

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

CROWN ENERGY CORP
Form 10-Q
November 19, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2002

OR

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

For the transition period from _____ to _____

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.)

215 South State Street, Suite 650, Salt Lake City, Utah, 84111

(Address of principal executive offices, zip code)

(801) 537-5610

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

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

There were 26,482,388 shares of \$.02 par value common stock outstanding as of September 30, 2002.

CROWN ENERGY CORPORATION

INDEX

	PAGE(S)
PART I. Financial Information	
ITEM 1. Financial Statements	
Condensed Consolidated Balance Sheets at September 30, 2002 (unaudited) and December 31, 2001	3
Condensed Consolidated Statement of Operations for the Three Months ended September 30, 2002 and 2001 (unaudited)	5
Condensed Consolidated Statement of Operations for the Nine Months ended September 30, 2002 and 2001 (unaudited)	6
Condensed Consolidated Statement of Cash Flows for the Nine Months ended September 30, 2002 and 2001 (unaudited)	7
Notes to Condensed Consolidated Financial Statements (unaudited)	9
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
ITEM 3. Quantitative and Qualitative Disclosures about Market Risk	17
ITEM 4. Controls and Procedures	18
PART II. Other Information	
ITEM 1. Legal Proceedings	19
ITEM 2. Changes in Securities	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
PART III. Signatures	22

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CROWN ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2002 [unaudited] -----
CURRENT ASSETS:	
Cash and cash equivalents	\$ 1,131,631
Accounts receivable, net of allowance for uncollectible accounts of \$673,120 and \$1,722,482 respectively	4,855,069
Inventory	1,212,810
Prepaid and other current assets	403,346
Deposits on Settlement Option	500,000
Related Party Receivable	0

Total Current Assets	8,102,856
PROPERTY PLANT, AND EQUIPMENT, Net	9,642,523
OTHER INTANGIBLE ASSETS, Net	302,930
OTHER ASSETS	308,420

TOTAL	\$ 18,356,729 =====

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

3

CROWN ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' DEFICIT

	September 30, 2002 [unaudited] -----
CURRENT LIABILITIES	
Accounts payable	\$ 3,151,794

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

Preferred stock dividends payable	1,300,000
Accrued expenses	104,384
Accrued Arbitration costs	2,609,519
Accrued interest principally due to related party	9,515,290
Long-term debt - current portion	411,139
Line-of-credit to related party	14,935,222

Total current liabilities	32,027,348

MINORITY INTEREST IN CONSOLIDATED JOINT VENTURES	501,580
CAPITALIZATION:	
Long-term debt	2,549,887
Long-term debt to related party	5,325,723
Redeemable preferred stock	4,995,284
Stockholders' deficit:	
Common Stock \$0.02 par value 50,000,000 shares authorized 26,482,388 and 13,635,581 shares outstanding respectively	529,647
Additional paid in Capital	3,966,815
Stock subscription receivable from officers	0
Stock warrants	243,574
Accumulated deficit	(31,783,129)

Stockholders' deficit	(27,043,093)

TOTAL	\$ 18,356,729
	=====

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 September 2002

SALES, Net of demerits	\$ 9,015,384
COST OF SALES	7,741,964

GROSS PROFIT (LOSS)	1,273,420
GENERAL AND ADMINISTRATIVE EXPENSES	(750,151)
Bad debt recovery on accounts previously allowed for	548,785

INCOME FROM OPERATIONS	1,072,054

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

OTHER INCOME (EXPENSES):	
Interest income and other income	5,311
Interest and other expense	(747,558)
Interest expense from arbitration judgment	0
Gain/(Loss) on Disposition of assets	(25,513)

Total other income (expense), net	(767,760)

INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	304,294

DEFERRED INCOME TAX BENEFIT	--
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED JOINT VENTURE	9,167

NET INCOME	\$ 313,461

NET INCOME PER COMMON SHARE - Basic and diluted	\$ 0.00
	=====

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 2002

SALES, Net of demerits	\$ 15,667,841
COST OF SALES	14,740,129

GROSS PROFIT (LOSS)	927,712
GENERAL AND ADMINISTRATIVE EXPENSES	(2,027,491)
Gain on bad debt recovery	1,396,531

INCOME (LOSS) FROM OPERATIONS	296,752

OTHER INCOME (EXPENSES):	
Interest income and other income	8,845
Gain on Insurance Settlement	0
Interest and other expense	(2,214,390)
Interest expense from arbitration judgment	0

