

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

CROWN ENERGY CORP  
Form 10-Q  
November 15, 2004

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, 2004

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 October 31, 2004.

CROWN ENERGY CORPORATION

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

## INDEX

	PAGE(S)
PART I. Financial Information	
ITEM 1. Financial Statements	
Condensed Consolidated Balance Sheets at September 30, 2004 (unaudited) and December 31, 2003	3
Condensed Consolidated Statement of Operations for the Three Months ended September 30, 2004 and 2003 (unaudited) and Nine Months ended September 30, 2004 and 2003 (unaudited)	5
Condensed Consolidated Statement of Cash Flows for the Nine Months ended September 30, 2004 and 2003 (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	17
ITEM 4. Controls and Procedures	18
PART II. Other Information	
ITEM 1. Legal Proceedings	19
ITEM 2. Changes in Securities and Use of Proceeds	19
ITEM 3. Defaults upon Senior Securities	19
ITEM 4. Submission of Matters to a Vote of Security Holders	19
ITEM 5. Other Information	19
ITEM 6. Exhibits	20
Signatures	21
Certifications	22

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CROWN ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

	September 30, 2004 [unaudited] -----
CURRENT ASSETS:	
Cash and cash equivalents	\$ 157,696
Accounts receivable, net of allowance for uncollectible accounts of \$159,970 and \$164,630, respectively	4,162,621
Inventory	1,476,880
Prepaid and other current assets	103,621 -----
Total Current Assets	5,900,818
PROPERTY PLANT, AND EQUIPMENT, Net	8,215,629
OTHER ASSETS	235,577 -----
TOTAL	\$ 14,352,024 =====

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, 2004 [unaudited] -----
CURRENT LIABILITIES	
Accounts payable	\$ 5,654,082
Preferred stock dividends payable	1,700,000
Accrued expenses	133,588
Accrued interest	428,925
Long-term debt - current portion	821,975 -----
Total current liabilities	8,738,570
Long-term debt	2,193,973
Redeemable preferred stock	5,000,000 -----
Total liabilities	15,932,543
MINORITY INTEREST IN CONSOLIDATED JOINT VENTURES	584,787
STOCKHOLDERS DEFICIT:	
Stockholders' equity:	
Common Stock \$0.02 par value 50,000,000 shares authorized 26,482,388 shares outstanding for each period	529,647

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

Additional paid in Capital	3,219,417
Stock warrants	186,256
Accumulated deficit	(6,100,626)
	-----
Stockholders' deficit	(2,165,306)
	-----
 TOTAL	 \$ 14,352,024
	=====

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 Septe
	----- 2004 -----
SALES, Net of demerits	\$7,562,272
COST OF SALES	7,251,197
	-----
GROSS PROFIT (LOSS)	311,075
GENERAL AND ADMINISTRATIVE EXPENSES	(353,732)
INCOME (LOSS) FROM OPERATIONS	(42,657)
	-----
OTHER INCOME (EXPENSES):	
Interest income and other income	364
Interest expense	(86,705)
Total other income (expense), net	(86,341)
	-----
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	(128,998)
	-----
INCOME TAX BENEFIT	--
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED JOINT VENTURE	10,565
	-----
NET INCOME (LOSS)	\$ (118,433)

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

REDEEMABLE PREFERRED STOCK DIVIDENDS AND ACCRETION	\$ (100,000) -----
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (218,433) =====
NET INCOME (LOSS) PER COMMON SHARE basic and diluted:	\$ (0.01) =====
Weighted average common shares outstanding:	
basic	26,482,388
diluted	26,482,388

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 September 2004 -----
SALES, Net of demerits	\$ 11,013,696
COST OF SALES	11,166,002 -----
GROSS PROFIT (LOSS)	(152,306)
GENERAL AND ADMINISTRATIVE EXPENSES	(990,494)
Bad debt recovery on accounts previously allowed for	-- -----
INCOME (LOSS) FROM OPERATIONS	(1,142,800) -----
OTHER INCOME (EXPENSES):	
Interest income and other income	1,510
Interest expense	(228,503)
Total other income (expense), net	(226,993) -----
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	(1,369,793)

