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CROWN ENERGY CORP
Form 10-K
April 17, 2001

FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the fiscal year ended December 31, 2000
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 (I.R.S. Employer Identification No.)
incorporation or organization

215 South State, Suite 650 84111
Salt Lake City, Utah (Zip Code)
(Address of principal executive offices)

Registrant's telephone number, including area code: (801) 537-5610

Securities registered pursuant to Section 12(b) of the Act:

(None)

Securities registered pursuant to Section 12(g) of the Act:

\$0.02 PAR VALUE COMMON STOCK
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of common stock, par value \$0.02 per share, held by non-affiliates of the registrant on March 29, 2001 was \$598,149.86 using the average bid and asked price for Registrant's common stock. As of March 29, 2001, registrant had 13,635,581 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the Registrant's Proxy Statement to be used in connection with the solicitation of proxies for the Registrant's Fiscal 1999 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K.

Transitional Small Business Disclosure Format (check one) YES [] NO [X]

PART I.

STATEMENTS MADE OR INCORPORATED IN THIS ANNUAL REPORT INCLUDE 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, WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS "ANTICIPATES", "BELIEVES", "EXPECTS", "INTENDS", "FUTURE", AND WORDS OF SIMILAR IMPORT WHICH EXPRESS MANAGEMENT'S BELIEF, EXPECTATIONS OR INTENTIONS REGARDING THE COMPANY'S FUTURE PERFORMANCE OR FUTURE EVENTS OR TRENDS. RELIANCE SHOULD NOT BE PLACED ON FORWARD-LOOKING STATEMENTS BECAUSE THEY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS, WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE COMPANY TO DIFFER MATERIALLY FROM ANTICIPATED FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. IN ADDITION, THE COMPANY UNDERTAKES NO OBLIGATION TO PUBLICLY UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENT, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

ITEM 1. BUSINESS

General

Crown Energy Corporation is a Utah corporation that specializes in the production and distribution of premium asphalt products to meet the new, higher quality standards for federal and state highways. The Company is based in Salt Lake City, Utah and operates primarily through two wholly owned subsidiaries, Crown Asphalt Corporation ("CAC") and Crown Asphalt Products Company ("CAPCO"), both of which are Utah corporations. Since August of 1997, CAC had operated as the Operator of Crown Asphalt Ridge, L.L.C., a Utah limited liability company ("Crown Ridge"), the asphalt production business in which Crown owns a minority interest in Vernal, Utah. CAC's present status as Operator of Crown Ridge is discussed below. See "Item 1. Business - Asphalt Production - Crown Asphalt Ridge, L.L.C."

CAPCO operates the asphalt manufacturing and distribution business of Crown both independently and through its majority interest in Crown Asphalt Distribution, L.L.C., a Utah limited liability company ("Crown Distribution"). Crown Distribution owns a majority interest in Cowboy Asphalt Terminal, L.L.C., a Utah limited liability company, that is operated by CAPCO.

Crown's consolidated financial statements and results of operations include the accounts and results of operations of CAC, CAPCO and Crown Distribution. Accordingly, references in this Annual Report to "Crown" or the "Company" include, unless otherwise noted, CAC, CAPCO and Crown Distribution.

The Company was formed in 1981 as an oil and gas production company. The Company changed its business focus to concentrate on the production and distribution of premium asphalt products in 1995. For the years ended December 31, 1998, 1999 and 2000, the Company reported revenues from the sale of asphalt products of approximately \$24 million, \$36 million and \$23 million respectively. See "Item 6 - Selected Financial Data." Most of the revenues for 1998 were recorded in the last half of 1998 as a result of Crown Distribution's asphalt product sales.

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In August 1997, the Company formed Crown Ridge with MCNIC Pipeline & Processing Company, a Michigan corporation ("MCNIC"), to construct, own and operate an asphalt oil sand production Facility at Asphalt Ridge, near Vernal, Utah (the "Facility") at the Company's Asphalt Ridge deposit in northeast Utah. MCNIC is a wholly owned subsidiary of MCN Energy Group, Inc. ("MCN") (NYSE:MCN), a large diversified energy holding company. Information about MCN Energy Group is available on the World

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Wide Web at <http://www.mcnenergy.com>. To date, Crown Ridge has invested approximately \$20 million in the Facility. During the start-up of the Facility mechanical and process difficulties were experienced that affected production economics. Extensive research and engineering to develop a solution to these problems was conducted and tested in a pilot study at the Facility during 2000. The results of the pilot study are currently being evaluated by MCNIC to determine the technical and economic viability of the Facility. The Company assumes that modifications to the Facility will be required in order for it to achieve commercial production, but the cost of such modifications is unknown. If the decision is made to proceed with the required modifications, the Company does not anticipate completing the modifications sooner than the fall of 2001. The Company presently owns approximately a 24% equity interest in Crown Ridge and MCNIC holds the remaining approximately 76% equity interest. It is important to note that because MCNIC owns the large majority interest in Crown Ridge, any decision to proceed with modifications or retrofit of the Facility can be controlled by MCNIC. The Company has the right to acquire up to a 60% equity interest in Crown Ridge contingent, however, upon MCNIC's receipt of certain preferential returns and Crown Ridge's election to pursue certain expansion opportunities. See "Item 1. Business - Asphalt Production - Crown Asphalt Ridge, L.L.C." below.

In August 1997, contemporaneous with the Company's Crown Ridge joint venture with MCNIC, the Company also completed the private sale of \$5 million of the Company's \$10 Series A Cumulative Convertible Preferred Stock (the "Series A Preferred") to Enron Capital & Trade Resources Corp. ("ECT"), a subsidiary of Enron Corp. ("Enron"), (NYSE:ENE). Enron is a large diversified energy company with assets in excess of \$33 billion. Information about Enron is available on the World Wide Web at <http://www.enron.com>. Proceeds from the sale of stock to ECT were used for working capital and to finance the Company's share of construction and start-up costs related to Crown Ridge, which includes the construction of the Facility. Certain rights, preferences and limitations relating to the Series A Preferred are detailed in "Item 5. Market Price for the Company's Common Equity and Related Stockholder Matters" below.

In June 1998, the Company, through CAPCO, entered into a joint venture by forming Cowboy Asphalt Terminal, L.L.C., a Utah limited liability company ("CAT LLC"), with Foreland Asphalt Corporation, a Utah corporation engaged in the asphalt roofing products business ("Foreland"). CAT LLC was formed to acquire an asphalt terminal and its underlying real property located in Woods Cross, Utah. The asphalt terminal property of CAT LLC was apportioned and portions designated for the exclusive uses of either CAPCO or Foreland, each of which will retain all revenues and profits generated from their respective exclusive operations. CAPCO is the operator of CAT, LLC. Crown Distribution, through the exercise of an option on or about December 21, 1998, is entitled to own 66.67% of CAT LLC and the remaining 33.33% is owned by Foreland. CAT LLC is a majority owned and controlled subsidiary of Crown Distribution and the accounts and results of operations of CAT LLC will be included within the Company's consolidated financial statements and results of operations. See "Item 1. Business - Asphalt Distribution - Cowboy Asphalt Terminal, L.L.C." below.

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On July 2, 1998, Crown Distribution was formed as a second joint venture between the Company (through its CAPCO subsidiary) and MCNIC. Crown Distribution is owned 50.01% by the Company and 49.99% by MCNIC. Crown Distribution was formed to acquire the inventory and assets of Petro Source Asphalt Company, a Texas corporation ("PSAC"). By completing this acquisition, the Company acquired ownership or leasehold interests in certain asphalt manufacturing and distribution facilities located in Utah, Arizona, Colorado and Nevada. These facilities enable the Company to manufacture a broad range of performance asphalt products for sale to its customers in the western United States. See "Item 1. Business - Asphalt Distribution - Crown Asphalt Distribution, L.L.C." below.

On May 12, 1999, the Company entered into an agreement to acquire an asphalt distribution terminal in Rawlins, Wyoming (the "Rawlins Asphalt Terminal") and the related asphalt inventory for \$2,291,571 from S&L Industrial, a Wyoming corporation. The Rawlins Asphalt Terminal was acquired in conjunction with the acquisition of two additional manufacturing and distribution terminals to expand the Company's asphalt manufacturing and distribution operations in the western United States. The operating agreement for Crown Distribution required that the Company present this opportunity to MCNIC in order for it to participate in the acquisition and the Company did present the transaction (and the acquisition of two other

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terminals which were ultimately not acquired) to MCNIC in accordance with its obligations. Despite its agreement to participate in the ownership of the Rawlins Asphalt Terminal (and the other two terminals which were ultimately not acquired) through the formation of a new joint venture, MCNIC failed to take the actions necessary to complete the transfer of the project to joint ownership and the Company does not believe at present that MCNIC will perform. Thus, the Rawlins Asphalt Terminal is currently owned and operated by CAPCO.

The Company's revenues during the year ended December 31, 2000 were generated primarily through its asphalt manufacturing and distribution operations. See "Item 1. Business - Asphalt Distribution - Crown Asphalt Distribution, L.L.C." below. The Company's control of Crown Distribution and the Rawlins Asphalt Terminal, through CAPCO, complement the Company's interest in Crown Ridge (more specifically, its anticipated asphalt production at the Facility). Its asphalt production, manufacturing and distribution capabilities allow the Company to produce, transport, store, process, blend, manufacture and sell finished asphalt products in its Western United States target market. These operations rely primarily upon the purchase of asphalt, additives, modifiers and other raw materials used to manufacture the finished asphalt products from third party suppliers. Should Crown Ridge's extraction and processing operations at the Facility produce commercial quantities of asphalt, management of the Company expects that production can displace some of the raw materials purchased from third party suppliers for resale. As reflected elsewhere within this Report, however, no assurance can be given when, or if at all, commercially viable production at Crown Ridge's Facility will commence. As the Company increases its asphalt manufacturing, marketing and distribution activities at its asphalt terminals, the Company remains open to other asphalt related business.

More detailed information about the asphalt industry and the Company's asphalt production and distribution businesses is provided below.

The Asphalt Industry

The United States asphalt market is estimated to be a 30 million-ton market that historically has been supplied by the large U.S. oil refiners. In recent years, management of the Company believes that the U.S. asphalt market has

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undergone significant changes. In particular, national and international demand for asphalt has increased. Further, recently established standards which require the use of higher quality asphalt for federal and state highways in the United States have increased the demand for higher quality asphalts. At the same time, recent reductions of heavy crude processing have resulted in a decrease in asphalt supply. The Company believes that these changes are favorable to asphalt producers and suppliers such as the Company.

Deterioration of the nation's infrastructure has drawn increasing public attention and concern, and the emphasis in the highway industry is shifting from construction of new roads and bridges to maintenance and replacement of aging facilities. As the U.S. government, state and federal agencies focus on decaying infrastructure and facilities, the need for better techniques and materials to build longer-lasting roads and to repair existing ones cost-effectively has developed. Congress authorized the Strategic Highway Research Program (SHRP) as a coordinated national effort to meet the tough challenges facing the highway industry. SHRP was a five-year, \$150 million research program funded through state-apportioned federal highway aid funds. Its research was tightly focused on the development of pragmatic products of immediate use to the highway agencies. Using a wide range of advanced materials characterization techniques that had not been applied to asphalt previously, SHRP determined how asphalt material properties affect pavement performance. The new performance graded (PG) specifications focus on the climate conditions of a given location and the specific temperature band within which the PG asphalt must work. The recommendation for the improved PG asphalt binder specifications has been adopted by the Federal Highways Administration (FHWA) and many states. Implementation of the new PG specifications by all states is expected. The result of the more stringent SHRP performance grades in the western United States is that most asphalt used on state and federal projects will need to be modified with polymers or high performance asphalts, or both, to meet the required specifications.

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The Company manufactures a broad range of performance asphalt products meeting the SHRP specifications. Management believes the Facility will produce asphalt that meets SHRP performance specifications and will augment the current slate of asphalt products. However, until the asphalt is produced at the Facility in commercial quantities there can be no assurance of its quality or performance.

Through its relationships with producers, refiners, suppliers, transporters and users of asphalt, including state and federal governmental departments, asphalt associations, consultants and private sector companies; as well as its strategically located asphalt distribution terminals, PG asphalt blending processes and Asphalt Ridge reserves, the Company believes that it is well positioned to meet the needs of the changing asphalt market. However, the Company will be competing with several larger companies in the regional asphalt supply business. Competition in the asphalt supply business is based primarily on price and quality. Further, the Company will be competing with traditional refineries with respect to the production of asphalt products. In general, these competitors have significant financial, technical, managerial and marketing resources and, both separately and combined, represent significant competition for the Company in its markets.

The asphalt industry is seasonal. Demand for asphalt decreases significantly during the winter months when cold weather and precipitation interferes with highway construction and repair. Notwithstanding the decrease in demand for asphalt and asphalt-related products during the winter months, the Company believes that it can continue producing asphalt, and storing such product, to meet the peak demands of spring and summer. In addition, the Company

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expects to continue purchasing asphalt from outside suppliers in the winter months, when prices are lower, for storage at its asphalt terminals and manufacturing and distribution during the peak spring and summer months.

Asphalt Storage and Distribution

Crown Asphalt Distribution, L.L.C.

Formation and Current Development Status. On July 2, 1998, Crown Distribution was formed as a second joint venture between the Company and MCNIC. The Company and MCNIC (sometimes referred to hereafter as the members) possess sharing ratios ("sharing ratios") of 50.01% and 49.99%, respectively, in the profits, losses and obligations of Crown Distribution. Accordingly, the Company holds a majority and controlling interest in Crown Distribution and the accounts and results of operations of Crown Distribution are included within the Company's consolidated financial statements. On July 2, 1998, Crown Distribution purchased the inventory and assets of Petro Source Asphalt Company, a Texas corporation ("PSAC"), effective June 1, 1998. The purchased assets included asphalt supply and marketing contracts, owned and leased equipment, personal property, fixtures, equipment leases, real estate leases, technology licenses, other related agreements, certain intellectual property, products inventory, ownership interests in and to asphalt distribution facilities in Utah, Colorado, Nevada and Arizona, and certain processing rights at a refinery in Santa Maria, California (see below). These assets (excluding products inventory) were purchased for \$7.5 million, the amount determined by the parties to be the fair market value of such assets. The products inventory was also purchased by Crown Distribution and this portion of the purchase price was initially funded by a loan to Crown Distribution from MCNIC totaling \$7,141,930 (the "Working Capital Loan"). It is the Company's position that this loan was replaced by a working capital Facility (the "Credit Facility") from MCNIC to Crown Distribution. The Company believes that the outstanding balance of the Credit Facility on December 31, 2000 was \$14,935,222.

Results from the asphalt manufacturing and distribution business have been disappointing. The Company manufactured and distributed 100,930 tons of asphalt products in 2000 down from 175,787 in 1999. Success in the asphalt manufacturing and distribution business depends on the ability to purchase inventory of base asphalt, additives and chemicals to manufacture a finished product. Typically the cost of this inventory is less expensive during the winter months when supply is greater than demand. It is during these months that the Company normally fills its storage tanks and contracts for the sale of finished product to be delivered during the paving season, generally from April through October. The cyclical nature of the purchasing and sale of product creates the requirement for a large amount of working capital. As discussed elsewhere, in late 1999 MCNIC discontinued providing working capital to the Company as the Company

maintains it had agreed. In addition, MCNIC refused to guaranty, on behalf of Crown Distribution, a third party financed working capital line of credit as the Company also asserts MCNIC previously agreed, and engaged in other actions which the Company believes were injurious to the Company. The lack of working capital, interference, and uncertainty created by MCNIC's actions caused Crown Distribution to severely limit its winter-fill purchases leading to very low levels of inventory at the beginning of this asphalt season. In addition, the price of crude oil rose rapidly in early 2000 causing a significant increase in the cost of asphalt raw materials used to service its supply contracts. Most of this work was contracted prior to the price increases resulting in poor profit margins. In addition, making purchases of raw material only from operating cash flow limited the flexibility in supply purchases. This inflexibility caused

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inventory purchases to be postponed to later in the season when prices were at their highest. The working capital constraints limited the quantity of asphalt that could be purchased and forced the Company to make uncompetitively high bids on projects during the season, reducing it's total sales volume.

Collectively, the asphalt manufacturing and distribution facilities purchased from PSAC enable the Company to purchase and store asphalt and other related raw materials from third party vendors and to manufacture a broad range of performance asphalt products for sale to its customers. For the year ended December 31, 2000, these assets, excluding the revenues associated with the Rawlins Asphalt Terminal, distributed approximately 71,902 tons of asphalt and generated revenue of approximately \$14,806,275.

Under the Santa Maria Refinery Corporation processing agreement (the "Processing Agreement"), Crown Distribution (and it's predecessor, PSAC, prior to the June 1, 1998 effective date) purchased crude oil, marketed and sold the refined products (including asphalt) and maintained the inventory at this refinery, in exchange for approximately 50% of the net profit realized upon the sale of the refined product. The Processing Agreement had an automatic termination date of December 31, 1998 at the time it was acquired by the Company, but was extended by amendment effective in December, 1998. Pursuant to the terms of the amendment, the Company was notified in February, 1999 that the Processing Agreement would terminate effective April 30, 1999. Upon termination of the Processing Agreement, the refinery owner was obligated to deliver certain of the refined products to the Company and to purchase the balance of the refined products and crude oil inventories located at the refinery from the Company. The refinery owner breached the terms of the Processing Agreement and amendment by, among other things, (1) failing to properly terminate the Processing Agreement and amendment; (2) failing to deliver the refined products (including asphalt) to the Company or paying for the refined products (including asphalt) and (3) interfering with the Company's contractual commitments for the sale of asphalt. See "Item 3. Legal Proceedings."

The Company agreed to transfer and assign to Crown Distribution, as a capital contribution, its 66.67% membership interest in CAT LLC. The Company was credited with a \$1.5 million capital contribution to Crown Distribution as a result of the assignment of the CAT LLC membership interests to Crown Distribution. Crown Distribution also assumed CAT LLC's payment obligations under a promissory note. The promissory note assumed by the Company had an original principal balance of \$1,282,070, with a balance as of December 31, 2000 of \$1,006,764. The remaining 33.33% ownership interest in CAT LLC is owned by Foreland. Crown Distribution's proportionate share of the accounts and results of operations of CAT LLC are therefore included within the consolidated financial statements of the Company. See "Item 1. Business - Asphalt Distribution - Cowboy Asphalt Terminal, L.L.C." below for further information regarding CAT LLC.