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

Gain/(Loss) on disposition of assets	(25,513)
Gain on Divestiture of Affiliate	2,998,176

Total other income (expense), net	767,118

INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	1,063,870

DEFERRED INCOME TAX BENEFIT	--
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED JOINT VENTURE	29,669

NET INCOME (LOSS)	\$ 1,093,539

NET INCOME (LOSS) 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 September 1, 2002

Cash flows from operating activities:	
Net income (loss)	\$ 1,093,539
Adjustments to reconcile net income (loss) to net cash used by operating activities:	
Amortization, depreciation and depletion	584,501
Provision for doubtful accounts receivable	(1,049,362)
Gain on divestiture of affiliate	(2,998,176)
Loss on disposal of assets	25,713
Minority interest	(29,669)
Change in assets and liabilities:	
Accounts receivable	(2,427,097)
Inventory	145,212
Prepaid and other assets	(315,208)
Deposits on settlement option	(500,000)
Accounts payable	2,741,230
Accrued expenses and interest	1,998,075

Total adjustments	(1,824,781)

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

Net cash used in operating activities	(731,242)

Cash flows used in investing activities -	
Purchase of property and equipment	(577,673)

Cash flows from financing activities:	
Capital contributions from partners	54,456
Payments on long-term debt	(266,768)

Net cash used in financing activities	\$ (212,312)

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 Months September 30, 2002

Net Increase (Decrease) in Cash:	\$ (1,521,227)
	=====
Cash at Beginning of Period	\$ 2,652,858
	=====
Cash at End of Period	\$ 1,131,631
	=====
Supplemental Disclosure of Cash Flow Information	
Cash paid during the period:	
Interest	\$ 49,399
	=====
Income taxes	--

Supplemental Schedule of Non-cash Investing and Financing Activities:

For the period ended September 30, 2002:

The Company acquired \$46,777 of equipment through term financing.
The Company issued 13,793,103 shares of its common stock as payment for \$200,000 of preferred stock dividends.
The Company accrued preferred stock dividends payable of \$300,000 and accretion of \$4

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

The Company wrote off common stock subscriptions receivable in the amount of \$549,166. The Company sold its interest in its unconsolidated affiliate in exchange for relief and accrued interest of \$27,707.

For the period ended September 30, 2001:

The Company acquired \$187,038 of property and equipment with long term debt or capital

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

8

CROWN ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at September 30, 2002 and for all periods presented 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 the Company's December 31, 2001 Annual Report on Form 10-K. The results of operations for the period ended September 30, 2002 are not necessarily indicative of the operating results for the full year.

Summary of Disputes - The Company and its joint venture partner in Crown Asphalt Distribution, L.L.C. ("Crown Distribution") and Crown Asphalt Ridge, L.L.C. ("Crown Ridge"), MCNIC Pipeline and Processing Company ("MCNIC"), executed a Settlement Agreement ("the Settlement Agreement") on October 16, 2002, that resolved all disputes and amounts due between the parties. The Settlement Agreement is discussed in more detail in Part II Item 1. Legal Proceedings.

Organization - Crown Energy Corporation ("CEC") and its wholly-owned subsidiaries, Crown Asphalt Corporation ("CAC") and 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 was initially a joint venture formed on July 2, 1998 between CAPCO and MCNIC for the purpose of acquiring certain assets of Petro Source Asphalt Company ("Petro Source"). As a result of the Settlement Agreement, the Company now owns all of Crown Distribution. CAPCO is the operator of Crown Distribution. 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

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

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.

NOTE 2 - SUBSEQUENT EVENT/ EFFECT OF THE SETTLEMENT AGREEMENT

Pursuant to the Settlement Agreement with MCNIC Pipeline & Processing Company ("MCNIC"), dated October 16, 2002, the judgment, accrued interest, and certain other liabilities were released. This includes (1) \$14,935,222 recorded on the balance sheet as Line of Credit to related parties; (2) \$9,304,378 recorded on the balance sheet as accrued interest principally due to related party; and (3) \$5,325,723 recorded on the balance sheet as Long Term debt to related party. Because this transaction occurred in the fourth quarter, the effect of the Settlement Agreement, which is estimated to result in a gain, will be reflected in the Annual Report on Form 10K.