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

INCOME TAX BENEFIT	----- --
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED JOINT VENTURE	31,037 -----
NET INCOME (LOSS)	\$ (1,338,756)
REDEEMABLE PREFERRED STOCK DIVIDENDS AND ACCRETION	\$ (300,000) =====
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (1,638,756) =====
NET INCOME (LOSS) PER COMMON SHARE BASIC AND DILUTED:	\$ (0.06) =====
Weighted average common shares outstanding:	
basic	26,482,388
diluted	26,482,388

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 M Septemb
	----- 2004 -----
Cash flows from operating activities:	
Net income (loss)	\$ (1,338,756)
Adjustments to reconcile net income (loss) to net cash used by operating activities:	
Amortization, depreciation and depletion	420,112
Recovery of doubtful accounts receivable	--
Minority interest	(31,037)
Change in assets and liabilities:	
Accounts receivable	(3,616,312)
Inventory	(840,071)
Prepaid and other assets	(170,926)
Accounts payable	4,990,550
Accrued expenses and interest	140,320

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

	-----
Total adjustments	892,636
	-----
Net cash used in operating activities	(446,120)
	-----
Cash flows used in investing activities:	
Purchase of property and equipment	--
	-----
Cash flows used in financing activities:	
Capital contributions from partners	76,245
Payments on long-term debt	(562,291)
	-----
Net cash used in financing activities	(486,046)
	-----

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
	-----
	2004
	-----
Net Decrease in Cash:	(932,166)
Cash at Beginning of Period	\$ 1,089,862
	=====
Cash at End of Period	\$ 157,696
	=====
Supplemental Disclosure of Cash Flow Information	
Cash paid during the period:	
Interest	\$ 126,195
	=====
Income taxes	\$ --
	=====

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

### Supplemental Schedule of Non-cash Investing and Financing Activities:

For the period ended September 30, 2004:

We accrued dividends on preferred stock of \$300,000.

We refinanced \$929,417 of accounts payable to long-term debt through negotiated extended paym

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

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

We have prepared the accompanying consolidated financial statements as of September 30, 2004 and for the three and nine months ended September 30, 2004 and 2003 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, 2004, results of operations for the three and nine months ended September 30, 2004 and 2003 and cash flows for the nine months ended June 30, 2004, and 2003 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, 2003 Annual Report on Form 10-K. The results of operations for the period ended September 30, 2004, are not necessarily indicative of the operating results for the full year.

Summary of Disputes - One outstanding complaint has been filed against us by Geneva Rock Products, Inc. The foregoing action was described in detail in our Annual Report on Form 10-K for the year ending December 31, 2003. On October 13, 2004 an agreement was reached with Geneva Rock to settle the litigation between the parties. This settlement will not result in any material effect on the 2004 financials as they have been presented.

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.



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

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 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 period ending September 30, 2004 and 2003.

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, 2004, 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. As disclosed in Note 5, on June 7, 2004, the Company entered into an agreement with an unrelated asphalt distribution firm to organize a joint venture that will be owned 51% by the other firm and 49% by us. Substantially all of the Company's asphalt business, operations and assets will be transferred to the joint venture entity in consideration of a promissory note for \$7.5 million, the payment of which will be largely contingent upon the joint venture having earnings sufficient to permit such payment, assumption of approximately

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

\$2.3 million in liabilities, and a 49% interest in the joint venture entity. The promissory note will be secured by the sold assets and business. In addition, the other joint venture participant has provided the joint venture with an operating line of credit through the end of calendar year 2004, which may be extended in subsequent years at the election of our joint venture partner. In anticipation of completing this transaction the joint venture partner has advanced interim operating capital, secured by the Company's inventory, work in progress, finished goods and accounts receivable. The Company's continuance subsequent to the transaction will be largely dependent on the success of the joint venture as payment of the \$7.5 million promissory note is contingent on earnings of the joint venture. If the joint venture is unable to make payments on the promissory note, the Company may not be able to continue in business. Formation of the joint venture is contingent on a number of factors, including approval by the Company's stockholders. The officers and directors have approved the foregoing transaction. The principal stockholders and their affiliates holding a majority of the issued and outstanding common stock have also approved the foregoing transactions. In addition, the holder of the Series A Preferred Stock has indicated that it intends to approve the transaction and to waive its right to require the Company to redeem the preferred stock at its stated value plus all accrued but unpaid dividends, or for approximately \$6.7 million as of September 30, 2004.