MCNIC originally contributed the amount of \$100 to the capital of Crown Distribution. MCNIC also made a capital contribution in the amount of \$6,000,000 as a preferential contribution (the "Preferential Capital Contribution"). The Preferential Capital Contribution, together with the Working Capital Loan, were used by Crown Distribution to acquire the assets of PSAC and pay related closing and other acquisition costs. MCNIC made an additional capital contribution in the amount of \$1.5 million when the Company contributed its interest in CAT LLC to Crown Distribution. That sum was immediately used by Crown Distribution to pay down the Working Capital Loan previously advanced by MCNIC. The Company asserts that the Working Capital Loan has been replaced, at the election of MCNIC, by the Credit Facility, a revolving credit facility, discussed elsewhere herein. See "Item 1. Business - Asphalt Distribution - Crown Asphalt Distribution, L.L.C. - Working Capital Facility" below.

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Management Of Crown Distribution; Major Decisions. Crown Distribution is governed by a management committee consisting of three managers. The Company is entitled to appoint two managers and MCNIC is entitled to appoint one manager. Management decisions are generally made by the management committee. However, one of the managers appointed by the Company serves as the operating manager and has the powers, authority, duties and obligations specified in the operating agreement, which generally requires the operating manager to implement the policies and pursue the objectives specified in the annual operating plan. Generally, the management committee may act through majority vote. The Crown Distribution operating agreement, however, requires that certain decisions ("Major Decisions") be undertaken by the unanimous vote of the committee members.

The operating agreement of Crown Distribution specifies that the adoption of an annual operating plan is a Major Decision. The annual operating plan is intended to address all aspects of Crown Distribution's operations for the coming year, including the nature and extent of the proposed activities, marketing plans, capital expenditure plans and similar matters. In the event the management committee is unable to unanimously approve an annual operating plan for any given calendar year, a majority of the managers shall have the authority to continue to maintain Crown Distribution's operations at levels comparable to those approved in its most recent annual operating plan. As of the date of this Report, the annual operating plan for calendar year 2000 has not been approved by the management committee and therefore not approved by Crown Distribution. Consequently operations are being conducted at levels comparable to those of the initial operating plan adopted at the formation of Crown Distribution.

Additional Opportunities. The Crown Distribution operating agreement provides that certain additional business opportunities that become available to any of the members which are the same as or similar to Crown Distribution's then current business must be first offered to Crown Distribution by such members. Through amendment to the operating agreement of Crown Distribution certain limitations on the rights of the Company or MCNIC to pursue additional business opportunities outside of Crown Distribution continue until June 18, 2001. If either the Company or MCNIC desires to pursue an additional business opportunity, the member must first offer the opportunity to Crown Distribution and, if Crown Distribution does not elect to participate, the participating member may pursue or acquire the additional business opportunity. However, if the non-participating member does not consent to the participating member's pursuit of the opportunity, the non-participating member will retain the right and option to "back in" to a 50% sharing ratio, without paying any purchase price, after such time as the participating member has received a 150% payout of its investment (as calculated under the operating agreement). Following June 18, 2001, the foregoing restrictions will be lifted except that any additional opportunity must be first offered to Crown Distribution for its possible participation. If Crown Distribution then chooses not to participate, the participating member which located the opportunity may pursue it without restriction.

Credit Facility. The Company maintains that MCNIC, pursuant to its rights granted under the Crown Distribution Operating Agreement, elected to extend the Credit Facility, a revolving credit facility, to Crown Distribution to cover its working capital requirements in lieu of the Company obtaining a line of credit from an third party financial institution and pursuant to the terms proposed by such third party institution. Further, the Company asserts that in accordance with the original intent of the members, MCNIC elected to have the original Working Capital Loan discussed above replaced and the outstanding balance transferred to this Credit Facility. As of December 31, 2000, the Company believes that the Credit Facility had a balance of approximately \$14,935,222 and the Company has accrued interest on the Credit Line at the same interest rate

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(approximately 8%) as set forth in the proposed third party financial institution proposal that the Company. Through the period ended December 31, 2000, \$2,356,711 in interest had been accrued.

MCNIC's Working Capital Loan (which the Company maintains was replaced by the Credit Facility) and its Preferential Capital Contribution was secured by a first priority lien, security interest in and pledge of all the property of Crown Distribution including, Crown Distribution's rights, title and interest in and to the membership interests in CAT LLC, but excluding inventory and receivables which are used to secure the Credit Facility.

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On March 27, 2000, MCNIC delivered to the Company a notice of default with respect to the Working Capital Loan, and demanded payment of the outstanding principal balance plus all interest accrued thereon. Significantly, MCNIC, immediately following the delivery of its notice of default, proposed an extension on the Working Capital Loan, provided the Company also relinquished operational control of Crown Distribution to MCNIC. The Company has endeavored to resolve these issues with MCNIC on mutually acceptable terms. However, on June 20, 2000, MCNIC filed a Complaint in the Third Judicial District Court, Salt Lake County, Utah, against Crown Distribution. The action sought to foreclose on alleged mortgage and security interest in and to certain real and personal property of Crown Distribution, which property constitutes a substantial part of the operating assets of Crown Distribution. In summary, in its Complaint (the "MCNIC Complaint"), MCNIC does not acknowledge its prior agreement to extinguish the Working Capital Loan and "roll" such loan into the Credit Facility. The Complaint alleged that Crown Distribution is in default on the promissory note evidencing the Working Capital Loan to Crown Distribution in the amount of \$7,141,930.00. MCNIC further alleged that the total amount owed by Crown Distribution to MCNIC is in excess of \$15,000,000, as well as interest at the rate of 18% from January 1, 2000 until paid in full. The Complaint also sought the appointment of a receiver to ensure and protect the interests of MCNIC in the property of Crown Distribution, pending a determination by the Court of the merits of the Complaint. (See "Item 3. Legal Proceedings").

As indicated above, Management of the Company strongly believes that the Working Capital Loan was fully satisfied and replaced by the Credit Facility and no default has occurred under the Working Capital Loan or Credit Facility. The Company further believes that MCNIC is improperly (i) attempting to demand repayment of the Working Capital Loan, and (ii) is attempting to gain control of Crown Distribution and other aspects of the Company's operations. The Company and Crown Distribution have acted to vigorously defend against MCNIC's actions. On July 25, 2000, the Company filed suit in the United States District Court for the state of Utah, Central Division, against MCNIC, MCN and certain officers of MCN. In its Complaint, (the "Crown Complaint"), the Company alleges claims against the defendants under a wide variety of causes of action sought damage in excess of \$100 million. An Answer and Counterclaims to the MCNIC Complaint were filed by the Company on August 1, 2000 and named additional counterclaim defendants, MCN Energy Group, Inc. ("MCN") and certain officers of MCN and MCNIC. The Answer and Counterclaims substantially denied all of the allegations set forth in the MCNIC Complaint and asserted defenses, claims and counterclaims. The Answer and Counterclaims further argued that certain of MCNIC's allegations are lacking in either legal or factual basis. Recently, all of (i) MCNIC's Complaint, (ii) the Company's Answer and Counterclaims to the MCNIC Complaint, and (iii) the Crown Complaint and the Answers thereto were submitted to binding arbitration (the "Arbitration"). Because of the importance of the outcome of the Arbitration to the Company and its shareholders, it is discussed at length elsewhere within this Report. See "Item 3. Legal Proceedings; Item 7. Management's Discussion and Analysis."

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Distributions; Allocations Of Profits and Losses. Until such time as MCNIC has received the return of its Preferential Capital Contribution and a 15% internal rate of return on its investment in Crown Distribution, Crown Distribution is obligated to distribute to MCNIC 50% of the net cash flow from operations. The remaining cash flow balance is distributed roughly 50% to MCNIC and 50% to the Company (in accordance with their respective sharing ratios). During 2000, no distributions were made. In the event of liquidation, MCNIC would receive 100% of any and all amounts available for distribution up to its outstanding Preferential Capital Contribution balance and remaining amounts would be distributed in proportion to the member's capital account balances. Profits and losses are generally allocated in accordance with the members' respective sharing ratios. However, after profits are allocated to offset any previous allocations of losses made to members, in the event of a complete liquidation of Crown Distribution, profits will be allocated 100% to MCNIC until its Preferential Capital Contribution and the 15% rate of return has been satisfied.

Management Agreement. Pursuant to an Operating and Management Agreement (the "Management Agreement"), CAPCO manages and conducts the business of Crown Distribution, including the negotiation and execution of contracts with customers, the buying and selling of asphalt and the paying of expenses. As compensation for the services rendered under the Management Agreement, the Company receives (i) a monthly fee of \$5,000, (ii) the payment of all out-of-pocket expenses incurred through the performance of its duties; (iii) the reimbursement of the reasonable salaries, wages, overtime and other similar

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compensation paid to employees of the Company in relation to their management services under the Management Agreement; and (iv) a monthly home office overhead charge of \$10,000.

The term of the Management Agreement is five years, which term will be automatically extended for unlimited successive one-year periods unless either party furnishes the other with written notice at least ninety (90) days prior to the expiration of any such initial or extended period. During the initial term of the Management Agreement, the Company can be removed only for good cause by the affirmative vote of the management committee. The Management Agreement also contains provisions allowing the replacement, after the initial five year term, of the Company as the manager on economic grounds if Crown Distribution notifies the Company that it believes the operations may be conducted more efficiently and is willing to become the operating manager or has a commitment from a third party to do so. Following the receipt of an economic challenge, the Company will have thirty (30) days to notify Crown Distribution that it elects to allow Crown Distribution or its designee to become the operator under the proposed terms or that the Company elects to continue as the operator under the proposed terms. Such a decision would require the majority vote of the management committee of Crown Distribution. Two of the members of the management committee are nominees of the Company.

In addition to asphalt distribution, Crown Distribution stores asphalt for CAPCO in its excess storage facilities in return for the receipt of an industry standard "throughput fee."

Cowboy Asphalt Terminal, L.L.C.

Formation and Acquisition of Assets. CAT LLC is a joint venture between the Company and Foreland. Foreland is engaged in the asphalt roofing products business. On June 16, 1998, CAT LLC was formed to acquire an asphalt terminal and related refinery assets and real property located in Woods Cross, Utah (the "Cowboy Terminal Assets"). The real property acquired by CAT LLC as part of the

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Cowboy Terminal Assets is referred to hereinafter as the "Cowboy Terminal Property".

On September 11, 1998, CAT LLC, CAPCO, Foreland and Refinery Technologies, Inc., a Utah corporation ("Refinery Technologies"), entered into an Assignment and Agreement (the "Assignment Agreement") under which Refinery Technologies assigned all of its ownership rights in and to the Cowboy Terminal Assets purchase contract to CAT LLC. In turn, CAT LLC agreed to assume all of the obligations under the real property purchase contract and issued a promissory note in connection with the purchase in the amount of \$1,067,111 to the former owner.

On January 9, 1999 CAT LLC purchased the Cowboy Terminal Assets for \$1,477,070 (net of \$496,441 of deposits paid in 1998). CAT LLC paid \$195,000 in cash at closing and executed and delivered a promissory note in the amount of \$1,282,070. This promissory note is payable in 84 equal monthly installments of \$20,627 beginning on February 1, 1999 and ending on January 1, 2006. The note bears interest at the rate of 9% and is secured by a deed of trust encumbering the Cowboy Terminal Property.

The Company and Foreland initially owned sharing ratios ("sharing ratios") of 66.67% and 33.33%, respectively, in the profits, losses and obligations of CAT LLC. However, the Company has assigned its sharing ratios and ownership interests in CAT LLC to Crown Distribution. In connection with the transfer of the 66.67% interest in CAT LLC to Crown Distribution, Crown Distribution assumed payment obligations under this promissory note. See "Item 1. Business - Asphalt Distribution - Crown Asphalt Distribution, L.L.C."

The Cowboy Terminal Property has been divided into portions dedicated (i) to the exclusive uses of the Company for its asphalt paving products business and (ii) to the exclusive uses of Foreland for its asphalt roofing products business. Revenues or profits generated by such exclusive uses will belong to the Company or Foreland, as the case may be, and the other party will have no right to participate in the revenues, profits or income generated by the business of the other with respect to such exclusive uses. Further, the use of the Cowboy Terminal Property by the Company and by Foreland is free of charge or other cost above the parties' respective operating costs.

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The CAT LLC Operating Agreement obligates both the Company and Foreland to make additional capital contributions equal to one-half of any additional amounts needed for (i) CAT LLC to fulfill its obligations, not to exceed \$650,000, under any corrective action plan that may be accepted by CAT LLC and the Utah Department of Environmental Quality with respect to certain environmental conditions at the Cowboy Terminal Property and (ii) legal costs incurred in the purchase or related to the environmental matters in (i) of this paragraph. The CAT LLC Operating Agreement also obligates Crown Distribution and Foreland to make additional capital contributions, in proportion to their ownership percentages, in order to fund any additional amounts required for CAT LLC to fulfill its obligations under the purchase contract for the Cowboy Terminal Assets, for environmental management and containment costs, expenses for operations, or the construction of certain approved capital improvements to the Cowboy Terminal Property. None of the foregoing additional contributions will result in an increase in the number of units or percentage interests held by Crown Distribution or Foreland.

CAT LLC has title to the Cowboy Terminal Property and the Company has the exclusive right to use portions thereof for its asphalt terminal operations. Refinery Technologies did, however, retain certain contract rights with respect to the Cowboy Terminal Assets, certain rights to receive payments upon any

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liquidation of CAT LLC and a right of first refusal to purchase the Cowboy Terminal Property or membership interests in CAT LLC under certain conditions.

Management of Cowboy Asphalt Terminal, LLC; Major Decisions. CAT LLC is managed by CAPCO. The manager generally has authority to conduct the day-to-day business and affairs of CAT LLC. Certain matters must be approved by members holding 75% or more of the outstanding units of CAT LLC. The Company is not compensated for its services as manager.

Asphalt Production

Crown Asphalt Ridge, L.L.C.

Formation and Current Development Status. Effective August 1, 1997, the Company jointly formed Crown Ridge with MCNIC to construct and operate an oil sand processing facility for the production of premium asphalt oil at Asphalt Ridge in Uintah County, Utah. The Company believes that the Asphalt Ridge oil sand reserves constitute one of the country's largest and most accessible deposits of oil sands. Crown Ridge controls, through numerous mineral leases, approximately 5,700 acres of private and state land encompassing these tracts, which the Company believes contains in excess of 100 million barrels of surface minable reserves (the "Oil Sand Resources").

The Facility constructed by Crown Ridge is located on a portion of the Oil Sand Resources known as the "A" tract, which is believed to contain in excess of 18 million barrels of surface minable reserves with an average oil saturation of 11% by weight. There is a partially opened pit on this tract that has been mined since the 1940's for native asphalt material for road surfaces. The production process entails three major steps: (1) mining, (2) extraction (separation of the oil from the sand), and (3) distillation (recovery of the solvent and separation of light fractions from the asphalt). See "Item 1. Business - Asphalt Production - Crown Asphalt Ridge, L.L.C. - Additional Opportunities Within the Project Area and Areas of Mutual Interest."

MCNIC and the Company (sometimes referred to hereafter as the "Members") own sharing ratios ("sharing ratios") of approximately 76% and 24%, respectively, in the profits, losses and obligations of Crown Ridge. However, the Company has the right to acquire up to a 60% equity interest in Crown Ridge, contingent upon MCNIC's receipt of certain preferential financial returns (as described below) and Crown Ridge's election to pursue certain expansion opportunities. Since the Company holds only a minority interest in Crown Ridge, the Company's consolidated financial statements and results of operations only include its net interest in the accounts and results of operations of Crown Ridge.

Under the Crown Ridge Operating Agreement, MCNIC initially funded 75% and the Company 25% of the amounts required by Crown Ridge to construct the Facility. The Company was initially required to contribute (i) \$500,000 of oil sand leases and technology; and (ii) the obligation to lease certain mining

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equipment for the Facility up to \$3,500,000 in value. Both Members may make such additional contributions as were required pursuant to the contract for the construction of the Facility and as otherwise unanimously agreed to by the Company and MCNIC. As of December 31, 2000, the Company has made cash contributions of approximately \$5,663,985 to Crown Ridge and has invested a total of approximately \$6,904,086 in the development of Asphalt Ridge, which includes costs incurred prior to the joint venture with MCNIC.

Because operations at Crown Ridge did not yet require it, the Company did

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not contribute as part of its capital contribution, the leased mining equipment contemplated when the entity was formed. To replace the foregoing obligation to lease certain mining equipment as its required capital contribution, on July 20, 1999 the Company's CAC subsidiary, at the demand of MCNIC, closed a loan transaction with MCNIC. Under the loan, CAC executed a promissory note in the amount of \$2,991,868, bearing interest at the prime rate plus 1% per annum, adjusted monthly, and providing for interest only payments of \$20,757 per month through August 20, 2001. Additional payments may be required if CAC's cash flow exceeds certain thresholds. Beginning on August 20, 2001, the note provides for principal and interest payments in order to fully pay off the note over a 13-year period. However, if at August 20, 2001, CAC and MCNIC agree that the Facility will not be able to operate commercially, the interest only period will be extended and no principal payments will be due until July 20, 2004. The foregoing loan is secured by that portion of CAC's sharing ratio in Crown Ridge directly attributable to the proceeds of the loan (approximately 12.29% of its aggregate sharing ratio). The gross proceeds of the loan (\$2,991,868.66) were treated as a capital contribution by CAC to Crown Ridge. The net cash proceeds of the loan (\$1,891,650.50), after deduction of amounts previously paid by MCNIC to creditors of Crown Ridge and less certain amounts owed by Crown Ridge and/or CAC to MCNIC, were paid by MCNIC directly to Crown Ridge. Additional capital contributions may be required in the future as otherwise provided under the Crown Ridge operating agreement.

If the economic operations of Crown Ridge are successful to the extent of paying out to MCNIC an amount equal to 115% of its cash investment in Crown Ridge, excluding tax benefits, the Company's sharing ratio in Crown Ridge will increase to 50%. Thereafter, the Members may build other plants to further develop the Oil Sand Resources. These additional plants will require additional capital contributions from the Members, which are described in more detail below. The Company may participate up to 50% in the additional facilities and up to 60% after payout of the cash investment in such facilities. There are provisions for the Company to retain an interest in these facilities after the recoupment of certain amounts in the event the Company does not participate in the costs of such additional facilities, as provided in the "Back-In Option. See "Item 1. Business - Crown Asphalt Distribution, L.L.C. - The Back-In Option."

Operating History; Status of Operating and Management Agreement. During the start-up of the Facility mechanical and process difficulties were experienced that affected production economics. Extensive research and engineering to develop a solution to these problems was conducted and tested in a pilot study at the Facility during 2000. MCNIC, as the majority owner of Crown Ridge, has solely managed the operation of the pilot plant and study. In order to facilitate the completion of the pilot plant, the Company entered into an agreement with MCNIC pursuant to which MCNIC agreed to fund the Company's portion of certain pilot plant expenses in the aggregate amount, including the Company's portion, of \$714,799. Pursuant to this arrangement, the amounts funded by MCNIC were treated as additional capital contributions to Crown Ridge. A similar arrangement was entered into with regard to the payment of other miscellaneous expenses owed by Crown Ridge. As a result of the foregoing agreements with MCNIC and the adjustments required thereby, the Company's sharing ratio in Crown Ridge was reduced from 25% to approximately 24%.