9

CROWN ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

NOTE 3 - CAPITAL TRANSACTIONS

Preferred Stock - The Company is authorized to issue 1,000,000 preferred shares, par value \$.005 per share. The Company issued and has outstanding 500,000 shares of its Series A Cumulative Convertible Preferred Stock ("Series A Preferred"). Each share of Series A Preferred is convertible at the option of its holder, at any time, into 8.57 shares of common stock of the Company. Dividends accrue on the outstanding Series A Preferred at the rate of 8% per annum and may be paid through cash or common shares of the Company at the option of the holder. Subject to the holder's right to convert the Series A Preferred, the Company may redeem the Series A Preferred at any time from the date on which it is issued at a percentage of the Series A Preferred's stated value of \$10 per share; 130% of stated value if redemption occurs within thirty-six months of the date of issuance, 115% of stated value if redemption occurs between thirty-six and forty-eight months after the date of issuance, 110% of stated value if redemption occurs between forty-eight and sixty months after the date of issuance, and 100% if redemption occurs thereafter. The holder of the Series A Preferred may also require the Company to redeem the Series A Preferred after the eighth anniversary of the Series A Preferred's issuance. The holders of the Series A Preferred shall have the right, but shall not be obligated, to appoint 20% of the Company's Board of Directors. The Company may not alter the rights and preferences of the Series A Preferred, authorize any security having liquidation preference, redemption, voting or dividend rights senior to the Series A Preferred, increase the number of Series A Preferred, reclassify its securities or enter into specified extraordinary events without obtaining written consent or an affirmative vote of at least 75% of the holders of the outstanding shares of the Series A Preferred stock. All voting rights of the Series A Preferred expire upon the

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

issuance by the Company of its notice to redeem such shares. The shares of common stock issuable upon conversion of the Series A Preferred are subject to adjustment upon the issuance of additional shares of the Company's common stock resulting from stock splits, share dividends, and other similar events as well as upon the issuance of additional shares or options which are issued in connection with the Company's equity investment or as compensation to any employee, director, consultant, or other service provider of the Company or any subsidiary, other than options to acquire up to 5% of the Company's common stock at or less than fair market value. In conjunction with the issuance of the preferred stock described above, the Company issued a warrant to the holders of the preferred stock. The fair value of the warrant at the date of issuance was estimated to be \$283,019 and was recorded to additional paid-in capital and as a reduction to the stated value of the preferred stock. The reduction in preferred stock is being accreted over the five-year period from the date of issuance to the earliest exercise date of the warrant. Upon the fifth anniversary of the issuance of the preferred stock, the warrant becomes exercisable, at \$.002 per share, into the number of common shares of the Company equal to (a) \$5,000,000 plus the product of (i) \$5,000,000 multiplied by (ii) 39% (internal rate of return) multiplied by (iii) 5 years (\$14,750,000), minus (b) the sum of (i) all dividends and other distributions paid by the Company on the preferred stock or on the common stock received upon conversion of the preferred stock plus (ii) the greater of the proceeds from the sale of any common stock received by the holder upon the conversion of the preferred stock prior to the fifth anniversary date or the Terminal Value (as defined) of such common stock sold before the fifth anniversary plus (iii) the terminal value of the preferred stock and common stock received upon conversion of the preferred stock then held, divided by (c) the fair market value of the Company's common stock on a weighted average basis for the 90 days immediately preceding the fifth anniversary date of the issuance of the preferred stock. Terminal Value is defined as the sum of (i) the shares of common stock into which the preferred stock then held is convertible, plus (ii) shares of common stock received upon conversion of preferred stock, multiplied by the fair market value of the Company's common stock on a weighted average basis for the 90 days immediately preceding the fifth anniversary date of the issuance of the preferred stock. The warrants will expire in 2007. As disclosed in the Company's Annual Report for the year ended December 31, 2001, the Series A Preferred Stock was purchased in November 2001 by Manhattan Goose, L.L.C. ("Manhattan Goose"), an entity in which Messrs, Jay Mealey and Andrew W. Buffmire own interests. Mr. Mealey is Chief Executive Officer and a director of the Company. Mr. Buffmire is a director of the Company. Also, as disclosed in the Annual

10

CROWN ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

NOTE 3 - CAPITAL TRANSACTIONS (continued)

Report, Manhattan Goose was issued \$200,000 of accrued dividends in the form of common stock dividends amounting to 13,793,103 shares of common stock.

