19, 2003

By: /s/ Jay Mealey

-----  
Jay Mealey, Chief Executive Officer

Date: November 19, 2003

By: /s/ Alan Parker

-----

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

Alan Parker, Controller