As part of the agreements entered into with MCNIC by the Company for the purposes of (i) ensuring that the pilot plant study was expeditiously performed, and (ii) paying the outstanding expenses of Crown Ridge, the Company was also required by MCNIC to grant it the option, under certain conditions, to remove the Company as the Operator of Crown Ridge under that certain Operating and Management Agreement dated August 1, 1997 (the "Crown Ridge Management Agreement"). The agreements provided that if the foregoing option was exercised by MCNIC, the Company's (i) right to serve as Operator for any additional plants built on Crown Ridge's oil sands leases, or (ii) rights as a member of Crown Ridge would

not be impaired. In addition, in the event that MCNIC exercised its option to remove the Company as Operator under the Crown Ridge Agreements, MCNIC was required to assume such duties under a newly executed operating and management agreement.

On May 26, 2000, the Company received notice that MCNIC had elected to exercise its option to remove the Company as operator of Crown Ridge, effective June 26, 2000. Although the Company acknowledges that MCNIC possessed the right to remove it as Operator under certain conditions, it objected to MCNIC's actions on the grounds that (i) the requirements attached to those rights were not met by MCNIC (i.e., no substitute operating and management agreement has been submitted by MCNIC), (ii) no annual operating plan has been prepared by MCNIC for the operations of Crown Ridge, and (iii) the Company does not believe that MCNIC has taken other actions consistent with an intention to bring the Crown Ridge Facility to commercial production as quickly as possible.

Although the Company does not view MCNIC's assumption of operational control of the Facility as valid, management of the Company has deemed it to be in the Company's best interest to conserve the Company's resources by formally and consistently objecting to MCNIC's assumption of control, but not otherwise seeking to block MCNIC's actions at this time so that the final results of the pilot plant study can be completed and analyzed. MCNIC has previously reported to the Company that the previous production problems were not encountered during the final runs of the pilot plant. While the Management of the Company believes this initial news is encouraging, it notes that the definitive engineering procedures needed to incorporate the pilot plant modifications into the existing Facility and the cost of such modifications have not been determined. In addition, despite its commitment to the contrary, MCNIC has repeatedly failed to meet the Company's demands for detailed engineering and financial information relating to the Facility. Because of the uncertainty created by this lack of information, the Company has impaired the value of its Crown Ridge interest as is explained in its Consolidated Financial Statements attached to this Report.

In summary, the future of the Crown Ridge Facility remains uncertain. Ultimately, commercial production of the Facility will require further expenditures and may require the consent of both MCNIC and the Company as members in Crown Ridge. If the pilot plant studies do prove that the commercial production at the pilot plant is feasible, the Company will still need to obtain the necessary financing for its proportionate share of the expenses in modifying the Facility and there is no assurance that such financing can be obtained giving the current financial condition of the Company. Further, MCNIC's stated intention to sell its interest in Crown Ridge creates additional uncertainty in that it is not clear whether the modifications to the Facility will be made prior to or after such sale. The Company does not anticipate that the necessary modifications will be made to the Facility prior to the fall of 2001 under any circumstances. Such continued difficulties at Crown Ridge or the inability to commercially operate the Facility economically could significantly impact Crown Ridge's ability to continue as a going concern and could have the materially adverse impact on the Company's operations and financial condition.

Subsequent Plants. Under the Crown Ridge Operating Agreement, the members may construct up to two subsequent plants (the "Subsequent Plants") similar to the Facility if the economics of Crown Ridge's oil sands processing business so permit. In sum, a Subsequent Plant may be constructed if certain economic returns (approximately 18% on 50% of its Capital Contributions to Crown Ridge or any successor joint venture during any 12 month period) have been experienced by MCNIC from the Facility and if the members believe or are independently advised that a sufficient market exists to allow for the operation of the Subsequent

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Plants without damaging the competitive position or returns of the Facility or any other then-existing asphalt processing plants owned or operated by Crown Ridge or any Successor Entity (as defined below). The agreement of MCNIC and the Company is that any Subsequent Plant will be held and operated by a separate legal entity (a "Successor Entity") formed by the members with governing terms and provisions similar to Crown Ridge. The Company may elect to participate in either of the Subsequent Plants and may obtain, at its option, between 10% and 50% of the interests in the newly formed entity. A portion of the Company's obligations to contribute to the Successor Entity may be satisfied through the value of the contributed properties which the Company may be credited with, as described below.

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Following the determination by both members or one member to proceed with the construction of a Subsequent Plant, Crown Ridge will convey to the Successor Entity sufficient oil sands resources or other property and water rights to enable it to sustain operations in accordance with the applicable projections and market study. If, during the twelve months prior to the sale of products from the first Subsequent Plant, MCNIC has realized a return of approximately 30% on 50% of its Capital Contributions to Crown Ridge, the Company will be credited with a value for these oil sand resources and properties equal to \$.10 per barrel for the products estimated to be produced from the Subsequent Plant over a 20 year period.

If the Company elects not to proceed with any Subsequent Plant, and to not make the needed capital contributions to build and operate the Subsequent Plant, Crown will have a reduced interest in the Subsequent Plant (but will still be credited with an interest equal to the value of the contributed properties as described below, if the requisite return is achieved), subject to an escalation under the Back-In Option described below.

Whether or not the Company elects to proceed with either Subsequent Plant, if the Subsequent Plants reach certain levels of economic success (approximately 115% of MCNIC's investment in plant 2 without giving effect to any tax benefits), the Company will receive an increased interest of 10% in the Subsequent Plant as a result of its oil sand properties and technology being used by the Subsequent Plant(s).

Management of Crown Ridge; Major Decisions. Crown Ridge is governed by a management committee consisting of five managers. The Company is entitled to appoint one manager and MCNIC is entitled to appoint four managers. Management decisions are generally made by the management committee. Any manager may be removed or replaced from time to time by the member which appointed such manager. If any adjustment is made in the members' respective sharing ratios both the Company and MCNIC will be entitled to appoint one manager for each 20% of Crown Ridge interest held by that member (rounded to the nearest 20% level), provided, that MCNIC and the Company shall each be entitled to at least one manager at all times that they are members of Crown Ridge. The size of the management committee may be increased to six managers if the foregoing calculation requires it.

Management decisions shall generally be made through a majority vote of the managers. However, certain "Major Decisions," such as: (i) the approval of the detailed engineering for the Facility; (ii) the approval of, or substantial amendment to, the annual operating plan described below; and (iii) calls for any additional Capital Contributions (except for calls contemplated by the EPC Contract for the construction of the original Facility as defined in Crown Ridge's Operating Agreement and those required to maintain Crown Ridge in emergencies), require unanimous approval of all managers. Most distributions to the members require unanimous approval of the managers.

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The operating agreement for Crown Ridge states that Crown Ridge's operations shall be conducted each year pursuant to the annual operating plan addressing all aspects of Crown Ridge's operations for the coming year, including budgeting for operations, the mining of oil sand products and the marketing of those products. In the event the management committee is unable to unanimously approve an annual operating plan for any given calendar year, a majority of the Managers shall have the authority to continue to maintain Crown Ridge's operations at levels comparable to those approved under the last annual operating plan. As of the date of this Report, the annual operating plan for calendar years 1999, 2000 and 2001 have not been approved by the management committee. Consequently operations are to be conducted at levels comparable to those of the initial operating plan adopted at the formation of Crown Ridge.

Additional Opportunities Within the Project Area and Area of Mutual Interest. Crown Ridge may elect to pursue additional opportunities ("Additional Opportunities") within the Asphalt Ridge project area ("Project Area") which are brought to its attention by one of its members. Should Crown Ridge elect to pursue such an Additional Opportunity, it may do so either through Crown Ridge or by forming a new company containing terms and provisions substantially similar to those of Crown Ridge. In the event that Crown Ridge does proceed with any Additional Opportunity, the Company shall have the right, but not the obligation, to obtain an equity interest in each such Additional Opportunity of no less than 10% and no greater than 50% (with MCNIC obtaining the remaining interest). If the management committee determines

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not to proceed with the Additional Opportunity, any member of Crown Ridge may then do so alone, subject to the Back-In Option, discussed below, of the nonparticipating member.

If either member desires to develop any interests in real property, fixtures or improvements within the State of Utah relating to the processing of oil sands, bitumen, asphaltum or other minerals or mineral resources into asphalt, performance grade asphalt, synthetic crude oil, diesel fuel, or any other product produced using the intellectual property sublicensed by the Company to Crown Ridge or any derivation thereof (an "AMI Opportunity"), the AMI Opportunity must first be offered to Crown Ridge. The Company, shall then have the option, but not the obligation, of acquiring (i) up to a 50% equity interest if the AMI Opportunity relates to, or is designed for, the production and sale of asphalt or performance grade asphalt; or (ii) up to a 66% equity interest if the AMI Opportunity relates to the production of synthetic crude oil, diesel fuel or any other similar products.

If Crown Ridge elects not to proceed with the AMI Opportunity, the member who brought the opportunity to Crown Ridge may proceed alone and the nonparticipating member shall have no further interest in the activity covered by such opportunity. Except as limited in the discussion above, each member of Crown Ridge shall have the right to independently engage in any business activities except that MCNIC shall not be entitled to use the Company's technology provided to Crown Ridge in connection with such activities.

The Back-In Option. The Back-in Option is a means by which the member which initially elects not to participate in a plant may subsequently participate at a later date upon favorable terms. The Back-In Option applies if:

- (i) The Company elects not to proceed with construction of the Facility following the completion of the detailed engineering (and MCNIC elects to proceed);

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(ii) either member elects not to participate in the construction of a Subsequent Plant; or

(iii) either member elects not to participate in an Additional Opportunity.

In the case of the Company's election not to participate in Subsequent Plants or Additional Opportunities, the Company shall be entitled to a 60% interest in the particular plant or opportunity if it is the non-participating member, and MCNIC shall be entitled to a 40% interest if it is the non-participating member, after the participating member has achieved a 200% payout of the costs of the respective facility.

Distributions; Allocations of Profits and Losses. The Management Committee shall cause Crown Ridge to distribute Available Cash, as defined within the Operating Agreement, to the members quarterly, within 30 days following the end of each quarter. Distributions will be made in connection with the respective capital account balances after taking into account all allocations.

Environment

The Company and its subsidiaries are subject to federal, state and local requirements regulating the discharge of materials into the environment, the handling and disposal of solid and hazardous wastes, and protection of health and the environment generally (collectively "Environmental Laws"). Governmental authorities have the power to require compliance with these Environmental Laws, and violators may be subject to civil or criminal penalties, injunctions or both. Third parties may also have the right to sue for damages and/or enforce compliance and to require remediation for contamination.

The Company and its subsidiaries are also subject to Environmental Laws that impose liability for costs of cleaning up contamination resulting from past spills, disposal and other releases of substances. In particular, an entity may be subject to liability under the Federal Comprehensive Environmental Response, Compensation and Liability Act and similar state laws that impose liability - without a showing of fault, negligence, or regulatory violations - for the generation, transportation or disposal of hazardous substances

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that have caused or may cause environmental contamination. In addition, an entity could be liable for cleanup of property it owns or operates even if it did not contribute to contamination of such property.

The Company expects that it may be required to expend funds to comply with federal, state and local provisions and orders which relate to the environment. Based upon information available to the Company at this time, the Company believes that compliance with such provisions will not have a material effect on the capital expenditures, earnings and competitive position of the Company.

Subsidiaries of the Company

Crown Asphalt Corporation, a Utah corporation which is a wholly owned subsidiary of the Company, was organized October 24, 1985 and was acquired by the Company on September 30, 1992. Crown Asphalt Corporation is a member of and holds roughly 24% of the membership interests in Crown Ridge. The Company includes its net share of the net assets and results of operations of Crown Ridge in its consolidated financial statements.

Crown Asphalt Products Company ("CAPCO"), a Utah corporation which is wholly owned subsidiary of the Company, was formed in 1991, but until 1998 was a dormant entity. The Company activated CAPCO for the purpose of conducting an

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asphalt marketing and distribution business. CAPCO is a member of and holds 50.01% of the membership interests in Crown Distribution and currently owns the Rawlins Asphalt Terminal.

On July 2, 1998, Crown Distribution was formed as a second joint venture between the Company and MCNIC. Crown Distribution is owned 50.01% by the Company and 49.99% by MCNIC. Crown Distribution was formed to acquire the inventory and assets of PSAC. Crown Distribution is a member of and holds 66.67% of the membership interests in CAT LLC. The Company includes within its consolidated financial statements the accounts and results of operations of both Crown Distribution and CAT LLC.

Employees

As of March 13, 2000, the Company had 41 full and part-time employees. None of the Company's employees are represented by a union or other collective bargaining group. Management believes that its relations with its employees are good.

Segments

The Company considers its principal business to be within one industry segment. For information regarding the breakdown of revenues & operating results for the Company and its operational units, see note 16 to the consolidated financial statements of Crown Energy Corporation.

ITEM 2. PROPERTIES

The Company conducts its business operations at 215 South State, Suite 650, Salt Lake City, Utah, where it has approximately 10,284 square feet of office space under lease until July 31, 2001. On October 30, 2000 the Company notified the landlord of the lease that it would exercise its option under the lease to terminate the lease effective July 31, 2001. The Company has an obligation to pay the landlord the unamortized cost of the tenant improvements and commissions as of the July 31, 2001 termination date. Under the terms of the lease, the Company pays \$15,024 per month through November 30, 2000; \$15,512 per month through July 31, 2001. There is no renewal option under the terms of this lease. On November 17, 2000, the Company purchased a building in Woods Cross, Utah adjacent to the Cowboy Terminal executing a promissory note of \$264,750.00 payable over 120 payments for the purchase price. The Company plans to relocate its offices to this building, and management of the Company believes that building will be sufficient for its needs and believes that it will be able to obtain suitable other space in the Salt Lake City area in the alternative.

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As described above in the section captioned "Item 1. Business - Asphalt Production - Crown Asphalt Ridge, L.L.C.," the Company controls through mineral leases certain Oil Sand Resources consisting of approximately 5,700 acres of private and state land at Asphalt Ridge in Uintah County, Utah. The Asphalt Ridge oil sands deposit is located in the Uintah Basin in eastern Utah near the town of Vernal.

Extensive reserve studies, including core drilling performed by Bechtel and Sohio between the late 1950's and mid-1980's, estimate surface minable reserves to be in excess of 100 million barrels. Crown Ridge controls the Oil Sands Resources through certain long term operating leases and the Company has the right to extract mineral reserves on these tracts so long as the Company continues to conduct active operations under such leases, pay required royalties and otherwise comply with the terms of the leases.

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In connection with the formation and development of Crown Ridge, the Company contributed the certain mineral leases to Crown Ridge. Crown Ridge has been notified by Wembco, Inc. the lessor of the lease upon which the Facility is located, that it believes the lease is terminated pursuant to the terms of the lease due to inactivity. The Company believes it and Crown Ridge are in compliance with, and not in material default under, all of its mineral leases. Crown Ridge has notified Wembco, Inc. of this fact and its intent to defend its leasehold interest if Wembco's claims persist. Further information regarding the oil sand resources controlled by the Company is found at "Item 1. Business - Asphalt Production - Crown Asphalt Ridge, L.L.C." above. That portion of CAC's sharing ratio in Crown Ridge directly attributable to the proceeds of the \$2,991,868 loan from MCNIC to CAC is encumbered by a lien and security interest of MCNIC. See "Item 1. Business - Asphalt Production - Crown Asphalt Ridge, L.L.C."

Crown Distribution owns asphalt distribution facilities located in Utah, Colorado, Nevada and Arizona. These properties are used by the Company to store, process, blend, manufacture and sell finished asphalt products in its western United States target market. All of Crown Distribution's assets are encumbered by the lien and security interest of MCNIC, which advanced the purchase price for such assets and has, the Company asserts, advanced certain funds under the Credit Line to Crown Distribution. See "Item 1. Business - Asphalt Distribution - Crown Asphalt Distribution, L.L.C.; Item 3. Legal Proceedings."

The Company, through its subsidiary CAPCO, owns the Rawlins Asphalt Terminal. These properties are used to store, process, blend, manufacture and sell finished asphalt products. All of the Rawlins Asphalt Terminal assets are encumbered by the lien and security interest of Community First National Bank, which advanced the purchase price for such assets. As described above under Item 1, MCNIC initially indicated that it wished to participate in the purchase and ownership of the foregoing terminal but has not performed the agreed upon actions necessary to obtain such ownership. See "Item 1. Business - Asphalt Distribution - Crown Asphalt Distribution, L.L.C."

CAT LLC's asphalt distribution and storage facility is located in Woods Cross, Utah, just north of Salt Lake City. CAT LLC owns all of the assets and underlying real property of the Cowboy Terminal Property, which is encumbered by a Deed of Trust in favor of the seller.

ITEM 3. LEGAL PROCEEDINGS

On May 21, 1998, Road Runner Oil, Inc. ("Road Runner") and Gavilan Petroleum, Inc. ("Gavilan") filed an action in the Third Judicial District Court, Salt Lake County, State of Utah, as Civil # 98-0905064 against the Company and its President. The action relates to the purchase by Road Runner of 100% of the stock of Gavilan in 1997, and generally seeks to (i) obtain corporate records of Gavilan in the Company's possession relating to the amount of oil and gas royalties potentially owed to third parties prior to the aforementioned stock sale, and (ii) to determine the amount of royalties owed. The action further alleges, on behalf of Gavilan, claims of breach of fiduciary duty, professional negligence and mismanagement against the Company's President for alleged mismanagement of Gavilan's affairs. The Plaintiffs seek injunctive relief requiring the tendering by the Company of the referenced records and such damages as may be proven at trial. The Company believes that the Plaintiff's claims are groundless and that it is entitled to payment of the \$75,000, plus accrued interest, still owed by Road Runner as part of the purchase price for Gavilan. In addition, since the action was filed, the Company has tendered the corporate records to the

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Plaintiffs. On March 8, 2000, the Company filed an answer denying liability and filed a counterclaim against Road Runner and Gavilan for breach of contract and declaratory judgment. The Company is not certain as to whether or not the outstanding balance under the promissory note is collectible by the Company.