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

NOTE 4 - COMMON STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK

At September 30, 2002 and December 31, 2001, common stockholders' equity and redeemable preferred stock consists of the following:

	2002
Redeemable preferred stock - \$.005 par value; 1,000,000 shares authorized; \$10.00 stated value; 500,000 Series A cumulative convertible shares issued and outstanding; original estimated fair value of \$4,716,981, accretion of \$42,453 and \$56,604 for the periods ended September 30, 2002 and December 31, 2001, respectively, toward the stated value of \$5,000,000	\$ 4,995,284
Common stockholders' equity:	
Common stock, \$.02 par value; 50,000,000 shares authorized; 26,482,388 and 13,635,581 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively	\$ 529,647
Additional paid-in capital	3,966,815
Stock warrants outstanding; 683,750 at September 30, 2002 and December 31, 2001	243,574
Common stock subscription receivable from officers	0
Accumulated deficit	(31,783,129)

Total	\$ (27,043,093) =====

NOTE 5 - 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 nine months ended September 30, 2002 and September 30, 2001:

	2002		
	Profit (Loss)	Per Share	Lo
Net Profit (Loss)	\$ 1,093,539		\$ (2,
Redeemable preferred stock dividends and accretion	(342,453)		(3
	-----		-----
Net profit (loss) attributable to common stockholders	\$ 751,086	\$ 0.03	\$ (2,7
	=====	=====	=====

11

CROWN ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

NOTE 5 - LOSS PER SHARE (continued)

	2002	
	Profit (Loss)	Per Share
Weighted average common shares outstanding - basic and diluted		24,447,757 -----

The Company had at September 30, 2002 and December 31, 2001, incremental options and warrants to purchase, computed under the treasury stock method, 3,163,148 shares of common stock that were not included in the computation of diluted earnings (loss) per share because their effect was anti-dilutive. The Company also has preferred stock outstanding at September 30, 2002 and December 31, 2001 which is convertible into approximately 4,300,000 shares of common stock that was not included in the computation of diluted earnings per share as its effect was anti-dilutive. Accordingly, diluted earnings per share does not differ from basic earnings. As of September 30, 2002, there were dividend arrearages in the amount of \$1,300,000 on the Company's preferred stock. Pursuant to the designations and preferences of the preferred stock, the foregoing arrearages could be satisfied, at the option of the holder, by the issuance of shares of the Company's common stock in lieu of cash payments at the "fair market value" of the common stock as defined in the designations and preferences. As of September 30, 2002, approximately 88,255,261 shares of common stock could have been issued at the then "fair market value" in satisfaction of the preferred stock dividend arrearages.

NOTE 6 - BAD DEBT RECOVERY ON ACCOUNTS PREVIOUSLY ALLOWED FOR

During the nine months ended September 30, 2002 the Company collected on significant receivables it had provided an allowance for in a prior year in the amount of \$1,396,531. The Company has recognized this collection through operations as a bad debt recovery.

NOTE 7 - GAIN ON DIVESTITURE OF INTEREST IN AFFILIATE

Pursuant to the Settlement Agreement with MCNIC the Company assigned to MCNIC all of its interest in Crown Ridge, and MCNIC relieved CAC of its promissory note obligation and accrued interest of \$2,998,176 which the Company has recognized as a gain in the statement of operations.

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

The following discussion and analysis of the Company's 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 which express, either directly or by

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

implication, management's beliefs, expectations or intentions regarding the Company's future performance or future events or trends which may affect the Company or its 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 the Company's 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 Company's products, continued or additional technical or operational uncertainties and difficulties at the facility of Crown Asphalt Ridge, L.L.C. ("Crown Ridge"), difficulties in integrating the Company's joint venture and acquisition related businesses and other similar risks inherent in the Company's operations or in business operations generally. Any such risks or uncertainties, either alone or in combination with other factors, may cause the actual results, performance or achievements of the Company to differ materially from its 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