### NOTE 2 - LONG-TERM DEBT

During 2004 we entered into extended payment arrangements with various vendors for \$863,033 to extend amounts due into equal monthly installments over 3 years accruing interest at 4%.

### NOTE 3 - CAPITAL TRANSACTIONS

Preferred Stock and Related Warrant- In 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 at \$0.002 per

10

## CROWN ENERGY CORPORATION

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED

#### FINANCIAL STATEMENTS [Continued]

share an amount equal to 8% of the shares of common stock then outstanding and reserved for issuance, or approximately 925,771 shares. In 2002, the Series A Preferred Stock, the warrant, and all associated rights were acquired by the Mealey Family Limited Partnership, which is the current holder of the Series A Preferred Stock, the warrant, all associated rights, and accrued dividends. Jay Mealey, our Chief Executive Officer, President and a director, 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, 2003, and September 30, 2004, there were dividends payable to the holder of the Series A Preferred Stock of \$1.4 million and \$1.7 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, 2004, 170.0 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. The holder of the Series A Preferred Stock may also require the Company to

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

redeem the Series A Preferred Stock after the eighth anniversary of the Series A Preferred Stock's issuance. In addition, in the event of a sale of all or substantially all of the Company's assets, or a merger or consolidation in which control of the Company is transferred, may, at the option of the Series A Preferred Stockholder, be treated as a liquidation, thus resulting in the repurchase of the Series A Preferred Stock at its stated value and all outstanding related dividends.

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.

11

### CROWN ENERGY CORPORATION

#### NOTES TO UNAUDITED CONDENSED CONSOLIDATED

#### FINANCIAL STATEMENTS [Continued]

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

Basic net loss per common share ("Basic EPS") is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per common share ("Diluted EPS") is computed by dividing net loss by the sum of the weighted average number of common shares outstanding and the weighted average dilutive common share equivalents then outstanding. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect. Common share equivalents consist of shares issuable upon the exercise of options and warrants to purchase common stock, the conversion of any convertible debentures and related accrued interest, and shares issuable upon conversion of any preferred stock.

We had at September 30, 2004, and September 30, 2003, incremental options and warrants to purchase, 3,372,919 shares and 3,988,919 shares of common stock, respectively, that were not included in the computation of diluted earnings (loss) per share for the three and nine months ended September 30, 2004 and for the nine months ended September 30, 2003, because their effect was anti-dilutive. We also had preferred stock outstanding at September 30, 2004, and September 30, 2003, which is convertible into approximately 4,285,000 shares of common stock that was not included in the computation of diluted loss per share for the three and nine months ended September 30, 2004 and for the nine months ended September 30, 2003, as its effect was anti-dilutive. Accordingly, diluted loss per share does not differ from

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

basic loss. As of September 30, 2004, there were preferred stock dividends payable in the amount of \$1,700,000. 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 October 31, 2004.

### NOTE 5 - PROPOSED AGREEMENT FOR SALE OF ASSET

On June 7, 2004, the Company entered into an agreement with an unrelated asphalt distribution firm to organize a joint venture that will be owned 51% by the other firm and 49% by us. Substantially all of the Company's asphalt business, operations and assets will be transferred to the joint venture entity in consideration of a promissory note for \$7.5 million, the payment of which will be largely contingent upon the joint venture having earnings sufficient to permit such payment, assumption of approximately \$2.3 million in liabilities, and a 49% interest in the joint venture entity. The promissory note will be secured by the sold assets and business. In addition, the other joint venture participant will provide the joint venture with an operating line of credit through the end of calendar year 2004, which may be extended in subsequent years at the election of our joint venture partner. In anticipation of completing this transaction the joint venture partner has advanced interim

12

### CROWN ENERGY CORPORATION

#### NOTES TO UNAUDITED CONDENSED CONSOLIDATED

#### FINANCIAL STATEMENTS [Continued]

operating capital, secured by the Company's inventory, work in progress, finished goods and accounts receivable. Formation of the joint venture is contingent on a number of factors, including approval by the Company's stockholders. The officers and directors have approved the foregoing transaction. The principal stockholders and their affiliates holding a majority of the issued and outstanding common stock have also approved the foregoing transactions. In addition, the holder of the Series A Preferred Stock has indicated that it intends to approve the transaction and to waive its right to require the Company to redeem the preferred stock at its stated value plus all accrued but unpaid dividends, or for approximately \$6.7 million as of September 30, 2004.