On July 12, 1999, Morrison Knudsen Corporation ("MK") filed a Complaint in the Eighth Judicial District Court, Uintah County, State of Utah, alleging that CAC had breached an agreement whereby MK would provide certain mining services for CAC at Crown Ridge's Facility in Uintah County, Utah (the "Project"). Judgment in favor of MK was entered on January 30, 2001 in the principal amount of \$303,873.39, \$49,062.33 of pre-judgment interest and \$2,033.14 of costs, which totals \$354,968.86. A Notice of Appeal was filed by CAC on March 1, 2001. Although CAC will attempt to set aside the trial courts judgment, there can be no assurance that CAC will prevail on its appeal. In addition, CAC has made a demand on Crown Ridge for payment of the judgment amount and indemnity from any liability in this matter because CAC was acting as operator for and on behalf of Crown Ridge in the contractual relationship with MK that was the subject of the litigation.

On July 14, 1999, Crown Distribution and CAPCO filed an action in the United States District Court for the Central District of California, Southern Division, against Santa Maria Refining Company ("SMRC"), SABA Petroleum Company ("SABA") and Greka Energy Corporation ("Greka"). The claims include causes of action for breach of contract, breach of the covenant of good faith and fair dealing, conversion, fraud, claim and delivery, unjust enrichment and constructive trust, unfair competition, declaratory relief and specific performance. These claims arise out of the Defendant's alleged termination of the Processing Agreement and subsequent refusal to deliver asphalt to Crown Distribution. Discovery of facts and testimony related to issues arising in the lawsuit has been completed. Trial has been scheduled to begin April 24, 2001. It is anticipated that the damages caused by the Defendant's actions could be substantial. Although Crown Distribution will attempt to recoup those damages from SMRC, SABA and Greka, due to the uncertainties inherent in any litigation proceeding, there can be no assurance that Crown Distribution or CAPCO will ultimately prevail.

On January 25, 2000, Oriental New Investments, Ltd. ("Oriental") filed a Complaint against the Company in the Third Judicial District Court, Salt Lake County, Utah. The action relates to a 1997 convertible debenture and replacement convertible debenture issued by the Company to Oriental. The action seeks to recover from the Company \$50,000 liquidated damages, plus interest, and attorneys fees and costs, for alleged breaches of the convertible debentures. The Company answered the Complaint on March 1, 2000, denying any and all liability, and believes that Oriental's claims are meritless. The Company will vigorously defend its position that Oriental's claims are meritless. However, due to the uncertainties inherent in any litigation proceeding, there can be no assurance that the Company will ultimately prevail.

On June 20, 2000, MCNIC filed a Complaint in the Third Judicial District Court, Salt Lake County, Utah, against Crown Distribution. The action sought to foreclose an alleged mortgage and security interest in and to certain real and personal property of Crown Distribution, which property constitutes a substantial part of the operating assets of Crown Distribution. In summary, in the MCNIC Complaint, MCNIC does not acknowledge its prior commitment to "roll" the Working Capital Loan into the Credit Facility and alleges that Crown Distribution is in default on the promissory note evidencing the Working Capital Loan to Crown Distribution in the amount of \$7,141,930.00. MCNIC further alleges that the total amount owed by Crown Distribution to MCNIC is in excess of \$15,000,000, as well as interest at the rate of 18% from January 1, 2000 until paid in full. The MCNIC Complaint also sought the appointment of a receiver to ensure and protect the interests of MCNIC in the property of Crown Distribution, pending a determination by the Court of the merits of the Complaint. Crown

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Distribution has moved to vigorously defend against this litigation and believes that it has certain available defenses, claims and counterclaims. Crown Distribution's management further believe that certain of MCNIC's allegations are lacking in either legal or factual basis.

On July 25, 2000, the Company filed the Crown Complaint against MCN, MCNIC and certain officers of MCN and MCNIC. The suit was brought in the United States District Court for the District of Utah, Central Division, and is styled Crown Energy Corporation, Crown Asphalt Corporation, and Crown

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Asphalt Products Company v. MCN Energy Group, Inc., MCNIC Pipeline & Processing Company, Howard L. ("Lee") Dow III, and William E. Kraemer, Civil No. 2:00CV-05873ST. The Company's action arises from the joint ventures between the Company and MCN with regard to the asphalt business in the western United States involving the mining, processing, storage, manufacture, and marketing of asphalt the Company alleges claims against defendants for breach of fiduciary duties, economic duress, breach of implied covenants of good faith and fair dealing, breach of contracts, estoppel, intentional interference, and trade libel and slander of title as a result of defendants' wrongful and bad faith conduct in the joint venture relationships. Damages of an amount exceeding \$100 million are sought on the Company's claims for breach of fiduciary duties, economic duress, and breach of implied covenants of good faith and fair dealing, with the full amount of damages on all claims to be proven at trial.

On August 1, 2000, Crown Distribution filed its Answer and Counterclaims to the MCNIC Complaint and named additional counterclaim defendants, MCN Energy Group, Inc., Howard L. ("Lee") Dow III, and William E. Kraemer. Crown Distribution's Answer and Counterclaims substantially denied all of the allegations set forth in the MCNIC Complaint and alleged numerous counterclaims, including breach of fiduciary duty, economic duress, breach of implied covenants of good faith and fair dealing, breach of contracts, estoppel, intentional interference, trade libel and slander of title, and abuse of process. Crown Distribution, pursuant to its counterclaims, has requested a jury trial and is seeking relief in the way of damages in amounts to be proven at trial, punitive damages, attorney's fees, interest, costs and any other relief to which they may be entitled.

On August 31, 2000, MCNIC filed motions to stay both the state court and federal court actions and have them submitted to an arbitration panel selected by the American Arbitration Association in accordance with the rules of the American Arbitration Association. The Company contested whether either lawsuit should be subject to arbitration and filed an answer to both motions on October 2, 2000 to that effect. However, the state court ultimately ordered arbitration and the federal court, though it did not compel arbitration, concluded that the major disputes were arbitrable.

On January 29, 2000, the Company determined that binding arbitration of all of the claims set forth above before a single retired federal judge would be in the Company's best interest. Accordingly, an Arbitration Agreement was signed between all of the parties on January 26, 2001. The arbitration (the "Arbitration") is being arbitrated before Judge John G. Davies (ret.) in Salt Lake City, Utah. The arbitration hearing is scheduled for July 23, 2001 through August 10, 2001, with extensive pre-hearing discovery to occur prior to that time.

Commencing March 5, 2001, the Company, MCNIC, MCN and various officers exchanged claims and counterclaims relating to the Arbitration. The claims contained therein substantially restate the parties' prior positions within the litigation described above. However, in its claims in arbitration, MCNIC

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asserted claims against CAC and CAPCO and also included the Company's chief executive officer, president and treasurer, Jay Mealey, as a party. The Company denies MCNIC's claims. Mr. Mealey believes that his inclusion at this point is highly improper due to the fact that he had not been a party to the pending actions nor to the Arbitration Agreement pursuant to which the actions were submitted to the Arbitration. Accordingly, Mr. Mealey has filed a motion with the arbitrator to be removed from the Arbitration.

The Company believes that it has a strong case on the claims and counterclaims in the Arbitration. However, because arbitration proceedings are inherently uncertain, the Company cannot predict the outcome of any such proceedings. Management of the Company is keenly aware of the importance of the Arbitration to the Company. If MCNIC prevails in the Arbitration, and depending upon the extent in nature of any relief granted by the Arbitrator, the Company may be severely and adversely impacted and may lose possession of some or all of its primary assets and sources of revenues.

On July 10, 2000 the Company entered into an agreement with Berman, Gaufin, Tomsic, Savage & Campbell, a law firm in Salt Lake City, Utah ("Berman"), to represent the Company in the legal matters involving MCNIC, its affiliates and certain officers. This agreement provided for 350,000 shares of the Company's common stock to be issued to Berman as a retainer. In addition, the Company will reimburse

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Berman's costs of litigation and pay a contingency fee of 33.33% of any recovery from such litigation. The Company agreed upon these terms on the basis that this was in its best interest in that the Company was able to conserve its available capital for operations.

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

No matters were submitted to the Company's shareholders for vote during the fourth quarter of fiscal year 2000.

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

The executive officers and directors of the Company, their ages and their positions are set forth below:

| NAME | AGE | POSITION |
|--------------------|-----|--|
| James A. Middleton | 64 | Chairman of the Board of Directors |
| Jay Mealey | 44 | Chief Executive Officer, President, Treasurer, Director |
| Stephen J. Burton | 55 | Secretary |
| Andrew W. Buffmire | 54 | Director |

James A. Middleton has served as a director since February 1996 and served as Chief Executive Officer from December 1996 through April 16, 1999. Mr. Middleton will continue to serve as Chairman and a director until a new Chairman and director is duly elected and qualified. Mr. Middleton was an Executive Vice President and director of Atlantic Richfield Co. from October 1987 to September 1994 and resigned in March 2001, as a director of Texas Utilities Co.

Jay Mealey has served as President and Chief Operating Officer and as a director of the Company since 1991. Mr. Mealey was appointed as Chief Executive Officer in April, 1999 treasurer in October, 2000 and will serve as Chief Executive Officer, President and Treasurer and as a director, until a new officer and director, respectively, are appointed or elected and qualified. Mr. Mealey has been actively involved in the oil and gas exploration and production

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business since 1978. Prior to employment with the Company, Mr. Mealey served as Vice President of Ambra Oil and Gas Company and prior to that worked for Belco Petroleum Corporation and Conoco, Inc. in their exploration divisions. Mr. Mealey is responsible for managing the day-to-day operations of the Company.

Stephen J. Burton was elected Secretary in October, 2000. Mr. Burton has held various accounting positions with the Company since 1989. He is currently responsible for the Company's Human Resources. Mr. Burton graduated from Utah State University in 1986.

Andrew W. Buffmire is the Vice President Business Development for publicly traded Ubiquitel, Inc., a wireless telecommunications company headquartered in Conshohocken, Pennsylvania. Prior to joining Ubiquitel, Buffmire was a Director in the business development group at Sprint PCS, a national wireless telecommunications service provider. Before joining Sprint PCS, Buffmire was an attorney in private legal practice in Salt Lake City, Utah for 16 years, with the exception of two years (1985-1987), when he was the founder, general counsel and registered principal of an NASD-registered investment-banking firm.

PART II.

ITEM 5. MARKET PRICE FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock has been traded in the over-the-counter market since 1980. The common stock is currently listed on the NASD OTC Bulletin Board under the symbol CROE. At the

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present time, only the common stock is publicly traded. The following table sets forth the range of high and low bid quotations, as adjusted for stock splits, of the Company's common stock as reported by the National Quotation Bureau for each full quarter during the two most recent fiscal years. The table represents prices between dealers, and does not include retail markups, markdowns or commissions, and may not represent actual transactions:

| CALENDAR QUARTER ENDED | HIGH BID | LOW BID |
|------------------------|----------|---------|
| March 31, 2000 | .65625 | .5625 |
| June 30, 2000 | .21875 | .1875 |
| September 30, 2000 | .14 | .125 |
| December 31, 2000 | .075 | .0625 |
| March 31, 1999 | 1.38 | 1.00 |
| June 30, 1999 | 1.06 | .59 |
| September 30, 1999 | .66 | .31 |
| December 31, 1999 | .41 | .26 |

As of March 29, 2001, the high bid and low offer quotations reported by the National Quotation Bureau were \$.054 and \$.05, respectively. On March 29, 2000, approximately 13,635,581 shareholders of record held the Company's common stock. The Company declared and paid no dividends in 2000.

The Company has not paid any dividends or made any other distributions on its common shares. It is the present policy of the Board of Directors of the Company to retain any earnings for use in the business, and therefore, the Company does not anticipate paying any cash dividends on its common stock in the foreseeable future. The terms of the Company's Series A Preferred Stock prohibit the payment of dividends on common stock at any time that dividends on the Series A Preferred Stock are due yet unpaid.

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ITEM 6. SELECTED FINANCIAL DATA

The financial data included in the following table has been derived from the financial statements for the periods indicated. The financial statements as of and for the years ended December 31, 1994 through 1997 were audited by Pritchett, Siler & Hardy, P.C., independent public accountants. The financial statements as of and for the year ended December 31, 1998 and December 31, 1999 were audited by Deloitte & Touche, LLP, independent public accountants. The financial statements as of and for the year ended December 31, 2000 were audited by Tanner + Co., LLP, independent public accountants. The following financial data should be read in conjunction with the financial statements and related notes and with management's discussion and analysis of financial conditions and results of operations included elsewhere herein.

| | Year Ended December 31 | | | |
|---------------------------------|---------------------------------|-----------|----------|-----|
| | ----- | | | |
| | (In thousands except per share) | | | |
| | 2000 | 1999 | 1998 | 19 |
| | ---- | ---- | ---- | -- |
| Net Revenues | \$22,787 | \$35,519 | \$23,836 | |
| Income (Loss from | | | | |
| Continuing Operations) | (\$18,361) | (\$3,054) | (\$498) | (\$ |
| Income (Loss) Per Share | | | | |
| From Continuing Operations | (\$1.39) | (\$0.26) | (\$0.07) | (|
| Total Assets | \$17,052 | \$33,114 | \$23,571 | \$ |
| Total Long-Term Obligations | \$11,337 | \$11,333 | \$4,326 | |
| Redeemable Preferred Stock | \$4,896 | \$4,840 | \$4,783 | \$ |
| Cash Dividends Per Common Share | \$0.00 | \$0.00 | \$0.00 | |
| Common Stockholders' Equity | (\$21,050) | (\$2,276) | \$767 | \$ |

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The foregoing selected financial data is presented on a historical basis and may not be comparable from period to period due to changes in the Company's operations. Common Stockholders' Equity was restated as of January 1, 1996 to reflect the amortization of \$453,649 in research and development expenditures previously capitalized by the Company.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT 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 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

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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, technical or operational difficulties at the Facility of Crown Ridge, difficulties in integrating the Company's recent joint venture and acquisition related businesses, risks related to the financing of the Company's operations (including the risk of loss of certain operating assets serving as collateral to secure such financing), 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

At December 31, 2000, the Company had cash and other current assets of \$6,761,595 as compared to cash and other current assets of \$12,334,750 at December 31, 1999. The decrease of \$5,573,155 was generally due to a decrease in asphalt sold by the Company. The Company's majority owned subsidiary, Crown Distribution, accounted for a substantial portion of the Company's current assets. As of December 31, 2000, Crown Distribution had approximately \$2,732,686 million in cash, \$2,348,042 million in inventory and \$555,166 in accounts receivable, excluding related party balances. Crown Distribution's business requires a working capital Credit Facility. MCNIC, the minority interest owner, elected to provide such Credit Facility in lieu of the Company's pursuing proposals with it had obtained from banks and to replace a prior loan with this Credit Facility. The Company has accrued interest on the Credit Facility at an average interest rate of 8.0%. At December 31, 2000, the line had an outstanding principal balance of \$14,935,222.

On June 20, 2000, MCNIC filed a Complaint in the Third Judicial District Court, Salt Lake County, Utah, against Crown Distribution. The action seeks to foreclose on alleged mortgage and security interest in and to certain real and personal property of Crown Distribution, which property constitutes a substantial part of the operating assets of Crown Distribution. In summary, in the MCNIC Complaint, MCNIC does not acknowledge its prior commitment to "roll" the Working Capital Loan into the Credit Facility and alleges that Crown Distribution is in default on the promissory note evidencing the Working Capital Loan to Crown Distribution in the amount of \$7,141,930.00. MCNIC further alleges that the total amount owed

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by Crown Distribution to MCNIC is in excess of \$15,000,000, as well as interest at the rate of 18% from January 1, 2000 until paid in full. The MCNIC Complaint also seeks the appointment of a receiver to ensure and protect the interests of MCNIC in the property of Crown Distribution, pending a determination by the Court of the merits of the Complaint. Crown Distribution has moved to vigorously defend against this litigation and believes that it has certain available defenses, claims and counterclaims. Crown Distribution's management further believes that certain of MCNIC's allegations are lacking in either legal or factual basis.

On July 25, 2000, the Company filed the Crown Complaint against MCN, MCNIC and certain officers of MCN and MCNIC. The suit was brought in the United States District Court for the District of Utah, Central Division and is styled Crown

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Energy Corporation, Crown Asphalt Corporation, and Crown Asphalt Products Company v. MCN Energy Group, Inc., MCNIC Pipeline & Processing Company, Howard L. ("Lee") Dow III, and William E. Kraemer, Civil No. 2:00CV-05873ST. The Company's action arises from the joint ventures between the Company and MCN with regard to the asphalt business in the Western United States involving the mining, processing, storage, manufacture, and marketing of asphalt the Company alleges claims against defendants for breach of fiduciary duties, economic duress, breach of implied covenants of good faith and fair dealing, breach of contracts, estoppel, intentional interference, and trade libel and slander of title as a result of defendants' wrongful and bad faith conduct in the joint venture relationships. Damages of an amount exceeding \$100 million are sought on the Company's claims for breach of fiduciary duties, economic duress, and breach of implied covenants of good faith and fair dealing, with the full amount of damages on all claims to be proven at trial.

On August 1, 2000, Crown Distribution filed its Answer and Counterclaims to the MCNIC Complaint and named additional counterclaim defendants, MCN Energy Group, Inc., Howard L. ("Lee") Dow III, and William E. Kraemer. Crown Distribution's Answer and Counterclaims substantially denied all of the allegations set forth in the MCNIC Complaint and alleged numerous counterclaims, including breach of fiduciary duty, economic duress, breach of implied covenants of good faith and fair dealing, breach of contracts, estoppel, intentional interference, trade libel and slander of title, and abuse of process. Crown Distribution, pursuant to its counterclaims, requested a jury trial and sought relief in the way of damages in amounts to be proven at trial, punitive damages, attorney's fees, interest, costs and any other relief to which they may be entitled.

On August 31, 2000, MCNIC filed motions to stay both the state court and federal court actions and have them submitted to an arbitration panel selected by the American Arbitration Association in accordance with the rules of the American Arbitration Association. The Company contested whether either lawsuit should be subject to arbitration and filed an answer to both motions on October 2, 2000 to that effect. Ultimately, however, arbitration of substantial claims in the litigation was ordered or required.

On January 29, 2000, the Company agreed that binding arbitration of all of the claims set forth above before a single retired federal judge would be in the Company's best interest. Accordingly, an Arbitration Agreement was signed between all of the parties on January 29, 2001. The arbitration (the "Arbitration") is being arbitrated before Judge John G. Davies (ret.) in Salt Lake City, Utah. The arbitration hearing is scheduled for July 23, 2001 through August 10, 2001, with extensive pre-hearing discovery to occur prior to that time.

Commencing March 5, 2001, the Company, MCNIC, MCN and various officers exchanged claims and counterclaims relating to the Arbitration. The claims contained therein substantially restate the parties' prior positions within the litigation described above. However, in its claims in arbitration, MCNIC, MCN and certain of its officers have included the Company's chief executive officer, president and treasurer, Jay Mealey, as a party to certain claims. Mr. Mealey believes that his inclusion at this point is highly improper due to the fact that he had not been a party to the pending actions nor to the Arbitration Agreement pursuant to which the actions were submitted to the Arbitration. According, a motion has been filed with the arbitrator to remove Mr. Mealey from the Arbitration.