On September 30, 2002, the Company had cash and other current assets of \$8,102,856 as compared to cash and other current assets of \$5,502,842 at December 31, 2001. The increase of \$2,600,014 was generally due to the increase in accounts receivable attributable to asphalt sales in the third quarter of 2002. However, on September 30, 2002, the Company's working capital deficit (the excess of current liabilities over current assets) increased to \$23,924,492, as compared to \$21,648,922 on December 31, 2001. Current liabilities of \$26,849,119, long-term debt of \$5,325,723 and a reduction of current assets of \$700,000 as of September 30, 2002 were subsequently released as part of the Settlement Agreement dated October 16, 2002, thus significantly improving the Company working capital and liquidity. Together CAPCO and Crown Distribution accounted for most of the Company's cash and other current assets. As of September 30, 2002, CAPCO and Crown Distribution had cash and other current assets of approximately \$7,680,439, consisting primarily of \$1,046,557 in cash, \$1,212,810 in inventory and \$4,557,210 in accounts receivable, excluding related party balances. The Company's business is capital intensive and requires a working capital credit facility to operate efficiently. The Company has not had such a credit facility since 1999, which has resulted in lowered profitability. Until 1999, MCNIC provided loans to Crown Distribution for inventory purchases and general working capital requirements. As of September 30, 2002, those loans had a principal balance of \$14,935,222, but such amount was released on October 16, 2002 as a result of the Settlement Agreement.

As previously disclosed in the Company's public filings, the Company and MCNIC and certain of its affiliated corporations and officers were engaged in litigation and/or arbitration concerning the collection of MCNIC's loans to the Company and other matters since March of 2000. As previously disclosed in the Company's Annual Report for the year ended December 31, 2001, Crown Distribution was found to owe MCNIC the amount of \$14,953,222 plus accrued interest of \$4,884,401 (the "Damages Award") and the Company and its subsidiaries were found to owe \$2,609,519 (the "Fee Award"). Crown Distribution also owed MCNIC an additional \$5,325,723 at September 30, 2002, with respect to the preferential capital contribution (the "Preferential Capital Contribution") that funded Crown Distribution's acquisition of the assets of PSAC.

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

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

On October 16, 2002 the Company and MCNIC, executed a Settlement Agreement, by which the Company and MCNIC agreed to settle all pending claims, litigation and arbitration matters between them. In accordance with the terms of the Settlement Agreement, the Company paid \$1.3 million to MCNIC in exchange for MCNIC's 49.9% interest in Crown Distribution, all of MCNIC's rights under the Damages Award, the Fee Award and the Preferential Capital Contribution including all accrued interest, and all of MCNIC's interests under any loan by MCNIC to Crown Distribution as well as any underlying mortgages, liens, or security interest in any asset of Crown Distribution. This Settlement Agreement is also discussed in more detail in Part II Item 1. Legal Proceedings.

It should be noted that as a result of the Settlement Agreement on October 16, 2002 (as discussed in Part II - Item I. Legal Proceedings), Crown was released from certain liabilities contained in the presented Balance Sheet. These items are as follows: (1) the Line of Credit to related parties for \$14,935,222; (2) the accrued interest payable to related parties of \$9,304,378; (3) the long term debt to related parties of \$5,325,723; and (4) the accrued arbitration costs of \$2,609,519. Other current assets in the amount of \$700,000 will also be effected.

Crown Distribution has continued to accrue interest expense on the loans owed to MCNIC and Preferred Contributions for its asphalt distribution business. For the nine months ended September 30, 2002, \$1,990,571 of interest expense has been recorded. As noted, on October 16, 2002 the Company and its joint venture partner in Crown Distribution, MCNIC, executed a the Settlement Agreement that is discussed in more detail in Part II Item 1. Legal Proceedings. Pursuant to this Settlement Agreement the interest amount of \$1,990,571 recorded in the nine months ended September 30, 2002 will be forgiven.

As part of the March Agreement, the Company assigned to MCNIC all of its interest in Crown Ridge. In return, the promissory note from CAC to MCNIC was relieved and has been recognized as a gain on divestiture of affiliate in the statement of operations; and MCNIC paid the judgment obtained by Morrison Knudsen (the "MK Judgment") against CAC in its capacity as operator of Crown Ridge and indemnified the Company against the MK Judgment. The Company will have no further costs or interests in Crown Ridge. See Part II, Item 1. Legal Proceedings.

The Company's business requires a large amount of working capital to purchase and store inventory and for accounts receivable and general operations. The Company does not have adequate working capital to operate its business currently and must rely on outside third party sources to finance that requirement. The Company has not had outside working capital financing since 1999. Although the Settlement Agreement results in the release of much of the encumbrance on the Company's assets, it will be very difficult to obtain the working capital needed to operate the business. The Company is exploring all avenues to obtain working capital financing including supplier financing, throughput arrangements and joint ventures with industry participants, facility leasing and conventional bank financing, however there can be no assurance that such financing can be obtained. Failure by the Company to obtain the necessary working capital financing would have a significant negative impact on its future operations and may result in a shut down of the operations and sale of the Company's assets.