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

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

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, 2004, we had cash and other current assets of \$5.9 million, as compared to cash and other current assets of \$2.38 million at December 31, 2003. The increase of approximately \$3.52 million was generally due to an increase in accounts receivable and inventory, which is offset, by an increase in accounts payable.

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 91% of our annual sales during the quarters ended June 30 and September 30, 2003. Therefore, during these periods we require large amounts of working capital to fund accounts receivables and general operations. We have not had third party working capital financing since 1999 and we have been unable to obtain adequate financing on acceptable terms.

Our auditor's report on our financial statements for the year ended December 31, 2003, as for prior years, contained an explanatory paragraph about our ability to continue as a going concern. We have continued to suffer from shortages of working capital needed to optimize operating economies and that has threatened the survival of the Company. Given our financial condition, generally, outside working capital funding requires personal guarantees, and our officers and directors have been unwilling to provide such guarantees for our benefit as a publicly-held company. As previously reported, our Board of Directors approved the investigation of alternatives for a "going-private" transaction. In order to ensure the survival of the Company and resolve its working capital problems, the Board has approved the sale of all of its asphalt manufacturing and distribution assets and related business. Formation of the joint venture is contingent on a number of factors, including approval by the Company's stockholders. The officers and directors have approved the foregoing transaction. The principal stockholders and their affiliates holding a majority of the issued and outstanding common stock have also approved the foregoing

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

transactions. In addition, the holder of the Series A Preferred Stock has indicated that it intends to approve the transaction and to waive its right to require the Company to redeem the preferred stock at its stated value plus all accrued but unpaid dividends, or for approximately \$6.7 million as of September 30, 2004.

On June 7, 2004, the Company entered into an agreement with an unrelated asphalt distribution firm to organize a joint venture that will be owned 51% by the other firm and 49% by us. Substantially all of the Company's asphalt business, operations and assets will be transferred to the joint venture entity in consideration of a promissory note for \$7.5 million, the payment of which will be largely contingent upon the joint venture having earnings sufficient to permit such payment, assumption of liabilities, and a 49% interest in the joint venture entity. The sold assets and business will secure the promissory note. In addition, the other joint venture participant will provide the joint venture with an operating line of credit through the end of calendar year 2004, which may be extended in subsequent years at the election of our joint venture partner. In anticipation of completing this transaction the joint venture partner provided the Company with interim operating capital, secured by the Company's inventory, work in progress, finished goods and accounts receivable. Formation of the joint venture is contingent on a number of factors, including approval by the Company's stockholders, a majority of which have indicated that they intend to do so.

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 losses and working capital deficits continue, or if we are unable to recoup our losses, we may not have sufficient capital to operate through 2004 and into 2005.

As of September 30, 2004, we had a working capital deficit of approximately \$2.64 million, an accumulated deficit of \$6.1 million, and total stockholders' deficit of \$2.16 million.

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. Failure of the Company to complete the foregoing transaction will have a significant negative effect and could result in the failure of the Company.

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.

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

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

15

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

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, periodically, 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, 2004, compared to the three month period ending September 30, 2003

-----

Total revenue decreased from \$9,318,111 for the three-month period ended September 30, 2003, to \$7,562,272 for the three-month period ended September 30, 2004, a decrease of \$1,755,839. Cost of sales decreased from \$8,549,195 for the same period in 2003 to \$7,251,197 for the same period in 2004, a decrease of \$1,297,998. The decrease in revenues was primarily the result of a decrease in sales volume of approximately 11,745 tons offset partially by an increase in revenue per ton of approximately \$13.94. The decrease in tons is primarily due to contracted business start dates occurring later in the asphalt paving season compared to the previous year, and some projects being deferred to the 2005 paving season. The decrease in cost of sales in the 2004 interim period is primarily the result of the reduced volume and reduced facility operating costs predominately made up of salaries and wages offset partially by an increase per ton in the cost of raw materials of approximately \$15.30.