The Company believes that it has a strong case on the claims and counterclaims in the Arbitration. However, because arbitration proceedings are inherently uncertain, the Company cannot predict the

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outcome of any such proceedings. Management of the Company is keenly aware of the importance of the Arbitration to the Company. If MCNIC prevails in the Arbitration, and depending upon the extent in nature of any relief granted by the Arbitrator, the Company may be severely and adversely impacted and may lose possession of some or all of its primary assets and sources of revenues.

Interested persons should also note that, subject of course to available equitable and other creditor remedies, neither the MCNIC Working Capital Loan nor Credit Facility to Crown Distribution contain cross-default provisions giving MCNIC any right to declare a default or to seek control or possession over the assets or operations of Crown Ridge or the Company's interest in Crown Ridge.

The Company also owed MCNIC an additional \$5,325,723 at December 31, 2000 with respect to the Preferential Capital Contribution that funded Crown Distribution's acquisition of the assets of PSAC. See -"Item 1. Business - Asphalt Distribution - Crown Asphalt Distribution, L.L.C. The Preferential Capital Contribution requires payment of a 15% rate of return and is payable solely from 50% of the cash flow from Crown Distribution's operations.

The Company believes its asphalt distribution business, which is operated through CAPCO, is a business whose success is not dependent on the Company's interest in the Crown Ridge project or Crown Distribution. However, the asphalt distribution business is capital intensive and requires substantial investments to acquire terminal storage and blending assets as well as raw material inventory.

On May 12, 1999, the Company entered into an agreement to acquire an asphalt distribution terminal in Rawlins, Wyoming and the related asphalt inventory for \$2,291,571 from S&L Industrial, a Wyoming corporation. The Rawlins, Wyoming asphalt terminal (the "Rawlins Asphalt Terminal") expands the Company's asphalt manufacturing and distribution operations in the Western United States. The operating agreement for Crown Distribution required that the Company present this opportunity to MCNIC in order for it to participate in the acquisition and the Company did present the transaction (and the acquisition of two other terminals which were ultimately not acquired) to MCNIC in accordance with its obligation. Despite its agreement to participate within the ownership of the Rawlins Asphalt Terminal (and the two other asphalt terminals) through the formation of a new joint venture, MCNIC failed to take the actions necessary to complete the transfer of the project to joint ownership and the Company does not believe at present that MCNIC will perform. Thus, the Rawlins Asphalt Terminal continues to be owned by CAPCO. The Company believes that it has and will continue to have adequate working capital to service the obligations relating to the Rawlins Asphalt Terminal.

The Company remains open to other asphalt related business opportunities to complement its existing asphalt distribution capabilities. 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 "Item 3. Legal Proceedings") and subject to related collection risks.

MCNIC has advised the Company it will no longer provide funding under the Credit Facility as the Company asserts it previously agreed and has refused to guaranty a third party financed Credit Facility on behalf of Crown Distribution as the Company believes it had also previously agreed. The Company relies on the Credit Facility to purchase inventory and fund other working capital requirements for operations. The Company is seeking other ways to finance its

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working capital requirements, but there is 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 line of credit 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 2001. Furthermore, if Crown Ridge approves an additional capital contribution for the modification to the Facility by a unanimous decision of its members and the Company is unable to finance its approximate 24% of such capital contribution, its sharing ratio in Crown Ridge may be further diluted.

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As of December 31, 2000, the Company has made cash contributions of approximately \$5,663,985 to Crown Ridge. During the start-up of the Crown Ridge Facility mechanical and process difficulties were experienced that affected production economics. A pilot study to develop a solution to these problems was conducted during 2000. As discussed elsewhere herein, the ramifications of the pilot study for the Company are uncertain. This uncertainty arises from the facts that (i) the costs of the engineering modifications which may need to be made to the Crown Ridge Facility have not been determined, and (ii) Crown has been denied access by MCNIC to vital information concerning the pilot study and the Crown Ridge Facility, generally.

During the year ended December 31, 2000, the Company evaluated the carrying value of its investment in and advances to Crown Ridge. The evaluation has been complicated by the fact that MCNIC has effectively taken control of Crown Ridge, including financial information and engineering and feasibility studies of the Facility. As discussed elsewhere herein, the Company is in litigation with MCNIC with a final arbitration trial scheduled to commence July 23, 2001. Based on the lack of information provided from MCNIC, the inherent risk of litigation and the lack of a firm business plan for Asphalt Ridge from MCNIC, the Company determined that its investment in and advances to Crown Ridge are potentially impaired. Accordingly, an aggregate non-cash expense was recorded for the impairment of \$6,904,085. Should delays continue, or should the Facility be unable to operate economically, the Company believes this would significantly impact Crown Ridge's ability to continue as a going concern and would adversely impact the Company's operations and financial condition resulting in an impairment of the remainder of the asset. See - "Item 1. Business - Asphalt Production - Crown Asphalt Ridge, L.L.C."

Results of Operations

2000 vs. 1999

Total revenue decreased from \$35,518,541 for the year ended December 31, 1999 to \$22,787,103 for the year ended December 31, 2000, a decrease of 35.84%. This decrease was primarily due to a reduction of the volume of asphalt sold during 2000. This decrease in sales volume was a direct result of a reduction in the ability of the Company to purchase inventory in a timely fashion and its resulting inability to submit competitive bids due to the loss of the working capital line previously provided by MCNIC and loss of funds and disruption caused by MCNIC.

The Company's gross margins decreased from approximately 5% for the year ended 1999 to approximately -4% for the year ended 2000. This decrease was due to an increase in the Company's cost of basestock asphalt that resulted from a reduction in the purchase of asphalt inventory during the winter months when the cost is significantly lower. The Company believes continued cost cutting

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procedures will contribute to improved margins in 2001. However, the Company is prevented in its Operating Agreement with MCNIC from utilizing any hedging strategies to minimize market risk fluctuations and therefore remains subject to basestock asphalt price fluctuations.

General, administrative and provision for bad debt expenses increased from \$2,745,029 for the year ended December 31, 1999 to \$4,590,523 for the year ended December 31, 2000, an increase of \$1,845,494. This increase was primarily due to increased legal expenses and an increase in the reserve for doubtful accounts as a result of the decline in the credit worthiness of account balances. These were partially offset by cost cutting procedures and a reduction in administrative staff.

During the year ended December 31, 2000, the Company evaluated the carrying value of its investments in and advances to Crown Ridge. The evaluation has been complicated by the fact that the Company's joint venture partner has effectively taken control of Crown Ridge and has not shared information relative to its activities pertaining to Crown Ridge, including financial information and feasibility studies relative to the Asphalt Ridge Project. Based on the lack of a firm business plan for the Asphalt Ridge Project at this time, the Company determined that its investment in and advances to Crown Ridge were potentially impaired. Accordingly, an aggregate non-cash expense for the impairment or \$6,904,085 was recorded.

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At year-end December 31, 2000 the company also re-assessed the recoverability of goodwill associated with the PSAC acquisition. Due to the litigation with MCNIC, the Company has been unable to secure financing needed to build up inventory at favorable prices. This lack of funding and the ongoing dispute with MCNIC has resulted in losses from operations in 1999 and 2000. Because of these circumstances the Company could not estimate the full carrying value which could be recovered through the undiscounted future cash flows from products generated from related assets. Accordingly, an impairment of \$3,625,848 has been recognized in the statements of operations for the year ended December 31, 2000.

Due to the items discussed above, including the impairments, the loss from operations increased from \$1,907,779 in 1999 to \$16,084,230 in 2000.

Interest and other income/expenses decreased from net expenses of \$2,494,073 for the year ended December 31, 1999 to net expenses of \$2,315,344 for the year ended December 31, 2000, a decrease of \$178,729. The 2000 total was comprised of \$1,999,138 in interest costs related to the Crown Distribution's Credit Facility and preferential capital contribution owed to MCNIC, other interest expense of \$577,248 on various loans, and \$261,042 of interest income and other incomes

Minority interest of \$38,653 represents Foreland's approximate 33% interest in the loss in CAT LLC.

At December 31, 2000, the Company evaluated the recoverability of goodwill associated with the acquisition by Crown Distribution of the PSAC assets. As discussed elsewhere herein, the litigation with MCNIC resulted in the Company's inability to secure working capital financing and losses from operations for 1999 and 2000. Because of these circumstances and the inherent risk of litigation, the Company could not estimate the full carrying value which could be recovered through undiscounted cash flows from products generated from the related assets. Accordingly, an impairment of \$3,625,848 has been recognized in the statement of operations for the year ended December 31, 2000.

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Crown Distribution had losses for the year ended December 31, 2000 of \$11,365,018. The Company, through its wholly owned subsidiary, CAPCO owns 50.01% and MCNIC owns 49.99% of Crown Distribution. CAPCO is the manager and operating agent of Crown Distribution. Because there is no agreement requiring the minority shareholder, MCNIC, to guarantee the subsidiary's debt or such cumulative losses or a commitment to provide additional capital, other than working capital, all (100%) of the loss attributable Crown Distribution, including MCNIC's 49.99% interest in the losses totaling \$5,681,372 are included as a loss in the Company's Financial Statements.

1999 vs. 1998

Total revenue increased from \$23,835,734 for the year ended December 31, 1998 to \$35,518,541 for the year ended December 31, 1999, an increase of \$11,682,807 (49%). This increase was primarily due to the Company recording a full year of revenue from its 1998 acquisition of the assets of Petro Source Asphalt Company and its 1999 acquisition of the Rawlins Asphalt Terminal.

For the year ended December 31, 1998, the Company recorded revenue of approximately \$6,423,000 (41,000 tons) from its distribution facilities and \$15,904,000 (104,000 tons) from the Processing Agreement with Santa Maria Refinery Corporation. For the same period in 1999, the Company recorded revenue of approximately \$24,963,000 (159,000 tons) from its distribution facilities, which revenues included \$2,584,000 (16,787 tons) from the Rawlins Asphalt Terminal and \$10,555,000 (37,900 tons) from the Processing Agreement with Santa Maria Refinery Corporation. However, the Processing Agreement expired on April 30, 1999. The Company believes the loss of revenues associated with the now expired Processing Agreement will be offset by the growth in its asphalt distribution operations.

The Company's gross margins decreased from approximately 9% for the year ended 1998 to approximately 5% for the year ended 1999. This decrease was due to higher operating costs at the Company's distribution facilities, an increase in the Company's cost of basestock asphalt at the end of 1999

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and non-recurring costs recorded of \$800,000. However, the Company is prevented in its Operating Agreement with MCNIC from utilizing any hedging strategies to minimize market risk fluctuations and therefore remains subject to basestock asphalt price fluctuations. The Company believes that the asphalt production from Crown Ridge, should it commence commercial operations, will provide its distribution business a consistent asphalt basestock supply at a fixed price, assuming that acceptable pricing agreements are reached with Crown Ridge.

General, administrative, and provision for bad debt expenses increased from \$1,250,381 for the year ended December 31, 1998 to \$2,745,029 for the year ended December 31, 1999, an increase of \$1,494,648. This increase was primarily due to the Company recording a full year of general and administrative expenses from its 1998 acquisition of the assets of PSAC.

Interest and other income/expenses increased from net expenses of \$800,420 for the year ended December 31, 1998 to net expenses of \$2,494,073 for the year ended December 31, 1999, an increase of \$1,693,653. The 1999 total was comprised of \$2.2 million in interest costs related to the Company's Credit Facility and preferential capital contribution for its asphalt distribution owed to MCNIC and other expenses of \$290,482.

Minority interest of \$1,348,336 represents MCNIC's approximate 49% interest in the loss of Crown Distribution and Foreland's approximate 33% interest in the loss in CAT LLC.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not believe it is subject to 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 is prevented in its Operating Agreement with MCNIC from utilizing any hedging strategies to minimize any market price changes. The Company believes the inability to protect itself from market fluctuations negatively impacted its margins for 2000. See "Item 7. Management's Discussion and Analysis Results of Operations - 2000 vs. 1999".

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 prices and does not believe it has material exposure to risk resulting from these regulations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATE

The financial statements required by this item are set forth following Item 14 hereof.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On June 2, 1998, the Company terminated its independent auditor relationship with Pritchett, Siler & Hardy, P.C. ("Pritchett"). The decision to change accountants was approved by the Company's Board of Directors.

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Pritchett's report on the financial statements of the Company for the fiscal year ended December 31, 1997 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal years ended December 31, 1998, 1997 and 1996, and the period January 1, 1998 through June 2, 1998, there were no disagreements with Pritchett on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures or any reportable events.

On June 2, 1998, the Company engaged Deloitte & Touche LLP ("Deloitte") as its independent auditors to audit and report on the financial statements of the Company for the fiscal year ended December 31, 1998. On October 23, 2000, the Company terminated its independent auditor relationship with Deloitte. The decision to change accountants was approved by the Company's Board of Directors.

Deloitte's report on the financial statements for the fiscal year ended December 31, 1999 contained a "going concern" qualification. During the fiscal year ended December 31, 1999, there were no disagreements with Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures or any reportable events.

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On October 23, 2000, the Company engaged Tanner + Co., LLP ("Tanner") as its independent auditors to audit and report on the financial statements of the Company for the fiscal year ended December 31, 2000.

Prior to engaging Tanner, neither the Company nor anyone acting on its behalf consulted with Tanner regarding the application of accounting principles to any specified transaction or the type of audit opinion that might be rendered on the Company's financial statements. In addition, during the Company's fiscal year ended December 31, 1999 and during the period January 1, 2000 through October 23, 2000, neither the Company nor anyone acting on its behalf consulted with Tanner with respect to any matters that were the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

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PART III.

Items 10 through 13 of Part III of this Form 10-K are incorporated by reference from the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A of the Securities Act of 1933 within 120 days after the close of the Company's most recent fiscal year (the "Proxy Statement").

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information regarding the executive officers and directors of the Company is included as Item 4A of Part I of this Form 10-K as permitted by Instruction 3 to Item 401(b) of Regulation S-K. Information required by Item 405 of Regulation S-K will be set forth in the Proxy Statement, which information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

Information with respect to executive compensation will be set forth in the Proxy Statement, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information with respect to security ownership of certain beneficial owners and management will be set forth in the Proxy Statement, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information with respect to certain relationships and related transactions will be set forth in the Proxy Statement, which information is incorporated herein by reference.

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PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

Documents filed as part of this Report:

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- (1) Financial statements, as set forth on the attached Index to Financial Statements.
- (2) Exhibits, as set forth on the attached Exhibit Index.

Schedule II: Valuation and Qualifying Accounts

The Company filed a form 8-K on October 23, 2000 and a form 8-KA on October 31, 2000 to report a change in the company auditor to Tanner + Co. The Company believes this change will reduce its required auditing expense.

The Company filed a form 8-K on March 5, 2001 to report the events relating to the arbitration of claims and counter claims of the Company and MCNIC and related entities and parties.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

CROWN ENERGY CORPORATION
(Registrant)

/s/ Jay Mealey

Jay Mealey
Chief Executive Officer,
Director

Date: April 12, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Alan L. Parker

Alan L. Parker
Controller

Date: April 12, 2001

/s/ Andrew W. Buffmire

Andrew W. Buffmire
Director

Date: April 12, 2001

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CROWN ENERGY CORPORATION

SCHEDULE II:

VALUATION AND QUALIFYING ACCOUNTS

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| Description | ADDITIONS | | | |
|-------------------------------|------------------------------------|-----------------------------------|--------------------------------|------------|
| | Balance at Beginning Of Year | Charge to Cash and Expenses | Charge to Other Accounts | Deductions |
| Year ended December 31, 2000: | | | | |
| Deducted from assets accounts | | | | |
| Accounts receivable: | | | | |
| Allowance | \$298,000 | \$ 1,529,896 | | |
| Deferred tax assets: | | | | |
| Valuation allowance | 2,738,000 | 4,833,000 | | |
| Year ended December 31, 1999: | | | | |
| Deducted from assets accounts | | | | |
| Accounts receivable: | | | | |
| Allowance | \$150,000 | \$ 77,000 | \$ 161,000 | \$ 90,000 |
| Deferred tax assets: | | | | |
| Valuation allowance | 1,704,000 | 1,034,000 | | |
| Year ended December 31, 1998: | | | | |
| Deducted from assets accounts | | | | |
| Accounts receivable: | | | | |
| Allowance | 75,000 | 75,000 | | |
| Deferred tax assets: | | | | |
| Valuation allowance | 1,318,000 | 386,000 | | |

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EXHIBIT INDEX

| EXHIBIT NO. | DOCUMENT |
|-------------|--|
| 2.1 | Purchase and Sale Agreement regarding Petro Source Asphalt Company, dated July 2, 1998 (15) |
| 2.2 | Memorandum of Closing regarding Refinery Technologies, Inc. (18) |
| 2.3 | Assignment and Agreement with Refinery Technologies, Inc. (18) |
| 2.4 | Asset Purchase Agreement (S&L Industrial) dated May 12, 1999 regarding S&L Industrial |
| 3.1 | Articles of Incorporation (6) |
| 3.2 | Certificate of Voting Powers, etc. of the Company's Preferred Stock (10) |
| 3.3 | Amended Bylaws (1) |
| 4.1 | Convertible Debenture - Agreement dated May 6, 1997, between Crown Energy Corporation and Oriental New Investments, Ltd. (7) |
| 4.2 | Warrant with Encap Investments, L.C. (12) |
| 4.3 | Form of Stock Option Agreements between the Company and (1) Jay Mealey, (2) Richard Rawdin and (3) Thomas Bachtell (12) |
| 4.4 | The Crown-Energy Long Term Equity Basic Incentive Plan (13) |
| 4.5 | Common Stock Purchase Warrant dated November 4, 1997 issued to Enron Capital & Trade Resources Corp. (10) |
| 4.6 | Form of Warrant issued to principals of IBEX Group, Inc. and Hoffman Partners, Inc. (18) |
| 4.7 | May 1998 Warrant issued to Ladenburg Thalmann (18) |
| 10.1 | License Agreements with Park Guymon Enterprises, Inc., dated January 20, 1989, June 1, 1990 and June 1, 1990 (3) |