The Company remains open to other asphalt related business opportunities to complement its existing asphalt distribution capabilities.

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

There can be no assurance that the Company can obtain additional capital financing required to finance such transactions on acceptable terms and conditions.

The Company has a portion of its accounts receivable subject to the risks and uncertainties of litigation (see Part II, Item 1. Legal Proceedings) and subject to related collection risks. The Company is seeking other ways to finance its working capital requirements, but there can be no assurance that such working capital financing can be secured by the Company. In the event that the Company is unable to collect its current accounts receivables, or the Company is unable to secure the necessary working capital financing for its operations from third party sources, or if the Company's operating losses and working capital deficits continue, or if the Company is unable to recoup the losses, the Company may not have sufficient capital to operate through 2002.

14

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

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
Vehicles	5 years
Computer equipment, furniture and fixtures	3 years

Financial instruments which 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 which, when realized, have been within the range of management's expectations.

The Company maintains its cash in bank deposit accounts which, 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, 2002 compared to the three month period ending September 30, 2001

Total revenue decreased from \$15,539,700 for the three month period ended September 30, 2001 to \$9,015,384 for the three month period ended September 30, 2002, a decrease of \$6,524,316. Cost of sales decreased from

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

\$12,757,549 for the same period in 2001 to \$7,741,964 for the same period in 2002, a decrease of \$5,015,585. The decrease in revenues was primarily the result of a decrease in sales volume of approximately 36,218 tons. The decrease in cost of sales is primarily the result of the reduced volume of asphalt sold. The overall volume decrease is due to financing constraints which did not allow for the additional purchase of additional asphalt in the Quarter.

General and administrative expenses decreased from \$926,719 for the three month period ended September 30, 2001 to \$750,151 for the three month period ended September 30, 2002, a decrease of \$176,568. This decrease is primarily due to decreased legal expenses. \$548,785 of bad debt recovery was recorded as described in Note 6.

Net other income/expenses decreased from an expense of \$1,812,657 for the three month period ended September 30, 2001 to \$767,760 for the three month period ended September 30, 2002, a decrease of \$1,044,897. This decrease is primarily due to an interest charge recorded in 2001 for \$1,164,574 applicable to the Damages Award. Interest included in other income/expense that is related to the Damages Award and Preferred Capital Contribution for its asphalt distribution business is \$670,815 for the three months ending September 30, 2002. This amount is partially offset by interest income and other income of \$5,311.

Minority interest of \$9,167 represents Foreland's approximate 33% interest in the loss of CAT, LLC.

15

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

For the nine month period ended September 30, 2001, compared to the nine months ended September 30, 2000

Total revenue decreased from \$23,185,290 for the period ended September 30, 2001 to \$15,667,841 for the period ended September 30, 2002, a decrease of \$7,517,449. Cost of sales also decreased from \$20,331,211 for the period ended September 30, 2001 to \$14,740,129 for the period ended September 30, 2002, a decrease of \$5,591,082. The decrease in revenues was primarily due to a reduction in sales volume of approximately 42,201 tons. The decrease in cost of sales is primarily the result of lower asphalt sales volume. The lower asphalt sales volume are a result of financing restraints which would not allow for additional purchases of asphalt to market.

General and administrative expenses decreased from \$2,518,780 for the period ended September 30, 2001 to \$2,027,491 for the period ended September 30, 2002, a decrease of \$491,289. This decrease is primarily due to decreased legal expenses and labor efficiencies. Bad debt recovery of \$1,396,531, was recorded as described in Note 6.

Net other income/expenses decreased from an expense of \$2,749,283 for the period ended September 30, 2001 to income of \$767,118 for the period ended September 30, 2002, an expense decrease of \$3,516,401. The 2002 total was comprised of \$1,990,571 interest related to the Damages Award and the Preferential Capital Contribution, \$25,513 loss on disposition of assets, and other interest costs of \$223,819. This amount is offset by a gain on divestiture of the Crown Ridge interest to MCNIC as described in Note 7 of \$2,998,176, and interest income and other income of \$8,845.

Minority interest of \$29,669 represents Foreland's approximate 33%

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

interest in the loss of CAT, LLC.