General and administrative expenses decreased from \$374,990 for the three-month period ended September 30, 2003, to \$353,732 for the three-month period ended September 30, 2004, a decrease of \$21,258. This decrease is primarily due to a reduction in salaries and wages.

Net other income/expenses increased from an expense of \$70,264 for the

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

three-month period ended September 30, 2003, to an expense of \$86,341 for the three-month period ended September 30, 2004, an increased expense of \$16,077. This increase is primarily due to interest expense on funds advanced on the operating line of credit.

Minority interest of \$10,565 represents Foreland's approximate 33% interest in the loss of CAT, LLC.

For the nine month period ending September 30, 2004, compared to the nine month period ending September 30, 2003

-----

Total revenue decreased from \$15,674,753 for the nine-month period ended September 30, 2003, to \$11,013,696 for the nine-month period ended September 30, 2004, a decrease of \$4,661,057. Cost of sales decreased from \$15,265,452 for the same period in 2003 to \$11,166,002 for the same period in 2004, a decrease of \$4,099,450. The decrease in revenues was primarily the result of a decrease in sales volume of approximately 27,045 tons partially offset by an increase in revenue per ton of approximately \$12.03 per ton. The decrease in tons

16

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

is primarily due to a reduction in contracted business compared to the previous year resulting from working capital uncertainties during the bidding process. The decrease in cost of sales in the 2004 interim period is primarily the result of reduced volume and reduced facility operating costs predominately made up of salaries, wages and insurance offset partially by an increase per ton in asphalt and asphalt blend stocks of approximately \$10.48.

General and administrative expenses decreased from \$1,113,901 for the nine-month period ended September 30, 2003, to \$990,494 for the nine-month period ended September 30, 2004, a decrease of \$123,407. This decrease is primarily due to a reduction in salaries, wages and supplies. During 2003 a recovery of a receivable that was allowed for in a prior year for \$323,524 was recorded as a bad debt recovery.

Net other income/expenses increased from an expense of \$157,904 for the nine-month period ended September 30, 2003, to an expense of \$226,993 for the nine-month period ended September 30, 2004, an increase of \$69,089. This increase is the result of increased interest expense of \$24,763 and a dividend received in 2003 in the amount of \$42,611.

Minority interest of \$31,037 represents Foreland's approximate 33% interest in the loss of CAT, LLC.

### 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



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

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 de-escalation risk into our bid prices and do not believe we have material exposure to risk resulting from these regulations.

17

### 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.

18

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On October 13, 2004 an agreement was reached with Geneva Rock Products Inc. to settle the litigation between the parties. This settlement will not result in any material effect on the 2004 financials as they have been presented. No other changes have occurred see our Annual Report on Form 10K for year ended December 31, 2003 for pending actions.

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

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As of June 30, 2004, there were arrearages in the amount of \$1,700,000

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

on dividends on our preferred stock.

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

None.

### ITEM 5. OTHER INFORMATION

#### Memorandum of Understanding to Sell Asphalt Manufacturing and Distribution Assets and Related Business

On June 7, 2004 the Company entered into a Memorandum of Understanding with an unrelated asphalt company to form a new limited liability company to purchase all of the Company's asphalt manufacturing and distribution assets and related business. At closing of the transaction, the Company will own 49% of the membership interest in the new limited liability company and the other asphalt company will own the remaining membership interest. The new limited liability company will purchase the assets and business for \$7.5 million and will in addition purchase the Company's current inventory. The purchase price will be paid in the form of a six-year promissory accruing interest. The sold assets and business will secure the promissory note. As part of the transaction, the other member of the limited liability company will supply the working capital financing to enable the new company to take advantage of off-season asphalt purchase to fill the storage tank capacity.

19

### ITEM 6. EXHIBITS

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

20

### 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

Edgar Filing: CROWN ENERGY CORP - Form 10-Q

undersigned thereunto duly authorized.

CROWN ENERGY CORPORATION  
(Registrant)

Date: November 15, 2004

By: /s/ Jay Mealey

-----  
Jay Mealey,  
Chief Executive Officer

Date: November 15, 2004

By: /s/ Alan Parker

-----  
Alan Parker, Controller