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- 10.2 Amendment to License Agreement with Park Guymon Enterprises, Inc. (6)
- 10.3 Employment Agreement with Jay Mealey (12)
- 10.4 Consulting Agreement with IBEX Group, Inc. and Hoffman Partners, Inc. (6)
- 10.5 Promissory Note issued to Jay Mealey 12/31/95 (6)
- 10.6 Promissory Note issued to Thomas W. Bachtell 12/31/95 (6)
- 10.7 Promissory Note issued to Thomas W. Bachtell 12/31/95 (6)
- 10.8 Oil and Gas Minerals Lease, dated September 1, 1991 with Wembco, Inc. (4)
- 10.9 Crown Office Space Lease (5)
- 10.10 First Amendment to Crown Office Space Lease (12)
- 10.11 Investment Banking Agreement with Fortress Financial Group, Ltd. (12)
- 10.12 Promissory Note from Jay Mealey (12)
- 10.13 Promissory Note from Rich Rawdin (12)
- 10.14 Stock Pledge Agreement with Jay Mealey (12)
- 10.15 Stock Pledge Agreement with Rich Rawdin (12)
- 10.16 Assignment of Assets to Crown Asphalt Ridge, L.L.C. by Crown Asphalt Corporation (12)
- 10.17 Assignment to Crown Asphalt Ridge, L.L.C. by Crown Asphalt Corporation (12)
- 10.18 Asphalt Ridge Project Operating and Management Agreement with Crown Asphalt Ridge L.L.C., dated August 1, 1997 (12)
- 10.19 Sublicense and Agreement between Crown Asphalt Ridge, L.L.C. and Crown Asphalt Corporation (12)
- 10.20 Stock Purchase Agreement with Enron Capital & Trade Resources Corp. (10)
- 10.21 Engineering, Construction, and Procurement Agreement with CEntry Constructors & Engineers, LLC (12)
- 10.22 Revised Right of Co-Sale Agreement between Jay Mealey and Enron Capital & Trade Resources Corp. (11)
- 10.23 Guaranty Agreement in favor of MCNIC Pipeline & Processing Company (12)

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- 10.24 Crown Office Space Sublease (12)
- 10.25 Stock Purchase Agreement dated July 2, 1997, between Crown Energy Corporation and Road Runner Oil, Inc. (8)
- 10.26 Letter Agreement with EnCap Investments L.C. (12)
- 10.27 Purchase and Sale Agreement dated July 2, 1998 between Petro Source Asphalt Company and Crown Asphalt Distribution LLC (15)
- 10.28 Saba Petroleum Processing Agreement for Santa Maria Refinery in California dated May 1, 1997 between Petro Source Refining Corporation and Santa Maria Refining Company and Saba Petroleum Company, which was assigned to the Company on or about July 2, 1998. (16)
- 10.29 MetLife Equipment Lease dated May 1, 1997 between Petro Source Refining Corporation and MetLife Capital Corporation, which was assigned to the Company on or about July 2, 1998. (16)
- 10.30 PacifiCorp Property Lease dated April 1, 1996 between Petro Source Refining Corporation and PacifiCorp, which was assigned to the Company on or about July 2, 1998. (16)
- 10.31 GATX Rail Car Lease dated December 10, 1987 between Petro Source Corporation and General American Transportation Corporation, assigned to the Company on or about July 2, 1998 (16)
- 10.32 Office Space Lease (16)
- 10.33 Operating Agreement for Crown Asphalt Ridge, L.L.C. (17)
- 10.34 Operating Agreement for Crown Asphalt Distribution L.L.C. (18)
- 10.35 Operating and Management Agreement for Crown Asphalt Distribution L.L.C. (18)
- 10.36 Operating Agreement for Cowboy Asphalt Terminal L.L.C. (18)
- 10.37 April 3, 1998 Agreement regarding investment banking services with Ladenburg Thalmann (18)

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- 10.38 Indemnification Agreement with Ladenburg Thalmann (18)
- 10.39 Letter Agreement between CAC, CAPCO, and MCNIC Pipeline & Processing Company dated July 20, 1999 (19)
- 10.40 Letter Agreement between CAPCO and MCNIC Pipeline & Processing Company dated July 20, 1999 (19)
- 10.41 First Amendment to Operating Agreement (Crown Asphalt Distribution, L.L.C.) (19)
- 10.42 Loan Agreement: MCNIC Pipeline & Processing Company loan to Crown Asphalt Corporation dated July 20, 1999 (19)
- 10.43 CAR Promissory Note (19)
- 10.44 \$1,800,000 Loan Agreement: Community First National Bank to Crown Asphalt Products Company (19)
- 10.45 Letter Amendment to Community First National Bank Loan Agreement dated June 2, 1999 (19)
- 10.46 Crown Energy Corporation Guaranty of Community First National Bank Loan (19)
- 10.47 Assignment & Assumption Agreement (19)
- 10.48 Offsite Services Agreement (19)
- 10.49 Amendment to Mealey Employment Agreement (19)
- 10.50 MCNIC election to proceed with additional pilot plan (1/7/00) (19)
- 10.51 Settlement Agreement with Zimmerman (19)
- 10.52 Amendment to Settlement Agreement with Zimmerman (19)
- 10.53 5th Amendment to Building Lease (19)
- 10.54 January 20, 2000 Letter to MCNIC (19)
- 10.55 January 7, 2000 Election to Proceed with Pilot Plant Letter to MCNIC
- 10.56 January 7, 2000 Additional Costs Letter to MCNIC
- 10.57 Agreement with Refinery Technologies, Inc.
- 10.58 Notice of Termination of Building Lease
- 10.59 Arbitration Agreement
- 11 Statement regarding computation of per share earnings (the information required for Exhibit 11 is set forth on page F-25 of the Financial Statements of Crown Energy Corporation of this Form 10K)

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- 16 Letter of Pritchett, Siler & Hardy, P.C. dated June 5, 1998 (14)
- 21 Subsidiaries of the Company (the information required for Exhibit 21 is set forth in "Item 1 - Subsidiaries of the Company")

-
- (1) Incorporated by reference from the Company's Registration Statement on Form 10 filed with the Commission on July 1, 1991, amended August 30, 1991 and bearing Commission file number 0-19365.
 - (2) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1991 bearing Commission file number 0-19365.
 - (3) Incorporated by reference from the Company's Report on Form 8-K filed with the Commission on or about September 30, 1992, bearing Commission file number 0-19365.
 - (4) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1992, bearing Commission file number 0-19365.
 - (5) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1992, bearing Commission file number 0-19365.
 - (6) Incorporated by reference from the Company's Registration Statement on Form S-1 filed with the Commission on or about March 13, 1996, bearing Commission file number 0-19365.
 - (7) Incorporated by reference from the Company's Form 8-K filed with the Commission on or about June 12, 1997, bearing Commission file number 0-19365.
 - (8) Incorporated by reference from the Company's Form 8-K filed with the

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- Commission on or about July 21, 1997, bearing Commission file number 0-19365.
- (9) Incorporated by reference from the Company's Form 8-K filed with the Commission on or about November 18, 1997, bearing Commission file number 0-19365.
 - (10) Incorporated by reference from Enron Capital & Trade Resources Corp. Form 13D filed with the Commission on or about October 10, 1997.
 - (11) Incorporated by reference from Enron Capital & Trade Resources Corp. Form 13D/A filed with the Commission on or about November 12, 1997.
 - (12) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1997, filed with the Commission on or about March 31, 1998, bearing Commission file number 0-19365.
 - (13) Incorporated by reference from the Company's Amended Annual Report on Form 10-K for the year ended December 31, 1997, filed with the Commission on or about April 30, 1998, bearing Commission file number 0-19365.
 - (14) Incorporated by reference from the Company's Form 8-K filed with the Commission on or about June 9, 1998, bearing Commission file number 0-19365.
 - (15) Incorporated by reference from the Company's Form 8-K filed with the Commission on or about July 17, 1998, bearing Commission file number 0-19365.
 - (16) Incorporated by reference of the Company's Amended Form 10-Q filed with the Commission for the period ending September 30, 1998, filed with the Commission on November 25, 1998.

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- (17) Incorporated by reference from the Company's Amended Form 8-K filed with the Commission on or about November 18, 1997, bearing Commission file number 0-19365.
 - (18) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1998, filed with the Commission on or about June 14, 1999.
 - (19) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1999, filed with the Commission on or about April 4, 2000.
- o The Company agrees to furnish supplementally to the Commission a copy of any omitted schedule or exhibit to such agreement upon request by the Commission.

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CROWN ENERGY CORPORATION

Index to Consolidated Financial Statements

| | Page |
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| Report of Tanner + Co. | F-1 |
| Report of Deloitte & Touche LLP | F-2 |
| Consolidated Balance sheet | F-3 |
| Consolidated Statement of operations | F-4 |

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| Consolidated Statement of shareholders' deficit | F-5 |
| Consolidated Statement of cash flows | F-6 |
| Notes to consolidated financial statements | F-9 |

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CROWN ENERGY CORPORATION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
of Crown Energy Corporation

We have audited the consolidated balance sheet of Crown Energy Corporation as of December 31, 2000, and the related consolidated statements of operations, stockholders' deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Crown Energy Corporation as of December 31, 2000, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2 to the financial statements, the Company has had substantial recurring losses from operations, is involved in significant litigation and has relied upon financing from debt to satisfy its obligations. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. Management's plans in regard to that matter are also described in note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

TANNER + CO.

Salt Lake City, Utah
March 2, 2001

See accompanying notes to consolidated financial statements.

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CROWN ENERGY CORPORATION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Crown Energy Corporation
Salt Lake City, Utah

We have audited the accompanying consolidated balance sheet of Crown Energy Corporation and Subsidiaries (the Company) at December 31, 1999 and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the two years in the period ended December 31, 1999. Our audits also included the financial statement schedule for the years ended December 31, 1999 and 1998 listed in the Index at Item 14. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 1999, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, such financial statement schedule for the years ended December 31, 1999 and 1998, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company's recurring losses from operations, stockholders' deficiency, and negative working capital raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 2 to the consolidated financial statements, in 1998 the Company and an unconsolidated equity method affiliate changed their method of accounting for the costs of start-up activities to conform with Statement of Position No. 98-5, Reporting on the Costs of Start-Up Activities.

Deloitte & Touche LLP

Salt Lake City, Utah
March 29, 2000

See accompanying notes to consolidated financial statements.

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CROWN ENERGY CORPORATION

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Consolidated Balance Sheet

| Assets | December 31 2000 | December 31 1999 |
|---|---|---------------------|
| <hr style="border-top: 1px dashed black;"/> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,878,141 | \$ 1,419,260 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,827,896 and \$298,000 at December 31, 2000 and 1999, respectively | 1,419,260 | 2,370,887 |
| Inventory | 2,370,887 | 67,607 |
| Prepaid and other current assets | 67,607 | 25,700 |
| Related party receivable | 25,700 | |
| | <hr style="border-top: 1px dashed black;"/> | |
| Total current assets | 6,761,595 | 1,083,254 |
| Property, plant, and equipment, net | 9,661,174 | - |
| Investment in and advances to an equity affiliate | - | 404,400 |
| Intangible assets, net | 404,400 | 225,009 |
| Other assets | 225,009 | |
| | <hr style="border-top: 1px dashed black;"/> | |
| Total | \$ 17,052,178 | \$ 3,712,663 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Liabilities and Stockholders' Deficit | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,317,222 | \$ 800,000 |
| Preferred stock dividends payable | 800,000 | 127,366 |
| Accrued expenses | 127,366 | 3,987,256 |
| Accrued interest | 3,987,256 | 273,633 |
| Current portion of long-term debt | 273,633 | 14,935,222 |
| Working capital loan to related party | 14,935,222 | |
| | <hr style="border-top: 1px dashed black;"/> | |
| Total current liabilities | 21,440,699 | 1,130,619 |
| Commitments and contingencies | - | |
| Long-term debt principally due to related party | 11,336,861 | 4,896,227 |
| Redeemable preferred stock | 4,896,227 | 427,985 |
| Minority interest in consolidated joint ventures | 427,985 | |
| Stockholders' deficit: | | |
| Common stock \$.02 par value 50,000,000 shares authorized, 13,635,581 and 13,285,581 shares outstanding, respectively | 272,711 | 5,371,974 |
| Additional paid-in capital | 5,371,974 | (549,166) |
| Stock subscriptions receivable from officers | (549,166) | 243,574 |
| Stock warrants | 243,574 | (26,388,687) |
| Accumulated deficit | (26,388,687) | (21,049,594) |
| | <hr style="border-top: 1px dashed black;"/> | |
| Stockholders' deficit | (21,049,594) | (2,000,000) |
| | <hr style="border-top: 1px dashed black;"/> | |
| Total | \$ 17,052,178 | \$ 3,712,663 |
| <hr style="border-top: 1px dashed black;"/> | | |

See accompanying notes to consolidated financial statements.

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CROWN ENERGY CORPORATION Consolidated Statement of Operations

| | Years Ended December 31, | |
|--|--------------------------|----------------|
| | 2000 | 1999 |
| Sales, net | \$ 22,787,103 | \$ 35,518,541 |
| Cost of sales | 23,605,063 | 33,811,003 |
| Gross profit (loss) | (817,960) | 1,707,538 |
| General and administrative expenses | (3,060,627) | (2,668,011) |
| Provision for bad debt expenses | (1,529,896) | (77,018) |
| Loss on impairment of investment in equity affiliate | (6,904,085) | - |
| Loss on impairment of goodwill | (3,625,848) | - |
| Equity in losses from unconsolidated equity affiliate | (145,814) | (870,288) |
| (Loss) income from operations | (16,084,230) | (1,907,779) |
| Other income (expense): | | |
| Interest income | 157,042 | - |
| Interest expense | (2,576,386) | (2,203,591) |
| Other income (expense) | 104,000 | (290,482) |
| Expense related to valuation of warrants | - | - |
| Total other expense, net | (2,315,344) | (2,494,073) |
| Loss before income taxes, minority interests and cumulative effect of a change in accounting principle | (18,399,574) | (4,401,852) |
| Deferred income tax benefit | - | - |
| Minority Interest in losses (earnings) of consolidated joint venture | 38,653 | 1,348,336 |
| Loss before cumulative effect of a change in accounting principle | (18,360,921) | (3,053,516) |
| Cumulative effect of a change in accounting principle - expensing of start-up costs | - | - |
| Net loss | (18,360,921) | (3,053,516) |
| Redeemable preferred stock dividends | (400,000) | (400,000) |
| Net loss applicable to common shares | \$ (18,760,921) | \$ (3,453,516) |
| Loss per common share before cumulative effect of change in accounting principle - basic and diluted | \$ (1.39) | \$ (.26) |
| Cumulative effect of expensing start-up-costs - basic and diluted | \$ - | \$ - |
| Net loss per common share - basic and diluted | \$ (1.39) | \$ (.26) |

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| | | |
|--|------------|------------|
| Weighted average common shares - basic and diluted | 13,455,000 | 13,260,000 |
|--|------------|------------|

See accompanying notes to consolidated financial statements. F-4

CROWN ENERGY CORPORATION
Consolidated Statement of Stockholders' Deficit
Years Ended December 31, 2000, 1999, and 1998

| | Common Stock Shares | Amount | Additional Paid-in Capital | Stock Subscription Receivable |
|---|------------------------|------------|----------------------------------|-------------------------------------|
| Balance, January 1, 1998 | 11,722,216 | \$ 234,444 | \$ 5,318,598 | \$ - |
| Stock issued upon exercise of stock options in exchange for notes receivable | 946,296 | 18,926 | 530,240 | - |
| Stock issued for cash | 300,000 | 6,000 | 397,125 | (549,166) |
| Dividends on preferred stock | - | - | (402,019) | - |
| Preferred stock accretion | - | - | (56,604) | - |
| Warrants issued for consulting services | - | - | - | - |
| Net loss | - | - | - | - |
| Balance, December 31, 1998 | 12,968,512 | 259,370 | 5,787,340 | (549,166) |
| Dividends on preferred stock accrued from prior years | 317,069 | 6,341 | 461,092 | - |
| Preferred stock accretion | - | - | (56,604) | - |
| Dividends on preferred stock | - | - | (400,000) | - |
| Net loss | - | - | - | - |
| Balance, December 31, 1999 | 13,285,581 | 265,711 | 5,791,828 | (549,166) |
| Stock issued for legal services | 350,000 | 7,000 | 36,750 | - |
| Preferred stock accretion | - | - | (56,604) | - |
| Dividends on preferred stock | - | - | (400,000) | - |
| Net loss | - | - | - | - |
| Balance, December 31, 2000 | 13,635,581 | \$ 272,711 | \$ 5,371,974 | \$ (549,166) |

See accompanying notes to consolidated financial statements. F-5

CROWN ENERGY CORPORATION
Consolidated Statement of Cash Flows

Years Ended December 31,
2000 1999

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| | | | |
|---|-----------------|----------------|--------|
| Cash flows from operating activities: | | | |
| Net loss | \$ (18,360,921) | \$ (3,053,516) | \$ (1) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | | |
| Depreciation, depletion, and amortization | 903,864 | 746,674 | |
| Provision for doubtful accounts receivable | 1,529,896 | 77,018 | |
| Stock issued for services | 43,750 | - | |
| Impairment on investment in equity affiliate | 6,904,085 | - | |
| Impairment on goodwill | 3,625,848 | - | |
| Equity in losses of unconsolidated joint venture, net of distributions to minority interest shareholders | 145,814 | 870,288 | |
| Minority interest in losses of consolidated joint venture, net of distributions to minority interest shareholders | 126,286 | (1,348,336) | |
| Other expenses paid through equity instruments | - | - | |
| Changes in operating assets and liabilities (net of effect of acquisitions, see note 6) : | | | |
| Accounts receivable | 2,237,169 | (2,439,565) | (2) |
| Inventory | (237,021) | 2,528,470 | |
| Prepaid and other current assets | (32,025) | 3,789 | |
| Related party receivable | (25,700) | - | |
| Other assets | (161,241) | 136,021 | |
| Accounts payable | 184,971 | (725,156) | |
| Accrued interest | 1,999,140 | 1,836,305 | |
| Accrued expenses | (166,510) | 265,571 | |
| | ----- | | |
| Net cash (used in) provided by operating activities | (1,282,595) | (1,102,437) | |
| | ----- | | |
| Cash flows from investing activities: | | | |
| Purchase of property, plant, and equipment | (729,477) | (2,898,940) | |
| Acquisition of Petro Source Asphalt Company | - | - | (14) |
| Acquisition of Rawlins Terminal | - | (266,571) | |
| Acquisition of Cowboy Terminal | - | (195,000) | |
| Investment in and advances to Crown Asphalt Ridge, LLC | 64,377 | (562,490) | (1) |
| | ----- | | |
| Net cash used in investing activities | (665,100) | (3,923,001) | (16) |
| | ----- | | |
| Cash flows from financing activities: | | | |
| Proceeds from borrowings on working capital loan from related party | - | 6,000,001 | |
| Proceeds from borrowings of long-term debt | - | - | |
| Payments on long-term debt | (153,141) | (125,776) | |
| Sale of equity interest in subsidiary to a minority shareholder | - | 394,558 | |
| | ----- | | |
| Net cash (used in) provided by financing activities | (153,141) | 6,268,783 | 1 |
| | ----- | | |
| Net (decrease) increase in cash and cash equivalents | (2,100,836) | 1,243,345 | |
| Cash and cash equivalents at beginning of year | 4,978,977 | 3,735,632 | |
| | ----- | | |
| Cash and cash equivalents at end of year | \$ 2,878,141 | \$ 4,978,977 | \$ |
| | ===== | | |

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Supplemental disclosure of cash flow information:

| | | | | | |
|------------------------|-------|---------|----|---------|----|
| Cash paid for interest | \$ | 587,783 | \$ | 197,135 | \$ |
| | ===== | | | | |

See accompanying notes to consolidated financial statements.