16

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not believe it is subject to the material risks of loss related to certain market risks, such as interest rate risks, foreign currency exchange rate risks or similar risks, and therefore the Company does not engage in transactions, such as hedging or similar transactions in derivative financial instruments, intended to reduce its exposure to such risks. However, the Company is subject to general market fluctuations related to the purchase of its basestock asphalt and may suffer reduced operating margins to the extent its increased costs are not passed through to its customers. Such prices generally fluctuate with the price of crude oil. The Company was prevented in certain contracts with MCNIC from utilizing any hedging strategies to minimize any market price changes. The Company believes the inability to protect itself from market fluctuations may negatively impact its profit margins.

The Company is also subject to certain price escalation and de-escalation clauses in its asphalt distribution sales contracts. The Company supplies 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. The Company includes such de-escalation risk into its bid process and does not believe it has material exposure to risk resulting from these regulations.

17

ITEM 4. CONTROLS AND PROCEDURES DISCLOSURES ABOUT CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

Based on their evaluations as of a date within 90 days 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 SEC.

(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 their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

18

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

In late July and August, 2001, the Company participated in a binding arbitration proceeding (the "Arbitration") in Salt Lake City, Utah against MCNIC, its related entities and certain of their officers. The Arbitration addressed all claims previously asserted between the parties either in the Third Judicial District Court of Salt Lake County in a proceeding entitled MCNIC Pipeline & Processing Company v. Crown Asphalt Distribution Civil No. 00904867 (the "State Action") and the proceeding filed in the United States District Court for the District of Utah Central Division entitled Crown Energy Corporation, et al. v. MCN Energy Group, Inc. et al., Civil No. 2CV-0583ST (the "Federal Action"). In summary, in the State Action, MCNIC alleged that funds previously advanced by it to Crown Distribution in an amount in excess of \$14 million, plus interest, were immediately due and payable. MCNIC also sought the appointment of a receiver for Crown Distribution's assets and sought to foreclose on security interests in the assets of Crown Distribution.

In contrast, the Company asserted that the funds previously advanced to Crown Distribution by MCNIC were part of a revolving credit facility which was not due and payable at that time and from which Crown Distribution should be able to make additional draws. Further, the Company sought recovery against MCNIC, its related entities and certain of its officers under other causes of action, including breach of fiduciary duties, economic duress, breach of implied covenants of good faith and fair dealing, breach of contracts and intentional interference with business relations.

On October 31, 2001, the Arbitrator issued a damages award (the "Damages Award") in which he held that MCNIC's loans were due and payable with interest accruing on such loans from 8% to 18%, depending upon the particular loan involved. The decision also failed to find for the Company on its claims against MCNIC, its related entities and officers. The Damages Award was subsequently confirmed by the Third Judicial District Court of Salt Lake County, State of Utah on February 7, 2002. The amount of the Damages Award as of September 30, 2002, is \$20,743,231.22, with interest accruing daily in the amount of \$5,102.84.

In addition, the Arbitrator awarded \$2,609,518.69 in fees and costs (the "Fee Award") to MCNIC against the Company and its related entities on a joint and several basis. The Fee Award has yet to be confirmed by the appropriate Utah state court and proceedings regarding it has been stayed as further explained below.

On March 8, 2002, the Company and MCNIC, its related entities and certain of its officers executed a settlement agreement (the "March Agreement"). Pursuant to the March Agreement, the Company transferred all of its interests in Crown Ridge and the leases relating to the Asphalt Ridge properties to MCNIC.

In exchange for the assignment of the Crown Ridge interest, the Company received (i) MCNIC's commitment to pay a previously entered judgment by Morrison Knudsen (the "MK Judgment") and its indemnification of the Company from the MK Judgment, (ii) the assignment from Crown Ridge of a 1% non-cost bearing, overriding royalty interest in the sales proceeds received by Crown Ridge or its successors and assigns from any products produced on the assigned leases of "Tract A" at Asphalt Ridge and a 3% non-cost bearing, overriding royalty interest in proceeds received by Crown Ridge or its successors and assigns from any other lands which are currently leased by Crown Ridge or the Company, and (iii) the mutual release between the parties of any known or unknown claims between them relating to Crown Ridge, including the obligation of the Company to pay the CAC Loan.

On October 16, 2002, the Company and its subsidiaries, CAC, CAPCO and Crown Distribution, and its CEO, Jay Mealey ("Mealey"), (collectively, the "Crown Parties") entered into a settlement agreement (the "Settlement

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

Agreement") with DTE Enterprises, Inc. as successor by merger to MCN Energy Group ("MCN"), MCNIC Pipeline & Processing Company ("MCNIC"), Howard L. Dow III ("Dow") and William E. Kraemer ("Kraemer") (collectively the "MCN Parties") by which the Crown Parties and the MCN Parties agreed to settle all pending claims, litigation and arbitration matters between them.