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CROWN ENERGY CORPORATION Consolidated Statement of Cash Flows Continued

Supplemental disclosure of noncash investing and financing activities:

For the year ended December 31, 2000:

- o The Company issued debt of \$264,750, in exchange for property
- o The Company accrued dividends to preferred stockholders of \$400,000
- o The Company increased preferred stock and decreased additional paid-in capital for \$56,604 related to preferred stock accretion.

For the year ended December 31, 1999:

- o The Company issued 317,069 shares of common stock totaling \$467,433 as a dividend distribution to preferred stockholders and accrued dividends totaling \$400,000 on the redeemable preferred stock.
- o The Company incurred long-term debt of \$1,282,070 in connection with the acquisition of the Cowboy Terminal (see note 6).
- o The Company incurred long-term debt of \$2,025,000 in connection with the acquisition of the Rawlins Terminal (see note 6).
- o The Company incurred long-term debt of \$2,991,868 to fund its ongoing capital investment requirements in Crown Asphalt Ridge.
- o The Company increased preferred stock and decreased additional paid-in capital for \$56,604 related to preferred stock accretion.

See accompanying notes to consolidated financial statements.

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CROWN ENERGY CORPORATION Consolidated Statement of Cash Flows Continued

During the fiscal year ended December 31, 1998:

- o The Company issued 946,296 shares of common stock upon the exercise of stock options in exchange for notes receivable totaling \$549,166.
- o The Company issued 300,000 shares of common stock in payment of research and development expenses of \$403,125.
- o The Company issued 400,000 common stock warrants, valued at

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\$186,256, in payment of consulting fees.

- o The Company accrued dividends totaling \$402,019 on the redeemable preferred stock.
- o The Company increased preferred stock and decreased additional paid-in capital for \$56,604 related to preferred stock accretion.

See accompanying notes to consolidated financial statements.

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CROWN ENERGY CORPORATION Notes to Consolidated Financial Statements December 31, 2000, 1999, and 1998

1. Organization

Crown Energy Corporation (CEC) and its wholly-owned subsidiaries, Crown Asphalt Corporation (CAC) and Crown Asphalt Products Company (CAPCO) (collectively referred to as the "Company"), are engaged in the mining, production, and selling of asphalt products. Prior to 1998, the Company was engaged in the production and selling of oil and gas from leases it operated in the state of Utah through its previously owned subsidiary, Gavilan Petroleum, Inc. (Gavilan). By December 31, 1997, the Company had divested itself of all oil and gas properties and related operations.

Majority-Owned Subsidiaries

CAPCO is the majority-owner of Crown Asphalt Distribution, LLC (Crown Distribution). Crown Distribution is a joint venture formed on July 2, 1998, between CAPCO and MCNIC Pipeline and Processing Company (MCNIC) for the purpose of acquiring certain assets of Petro Source Asphalt Company (Petro Source) (see note 6).

CAPCO owns 50.01% and MCNIC owns 49.99% of Crown Distribution. CAPCO is the general manager and operating agent of Crown Distribution. Because there is no agreement requiring the minority shareholder to guarantee the subsidiary's debt or a commitment to provide additional capital, other than working capital, all losses related to Crown Distribution (including MCNIC's 49.99% interest in the losses totaling \$5,681,372 for the year 2000) are included in the Company's financial statements.

CAT LLC is a joint venture formed on June 16, 1998 between CAPCO and Foreland Asphalt Corporation (Foreland). CAT LLC owns an asphalt terminal and storage facility. On December 21, 1998, CAPCO assigned its interest in CAT LLC to Crown Distribution. Crown Distribution owns 66.67% and Foreland owns 33.33% of CAT LLC. Crown Asphalt Distribution II, LLC (CAD II) was formed in 1999 for the purpose of acquiring the Rawlins Terminal and two additional facilities which were never completed (see note 6). CAD II is a wholly owned subsidiary of CAPCO. In 2000 the assets and operations of the Rawlins Terminal have been fully integrated into CAPCO.

CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

1. Organization Continued Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

2. Significant Accounting Policies Going Concern
The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As of December 31, 2000, the Company had 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. As described in note 8, the Company also has significant litigation which could result in the Company being unable to sustain profitability or obtain financing. 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. Management's plan with respect to this uncertainty include inventory purchase strategies, evaluating new products and markets, increasing sales volume, improving profit margins, and minimizing overhead and other costs. However, there can be no assurance that management will be successful.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Company considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

Inventory

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.

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2. Significant Accounting Policies Continued

Property, Plant, and Equipment

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 | 10-30 years |
| Tankage | 25 years |
| Equipment | 7 years |
| Computer equipment, furniture, and fixtures | 3 years |

Investment in and Advances to Equity Affiliate

The Company's investment in Crown Asphalt Ridge LLC (Crown Ridge) is accounted for using the equity method (see notes 4 and 5). Accordingly, the Company's investment is recorded at cost and adjusted by the Company's share of undistributed earnings and losses. Due to the circumstances discussed in note 4, an impairment of the Company's investment in Crown Ridge was recorded during the year ended December 31, 2000.

Revenue Recognition

Revenues are recognized when the related product is shipped.

Income Taxes

Income taxes are determined using the asset and liability method, which requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income tax liabilities and assets are determined based on the difference between financial statement and tax bases of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized only if it is more likely than not that the asset will be realized in future years.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

2. Significant Accounting Policies Continued

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of receivables. In the normal course of business, the Company provides credit terms to its customers. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses which, when realized,

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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.

Loss Per Common Share

The computation of basic earnings (loss) per common share is based on the weighted average number of shares outstanding during each year.

The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year, plus the common stock equivalents that would arise from the exercise of stock options outstanding, using the treasury stock method and the average market price per share during the year. Options and warrants to purchase 3,463,148 shares, 2,911,898 shares, and 2,149,698 shares of common stock at prices ranging from \$.10 to \$2.50 per share were outstanding at December 31, 2000, 1999, and 1998, respectively, but were not included in the diluted earnings (loss) per share calculation because the effect would have been antidilutive.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

2. Significant Accounting Policies Continued

Long-Lived Assets

The Company evaluates the carrying value of long-term assets including intangibles based on current and anticipated undiscounted cash flows and recognizes impairment when such cash flows will be less than the carrying values. Measurement of the amount of impairments, if any, is based upon the difference between carrying value and fair value.

Goodwill and Intangible Assets

The Company has recorded the amount paid in excess of the fair value of net tangible assets acquired at the

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date of acquisition as goodwill. Goodwill is amortized using the straight-line method over 20 years. Other intangible assets consist of a noncompetition agreement that is being amortized over its five-year term using the straight-line method.

Asphalt Demerits

Crown's subsidiary, CAPCO, blends asphalt for sale to contractors and state agencies. The asphalt sold must meet certain specifications for a particular application. If the asphalt sold does not meet these specifications, for whatever reason, the asphalt supplier may be held liable for possible damages (asphalt demerits) therefrom. Management believes that the Company's product liability insurance would cover any significant damages.

Environmental Expenditures

Environmental related restoration and remediation costs are recorded as liabilities when site restoration and environmental remediation and clean-up obligations are either known or considered probable, and the related costs can be reasonably estimated. Other environmental expenditures, that are principally maintenance or preventative in nature, are recorded when expended and expensed or capitalized as appropriate.

Comprehensive Income

Comprehensive income is reported in accordance with SFAS No. 130, "REPORTING COMPREHENSIVE INCOME". SFAS 130 requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from additional paid-in capital, retained earnings, and stockholders' equity. The Company does not currently have any components of comprehensive income other than net loss.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

2. Significant Accounting Policies
Continued

Recent Accounting Pronouncements

FASB Statement No. 133, as amended by Statement Nos. 137 and 138, is effective for the Company as of January 1, 2001. Statement No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Statement requires that the Company recognize all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. Adoption of SFAS 133 did not result in a material effect on the

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Company's financial statements.

Stock-Based Compensation

The Company has elected to continue to apply Accounting Principles Board (APB) Opinion 25 (as permitted by SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION). The appropriate disclosures required by SFAS No. 123 are included in note 12.

Change in Accounting Principle

In 1998, the Company adopted Statement of Position (SOP) No. 98-5, REPORTING ON THE COSTS OF START-UP ACTIVITIES, which requires costs of start-up activities to be expensed as incurred. The effect on 1998 of adopting SOP No. 98-5 resulted in additional expenses of \$204,218. The cumulative effect on years prior to 1998 of the accounting totaled \$615,323 and relates to the following activities:

| | |
|--|------------------------------|
| Start-up costs expensed by the Company | \$ 503,493 |
| Equity in start-up costs of Crown | 111,830 |
| Total cumulative effect on change in accounting principal | ----- \$ 615,323 ===== |

Reclassification

Certain amounts in the 1999 and 1998 consolidated financial statements have been reclassified to conform with classifications adopted in the current year.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

3. Property, Plant and Equipment

The following is a summary of property, plant, and equipment as of December 31:

| | 2000 ----- | 1999 ----- |
|--|---------------|---------------|
| Land | \$ 1,000,000 | \$ 1,000, |
| Plant and improvements | 1,277,018 | 440, |
| Equipment | 2,640,438 | 1,984, |
| Computer equipment, furniture, and fixtures | 348,098 | 319, |
| Tankage | 5,553,780 | 5,524, |
| Construction in progress | - | 555, |
| Total property, plant, and equipment | | |

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| | | |
|-------------------------------|--------------|-----------|
| Less accumulated depreciation | 10,819,334 | 9,825, |
| | (1,158,160) | (587, |
| | ----- | ----- |
| Total | \$ 9,661,174 | \$ 9,237, |
| | ===== | ===== |

4. Investments In and Advances to an Equity Affiliate
- In August 1997, the Company, through its wholly owned subsidiary, CAC, entered into a joint venture with MCNIC for the purpose of developing, mining, processing, and marketing asphalt, performance grade asphalt, diesel fuel, hydrocarbons, bitumen, asphaltum, minerals, mineral resources, and other oil sand products. The joint venture resulted in the formation of Crown Ridge, which is a development stage company. During the year ended December 31, 1997, the Company contributed cash of \$433,219 and the right to its oil sand properties and a license agreement, which allows the Company to use certain patented oil extraction technology and oil sand property leases, with a book value of \$2,715,428 to Crown Ridge. This technology was recorded at \$500,001 by Crown Ridge. During the year ended December 31, 2000 and 1999, the Company contributed \$0 and \$4,013,318, respectively, to Crown Ridge. MCNIC and the Company initially own interests of 75% and 25%, respectively, in the profits and losses of Crown Ridge. Once operations of Crown Ridge are generating sufficient cash flows to pay specific returns, as defined, to MCNIC then CAC's interest in Crown Ridge will increase to 50%.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

4. Investments In and Advances to an Equity Affiliate Continued
- Crown Ridge has experienced certain difficulties relating to its production plant. Crown Ridge has conducted extensive research and engineering to develop a solution to these difficulties which was tested in a pilot study during 2000. The results of the pilot study are being evaluated to determine if certain modifications or retrofit of the plant are technically and economically viable. Certain modifications to the Facility will be required, provided financing for the modifications is available and contributed to Crown Ridge.

During the year ended December 31, 2000, the Company evaluated the carrying value of its investments in and advances to Crown Ridge. The evaluation has been complicated by the fact that the Company's joint venture partner has effectively taken control of Crown Ridge and has not shared information relative to its activities pertaining to Crown Ridge, including financial information and feasibility studies relative to the Asphalt Ridge Project. In addition, the Company and MCNIC are in litigation relative to significant claims involving the joint venture and other matters. The Company is vigorously pursuing its claims and a

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final arbitration trial is now set to commence on July 23, 2001. Based on the lack of a firm business plan for the Asphalt Ridge Project at this time, the Company determined that its investment in and advances to Crown Ridge were potentially impaired. Accordingly, an aggregate non-cash expense for the impairment or \$6,904,085 was recorded.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

4. Investments
In and
Advances to
an Equity
Affiliate
Continued

Net investments in and advances to Crown Ridge are summarized as follows:

| | 2000 |
|--|-------------|
| | ----- |
| The Company's equity in net assets | \$ 4,878, |
| Excess of investment over the Company's equity in net assets totaling \$60,644 and \$60,645 in 2000 and 1999, respectively | 2,025, |
| (Payments from) advances to affiliate | |
| Impairment on investment in equity affiliate | (6,904, |
| Total investment in and advances to an equity affiliate | \$ ===== |

The Company's investment in and advances to Crown Ridge as of December 31, 1999, accounted for greater than 20% of the Company's total assets. Accordingly, the following summarized separate financial information of Crown Ridge at December 31, 1999 is disclosed as follows:

| | 1999 |
|-------------|------------|
| | ----- |
| Assets | \$ 21,160, |
| Liabilities | 1,130, |
| Equity | 20,029, |
| Revenues | |
| Net loss | (3,481, |

5. Losses
From Equity
Affiliate

The Company's 24% equity in net loss plus amortization of excess of investment over the Company's equity in net assets is reported in the accompanying consolidated statement of operations as follows:

| 2000 | 1999 |
|-------|-------|
| ----- | ----- |

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| | | |
|--|--------------|--------------|
| Equity in losses of unconsolidated equity affiliate | \$ (145,814) | \$ (870,288) |
| Cumulative effect of change in accounting principal | - | - |
| Amortization of excess investment included in general and administrative expense | (60,644) | (60,645) |
| Total | \$ (206,458) | \$ (930,933) |

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

5. Losses From Equity Affiliate Continued
Crown Ridge may have recorded certain expenses, the majority of which relate to the pilot project conducted at the Asphalt Ridge facility, that the Company believes were not approved by the Management Committee of Crown Ridge and thus are not considered expenses related to the Company's portion of Crown Ridge. MCNIC, the majority interest owner and current acting operator of Crown Ridge, has been unwilling to provide the Company with sufficient financial information through December 31, 2000. Consequently, the Company has prepared estimates to record its share of approved expenses.

6. Acquisitions
Acquisition of Cowboy Terminal
On January 9, 1999, CAT LLC acquired a controlling interest in the Cowboy Terminal for a total purchase price of \$1,973,511. CAT LLC paid cash deposits on the purchase price totaling \$496,441 during 1998, paid \$195,000 in cash at closing, and executed and delivered a promissory note in the amount of \$1,282,070 in 1999. The assets acquired were recorded at their estimated fair values at the date of acquisition and the results of operations are included in the accompanying consolidated statement of operations from the date of acquisition. The acquisition was accounted for as a purchase. The preliminary purchase price was allocated entirely to property and equipment.

The CAT LLC Operating Agreement obligates both Crown Distribution and Foreland to make additional capital contributions equal to one-half of any additional requirements, not to exceed \$650,000, required for (i) CAT LLC to fulfill its obligations under any corrective action plan that may be accepted by CAT LLC and the Utah Department of Environmental Quality with respect to certain environmental conditions at the Cowboy Terminal and (ii) any additional amounts required to cover legal costs incurred in obtaining title to the Cowboy Terminal or otherwise relating to the environmental remediation work potentially needed.

CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

6. Acquisitions
Continued

Acquisition of Cowboy Terminal - Continued

The CAT LLC Operating Agreement also obligates Crown Distribution and Foreland to make additional capital contributions in proportion to their ownership percentages in order to fund any additional amounts required for CAT LLC to fulfill its obligations under the purchase contract for the Cowboy Terminal Assets, for environmental management and containment costs, expenses for operations, or the construction of certain approved capital improvements to the Cowboy Terminal. None of the foregoing additional contributions will result in an increase in the number of units or percentage interests held by Crown Distribution or Foreland.

CAT LLC is managed by CAPCO. CAPCO has authority to conduct the day-to-day business and affairs of CAT LLC. However, certain matters, considered to be protective rights, must be approved by members holding 75% or more of the outstanding units of CAT LLC. CAPCO is not compensated for its services as manager.

Rawlins Asphalt Terminal

On May 12, 1999, the Company acquired the Rawlins Asphalt Terminal and inventory for \$2,291,571 from S&L Industrial (S&L). The purchase price consists of the Company assuming S&L's debt of approximately \$1,800,000, entering into a note payable to S&L for \$225,000, and a cash payment of \$266,571. The acquisition was accounted for as a purchase. The assets acquired were recorded at their estimated fair values at the date of acquisition and the results of operations are included in the consolidated statements of operations from the date of acquisition. The preliminary purchase price was allocated \$1,770,200 to property, plant, an equipment, \$216,571 to inventory, and \$304,800 to goodwill.

CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

6. Acquisitions
Continued

Petro Source Asphalt Company

On July 2, 1998, Crown Distribution acquired the inventory and assets of Petro Source Asphalt Company (Petro Source) for \$14,235,726. The acquisition was accounted for as a purchase. The assets acquired were recorded at their estimated fair values at the date of acquisition and the results of operations are included in the accompanying consolidated statements of operations from the date of acquisition. In conjunction with the acquisition, the Company recorded goodwill of

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\$4,143,827. Due to circumstances described in note 7, the remaining goodwill balance of \$3,625,848 was impaired and written off as of December 31, 2000. The assets acquired relate to the refining, production, and distribution of asphalt products. The sale of the equity interest of \$1.5 million as reported in the consolidated statement of cash flows represents MCNIC's contribution toward the purchase of their interest in Crown Distribution.

Crown Distribution is governed by a management committee consisting of three managers. The Company is entitled to appoint two managers and MCNIC is entitled to appoint one manager. Management decisions are generally made by the management committee. However, one of the managers appointed by the Company serves as the operating manager and has the powers, authority, duties, and obligations specified in the operating agreement, which generally requires the operating manager to implement the policies and pursue the objectives specified in the annual operating plan.