19

In accordance with the terms of the Settlement Agreement, CAPCO paid \$1.3 million to MCNIC in exchange for (i) MCNIC's 49.9% interest in Crown Distribution; (ii) all of MCNIC's rights under the damages judgment entered February 7, 2002 as a result of previously disclosed arbitration with the MCN Parties in the amount of \$20,011,683.35 (the "Damages Judgment"); and (iii) all of MCNIC's interests under any loan by MCNIC to Crown Distribution, as well as any underlying mortgages, liens, or security interest in any asset of Crown Distribution. CAPCO and Crown Distribution also agreed to fully indemnify MCNIC for any claims and liabilities relating to Crown Distribution or CAPCO, or their operations.

In addition, the Crown Parties stipulated to the entry of an order confirming an arbitrator's award of fees, costs and expenses, dated February 5, 2002, and the entry of a conforming fee judgment in the amount of \$2,409,518.69 against the Crown Parties (the "Fee Judgment"). The Fee Judgment, however, will be deemed satisfied in full following the continued operation of the Crown Parties' business in the ordinary course through January 15, 2003. The MCNIC Parties agreed not to attempt to execute upon, or take other actions with respect to, the Fee Judgment, during that period if the Crown Parties' business is so operated.

The Settlement Agreement further provides that CAC assigned all of the overriding royalty interests granted to it in the March Agreement to MCNIC in exchange for a \$100,000 credit against CAC's portion of the Fee Judgment.

On September 26, 2002, the Company's Gadsby terminal was issued criminal citations by the Salt Lake City attorney's office for failing to report a fire which had occurred in certain of the Company's equipment there and for operating a public nuisance due to industrial odors which allegedly emanated from the site. The issuing of the citations caused the lessor of the site to indicate its intention to cancel the lease for the property. The Company is in negotiations with both the city and the lessor regarding this matter and hopes to reach a satisfactory accommodation with both parties. Due to the inherent uncertainties in matters such as this, however, it is not possible to definitively predict what outcome on this matter the Company will be able to negotiate.

ITEM 2. Changes in Securities

None.

ITEM 3. Defaults upon Senior Securities

As noted elsewhere in this Report, as of September 30, 2002, there were arrearages in the amount of \$1,300,000 on the Company's preferred stock. Pursuant to the designations and preferences of the preferred stock, the foregoing arrearages could be satisfied, at the option of the holder, by the issuance of shares of the Company's common stock in lieu of cash payments at the "fair market value" of the common stock as defined in the designations and preferences. As of September 30, 2002, approximately 88,255,261 shares of common stock could have been issued at the then "fair market value" in satisfaction of the preferred stock dividend arrearages.

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:

Exhibit A Certification of Jay A. Mealey the President and Chief Executive Officer of Crown Energy Corporation.

Exhibit B Certification of Alan L. Parker the Controller of Crown Energy Corporation.

B. Report on Form 8-K

Exhibit C 8-K filed October 31, 2002 describing the Settlement Agreement between the Company and its joint venture partner in Crown Distribution, MCNIC.

21

PART III - 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 14, 2002

By: /s/ Jay Mealey

Jay Mealey, Chief Executive Officer

Date: November 14, 2002

By: /s/ Alan Parker

Alan Parker, Controller

22

Exhibit A

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
IN COMPLIANCE WITH

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Jay A. Mealey, President and Chief Executive Officer of Crown Energy Corporation, hereby certify that the accompanying Form 10-Q of Crown Energy Corporation fully complies with the requirements of section 13(a) or section 15(d) of the Securities and Exchange Act of 1934 and that the information contained in the accompanying Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Crown Energy Corporation.

/s/ Jay Mealey

Name: Jay Mealey
Title: President and Chief Executive
Officer of Crown Energy Corporation

23

Exhibit B

CERTIFICATION OF CHIEF FINANCIAL OFFICER
IN COMPLIANCE WITH
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Alan L. Parker, Controller of Crown Energy Corporation, hereby certify that the accompanying Form 10-Q of Crown Energy Corporation fully complies with the requirements of section 13(a) or section 15(d) of the Securities and Exchange Act of 1934 and that the information contained in the accompanying Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Crown Energy Corporation.

/s/ Alan Parker

Name: Alan Parker
Title: Controller of Crown Energy Corporation

24