The annual operating plan is adopted by the management committee on an annual basis and addresses all aspects of Crown Distribution's operations for the coming year, including the nature and extent of the proposed activities, marketing plans, capital expenditure plans, and similar matters. In the event the management committee is unable to unanimously approve an annual operating plan for any given calendar year, a majority of the managers shall have the authority to continue to maintain Crown Distribution's operations at levels comparable to those approved in its most recent annual operating plan.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

7. Intangibles

Intangible assets consist of the following:

| | December 31, | |
|--------------------------|--------------|--------------|
| | 2000 | 1999 |
| Goodwill | \$ 304,800 | \$ 4,448,627 |
| Non-compete agreement | 250,000 | 250,000 |
| Accumulated amortization | (150,400) | (395,947) |
| | \$ 404,400 | \$ 4,302,680 |

At December 31, 2000, the Company re-assessed the recoverability of goodwill associated with the Petro Source acquisition (see note 6). Due to litigation with MCNIC, the Company has been unable to secure financing needed to build up inventory at favorable prices. This lack of funding and the ongoing dispute with MCNIC has

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resulted in losses from operations in 1999 and 2000. Because of these circumstances the Company could not estimate the full carrying value which could be recovered through undiscounted future cash flows from products generated from related assets. Accordingly, an impairment of \$3,625,848 has been recognized in the statement of operations for the year ended December 31, 2000.

8. Litigation and Borrowings From Related Party

Pursuant to the Crown Distribution operating Agreement, Management believes, MCNIC elected to provide a working capital revolving line of credit to Crown Distribution in lieu of the Company completing a line with an outside third party financial institution. As of both December 31, 2000 and 1999, this working capital line from MCNIC had a balance of \$14,935,222 and accrues interest at 8%. Management of the Company has indicated that MCNIC believes the borrowing is a working capital loan. Through the period ended December 31, 2000, \$2,356,711 in interest had been accrued. This line is repaid solely out of the cash flow from Crown distribution.

Presently the foregoing together with all disputes between the Company and MCNIC have been submitted to binding arbitration.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

8. Litigation and Borrowings From Related Party

Crown Distribution has received a notice of default of a working capital loan from MCNIC made in conjunction with the Petro Source asset acquisition. The line was used to extinguish this working capital loan. Further MCNIC has filed a complaint seeking, among other things, repayment of the working capital loan Continued plus all interest accrued thereon. The Company has answered MCNIC's suit and filed counterclaims and an additional action of its own relating to MCNIC's actions with regard to the Company and its ventures with it (see note 15).

9. Long-term Debt

Long-term debt principally due related party consists of the following at December 31:

2000

Preferential debt with MCNIC, interest at 15%, with annual principal and interest installments equal to 50% of the net cash flows (as defined) of Crown Distribution. This debt is secured by all of the assets of Crown Distribution. Total amount is included in the thereafter portion of the debt maturity schedule below due to uncertainty of payment terms

\$ 5,325,723

Note payable to unrelated third party with interest at

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9%, payable in 84 equal monthly principal and interest installments of \$20,627, maturing January 1, 2006. The debt is secured by assets at the Cowboy Terminal Facility. 1,006,764

Note payable with MCNIC with interest at prime plus 1% (10.5% at December 31, 2000). Monthly interest payments of \$20,756 through August 2001, with quarterly adjustments for interest rate fluctuations. Commencing August 2001, CAC will make monthly principal and interest payments until the debt matures July 2014. The debt is secured by CAC's proportional increase in its interest in Crown Ridge resulting from the loan proceeds. 2,991,868

Note payable with interest at prime plus 1% (10.5% at December 31, 2000) to a bank. Monthly interest payments of \$13,600 through May 2001, with quarterly adjustments for interest rate fluctuations. Commencing May 2001, CAPCO will make monthly principal and interest payments until the debt matures in May 2014. The debt is secured by assets at Rawlins Terminal. 1,798,788

Deferred purchase price on Rawlins Terminal acquisition (see note 6) with interest at the LIBOR rate (6.6% at December 31, 2000). The debt is due in monthly installments through February 2010. Due to a dispute over certain environmental remediation associated with the Rawlins Terminal this amount has been included in the thereafter portion of the debt maturities schedule below due to the uncertainty of payments 225,000

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

| | | |
|--------------------------------|--|-----------------------|
| 9. Long-term Debt Continued | Deferred purchase price on the Cowboy Asphalt Terminal acquisition with interest at 8% per year over a 10-year term, with the principal and interest payments made to a company in monthly installments of \$3,212. The debt matures in November 2010. Debt is secured by property and equipment | 262,351 ----- |
| | Total | 11,610,494 |
| | Less estimated current portion | (273,633) |
| | Long-term portion | \$11,336,861 ===== |

The schedule maturities of long-term debt at December 31, 2000 are as follows:

| | |
|--------------------------|------------|
| Year Ending December 31: | |
| 2001 | \$ 273,633 |
| 2002 | 404,224 |
| 2003 | 442,938 |
| 2004 | 485,487 |
| 2005 | 532,130 |

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| | | |
|-------|------------|---------------|
| | Thereafter | 9,472,082 |
| | | ----- |
| Total | | \$ 11,610,494 |
| | | ===== |

10. Redeemable Preferred Stock

Redeemable preferred stock consists of 500,000 issued and outstanding Series A cumulative convertible shares with a par value of \$.005 and a stated value of \$10.00. The Company has authorized 1,000,000 shares of preferred stock. The original estimated fair value of the outstanding shares is \$4,716,981 with annual accretion of \$56,604 for the years ended December 31, 2000, 1999 and 1998 toward the stated and liquidation value of \$5,000,000. At December 31, 2000 and 1999 the redeemable preferred stock had a balance of \$4,896,227 and \$4,839,623.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

10. Redeemable Preferred Stock Continued

The Company is authorized to issue 1,000,000 preferred shares, par value \$.005 per share. On November 4, 1997, the Company completed the sale of 500,000 shares of its Series A Cumulative Convertible Preferred Stock ("Series A Preferred") pursuant to a stock purchase agreement dated September 25, 1997 for an aggregate sales price of \$5,000,000. 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. At the date of the issuance of the preferred stock, the embedded conversion price was \$1.17 and the estimated fair value of the common stock was \$1.03. Dividends accrue on the outstanding Series A Preferred at the rate of 8% per annum and may be declared by the Company and 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

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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 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 (see note 4) 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.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

11. Leases

The Company leases certain premises and equipment under operating leases. Approximate future minimum lease payments under non-cancellable operating leases as of December 31, 2000 are as follows:

| | |
|--------------------------|--------------|
| Year Ending December 31: | |
| 2001 | \$ 1,046,000 |
| 2002 | 1,107,000 |
| 2003 | 1,098,000 |
| 2004 | 677,000 |
| 2005 | 64,000 |
| Thereafter | 28,000 |
| | ----- |
| Total | \$ 4,020,000 |
| | ===== |

Lease expense for the years ended December 31, 2000, 1999 and 1998, totaled \$1,128,687, \$762,251, and \$899,452, respectively.

12. Stock
Options and
Warrants

Stock Options
The Company has a stock option plan for directors and salaried employees. Options are granted at a price not less than the fair market value on the date of grant, become exercisable between one to four years following the date of grant, and generally expire in ten years. Fair market value is determined based on quoted market prices.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

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12. Stock
Options and
Warrants
Continued

A summary of the stock option and warrant activity for fiscal years 2000, 1999, and 1998 is as follows:

| | Options | |
|----------------------------------|------------------|---------------------------------|
| | Number of Shares | Weighted Average Exercise Price |
| Outstanding at January 1, 1998 | 2,294,444 | \$ 0.82 |
| Granted | 117,800 | 1.50 |
| Exercised | (946,296) | 0.58 |
| Forfeited | - | |
| Outstanding December 31, 1998 | 1,465,948 | 1.00 |
| Granted | 775,000 | 0.62 |
| Exercised | - | - |
| Forfeited | (12,800) | 1.50 |
| Outstanding at December 31, 1999 | 2,228,148 | 0.88 |
| Granted | 1,040,000 | 0.13 |
| Cancelled | (208,750) | 0.78 |
| Forfeited | (280,000) | 1.05 |
| Outstanding at December 31, 2000 | 2,779,398 | \$ 0.59 |

When accounting for the issuance of stock options and warrants financial accounting standards allows entities the choice between adopting a fair value method or an intrinsic value method with footnote disclosures of the pro forma effects if the fair value method had been adopted. The Company has opted for the latter approach. Had the Company's options and warrants been determined based on the fair value method, the results of operations would have been reduced to the pro forma amounts indicated below:

| | 2000 | Years Ended December 1999 |
|---|---------------|---------------------------|
| Net loss - as reported | \$ 18,360,921 | \$ 3,053,516 |
| Net loss - pro forma | \$ 18,483,982 | \$ 3,478,954 |
| Diluted income (loss) per share - as reported | \$ (1.36) | \$ (.26) |
| Diluted loss per share - pro forma | \$ (1.37) | \$ (.29) |

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

12. Stock

The fair value of each option grant is estimated on the

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Options and
Warrants
Continued

date of grant using the Black-Scholes option pricing model with the following assumptions:

| | Years Ended December 31, | | |
|---------------------------------|--------------------------|-----------|-----------|
| | 2000 | 1999 | 1998 |
| Expected dividend yield | \$ - | \$ - | \$ - |
| Expected stock price volatility | 73% | 76% | 76% |
| Risk-free interest rate | 5.75% | 5.50% | 5.50% |
| Expected life of options | 4 years | 1.5 years | 1.5 years |

The weighted average fair value of options and warrants granted during 2000, 1999, and 1998 are \$.10, \$.43 and \$.93, respectively.

The following table summarizes information about stock options and warrants outstanding at December 31, 2000:

| Range of Exercisable Prices | Outstanding | | Exercisable | | |
|-----------------------------|--------------------|---|---------------------------------|--------------------|---------------------------------|
| | Number Outstanding | Weighted Average Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$.10 - .13 | 1,540,000 | 8.86 | \$ 0.12 | 560,000 | \$ 0.12 |
| \$.38 - 1.13 | 1,448,148 | 4.48 | \$ 0.60 | 1,048,148 | \$ 0.68 |
| \$ 1.50 - 2.50 | 475,000 | 2.33 | \$ 1.87 | 475,000 | \$ 1.87 |
| \$.08 to 9.88 | 3,463,148 | 6.13 | \$ 0.56 | 2,083,148 | \$ 0.80 |

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

12. Stock
Options and
Warrants
Continued

Common Stock Warrant
In conjunction with the issuance of the preferred stock described in note 10, 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

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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 below) 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.

Conversion of Preferred Dividends to Common Stock
 On January 27, 1999, the Company issued 317,069 shares of common stock to its preferred stockholders as payment in full of preferred stock dividends payable totaling \$467,433.

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CROWN ENERGY CORPORATION
 Notes to Consolidated Financial Statements
 Continued

13. Income Taxes

The components of income tax benefit for the years ended December 31 are summarized as follows:

| | 2000 | 1999 | 1998 |
|-----------|------|------|------|
| Current | \$ - | \$ - | \$ - |
| Deferred: | | | |
| Federal | - | - | - |
| State | - | - | - |
| Total | \$ - | \$ - | \$ - |

Income tax expense (benefit) differed from amounts computed by applying the federal statutory rate to pretax loss as follows:

Loss before income taxes and minority interest -
 computed tax at the expected federal statutory rate,
 34%

Years En
 2000

 \$ (6,332,000

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| | |
|--|-----------|
| State income taxes, net of federal income tax benefits | (461,000) |
| Minority interest | 1,918,000 |
| Expiration of net operating losses | 38,000 |
| Other | 4,000 |
| Change in valuation reserve | 4,833,000 |
| Change in valuation reserve related to cumulative effect of a change in accounting principle | |
| Total income tax benefit | \$ - |

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

13. Income Taxes
Continued

Deferred tax assets (liabilities) are comprised of the following:

| | December 31, | |
|---|--------------|-----------|
| | 2000 | 1999 |
| | ----- | ----- |
| Net operating loss carryforwards | \$ 3,342,000 | \$ 2,054, |
| Impairment of investment in equity affiliate | 2,555,000 | |
| Impairment of goodwill | 671,000 | |
| Allowance for doubtful accounts | 817,000 | 16, |
| Start-up costs | 99,000 | 186, |
| Capital loss carryforwards | 203,000 | 203, |
| Differences between tax basis and financial reporting basis of investment in equity affiliate | 439,000 | 439, |
| Amortization of goodwill | (36,000) | (10, |
| Depreciation | (573,000) | (138, |
| Other | 54,000 | (12, |
| Valuation allowance | (7,571,000) | (2,738, |
| | ----- | ----- |
| | \$ - | \$ |
| | ===== | ===== |

The Company has available at December 31, 2000, unused tax operating loss carryforwards of approximately \$9,000,000 which may be applied against future taxable income and expire in varying amounts through 2012. The Company also has unused capital loss carryforwards of approximately \$550,000 which may be applied against future taxable income and expire in 2002.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

14. Related Party
Transactions
not

The Company has an employment agreement (amended November 1, 1999) with a director who is also an officer of the Company. The employment agreement

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Otherwise
Disclosed

expires December 31, 2003. The agreement includes a base salary of \$150,000 subject to various increases as of November 1 of each year provided that the Company achieves positive cash flows from operations before interest, debt service, taxes, depreciation, amortization, extraordinary, and non-recurring items and dividends. In addition to the base salary, the director is entitled to receive a bonus for each fiscal year of the agreement provided certain earnings levels are obtained or the underlying price of the Company's stock increases to determined levels subject to certain limitations. In addition to the bonuses, the director and officer was granted an option to purchase 450,000 shares of the Company's common stock at an exercise price of \$.125 per share in 1997. With the amended agreement, the director and officer was granted an option to purchase an additional 450,000 shares of the Company's common stock at an exercise price based on the average fair market price of the Company's common stock for the three months immediately preceding and following the options grant date. The option exercise price approximated the average fair market value of the Company's common stock at the date of grant. The options vest over a three year period commencing on May 1, 2001, subject to accelerated vesting should the Company's common stock market price exceed certain defined levels.

The Company entered into an employment agreement, effective January 26, 1996 with the former Chief Executive Officer and Chairman of the Board of Directors of the Company. The agreement expired February 26, 1999. The agreement included a base salary of 5% of the Company's net profits from operations before depletion, depreciation, tax credits, and amortization, but after interest expense on debt; not to exceed \$1,000,000 per year. The agreement also called for the Company to grant 300,000 stock options to purchase the Company's unregistered common stock at \$.66 per share and an additional 75,000 options for each year of executive employment which is completed after funding is achieved. In 1996, 300,000 options were issued at \$.66 per share. In 1999 and 1998, 75,000 options were issued at \$1.15 and \$1.50 per share, respectively. Additionally, other benefits were provided including participation in certain insurance, vacation, and expense reimbursements.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

14. Related Party
Transactions
not
Otherwise
Disclosed
Continued

During 1998, 946,296 options were exercised by officers of the Company through a 8% common stock subscription receivable in the amount of \$549,166. The respective receivable has been reflected as a reduction in common stockholders' equity (deficit). In addition, in 1999 these officers borrowed approximately \$25,000 to pay the income taxes related to the option exercised.

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Pursuant to the operating agreement of Crown Distribution, the Company receives monthly payments of \$5,000 and \$10,000 for management services and overhead charges, respectively. Pursuant to the operating agreement of Crown Ridge, while operator of Crown Ridge the Company received monthly payments of \$3,000 and \$10,000 for management services and overhead charges, respectively. The Company eliminates the portion of such payments which relate to its ownership percentages in consolidation.

15. Commitments
and
Contingencies

Litigation

On May 21, 1998, Road Runner Oil, Inc. ("Road Runner") and Gavilan Petroleum, Inc. ("Gavilan") filed an action in the Third Judicial District Court, Salt Lake County, State of Utah, as Civil # 98-0905064 against the Company and its President. The action relates to the purchase by Road Runner of 100% of the stock of Gavilan in 1997, and generally seeks to (i) obtain corporate records of Gavilan in the Company's possession relating to the amount of oil and gas royalties potentially owed to third parties prior to the aforementioned stock sale, and (ii) to determine the amount of royalties owed. The action further alleges, on behalf of Gavilan, claims of breach of fiduciary duty, professional negligence and mismanagement against the Company's President for alleged mismanagement of Gavilan's affairs. The Plaintiffs seek injunctive relief requiring the tendering by the Company of the referenced records and such damages as may be proven at trial. The Company believes that the Plaintiff's claims are groundless and that it is entitled to payment of the \$75,000, plus accrued interest, still owed by Road Runner as part of the purchase price for Gavilan. In addition, since the action was filed, the Company has tendered the corporate records to the Plaintiffs. On March 8, 2000, the Company filed an answer denying liability and filed a counterclaim against Road Runner and Gavilan for breach of contract and declaratory judgment. The Company is not certain as to whether or not the outstanding balance under the promissory note is collectible by the Company.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

15. Commitments
and
Contingencies
Continued

On July 12, 1999, Morrison Knudsen Corporation ("MK") filed a Complaint in the Eighth Judicial District Court, Uintah County, State of Utah, alleging that CAC, as operator of Crown Ridge, had breached an agreement whereby MK would provide certain mining services for the Crown Ridge Facility in Uintah County, Utah (the "Project"). Judgment in favor of MK was entered on January 30, 2001 in the principal amount of \$303,873.39, \$49,062.33 of pre-judgment interest and \$2,033.14 of costs, which totals \$354,968.86. A Notice of Appeal was filed by CAC on March 1, 2001. Although

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CAC will attempt to set aside the trial courts judgment, there can be no assurance that CAC will prevail on its appeal. In addition, CAC has made a demand on Crown Ridge for payment of the judgment amount and indemnity from any liability in this matter because CAC was acting as operator for and on behalf of Crown Ridge in the contractual relationship with MK that was the subject of the litigation.

On July 14, 1999, Crown Distribution and CAPCO filed an action in the United States District Court for the Central District of California, Southern Division, against Santa Maria Refining Company ("SMRC"), SABA Petroleum Company ("SABA") and Greka Energy Corporation ("Greka"). The claims include causes of action for breach of contract, breach of the covenant of good faith and fair dealing, conversion, fraud, claim and delivery, unjust enrichment and constructive trust, unfair competition, declaratory relief and specific performance. These claims arise out of the Defendant's alleged termination of the Processing Agreement and subsequent refusal to deliver asphalt to Crown Distribution. Discovery of facts and testimony related to issues arising in the lawsuit has been completed. Trial has been scheduled to begin April 24, 2001. It is anticipated that the damages caused by the Defendant's actions could be substantial. Although Crown Distribution will attempt to recoup those damages from SMRC, SABA and Greka, due to the uncertainties inherent in any litigation proceeding, there can be no assurance that Crown Distribution or CAPCO will ultimately prevail.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

15. Commitments
and
Contingencies
Continued

On January 25, 2000, Oriental New Investments, Ltd. ("Oriental") filed a Complaint against the Company in the Third Judicial District Court, Salt Lake County, Utah. The action relates to a 1997 convertible debenture and replacement convertible debenture issued by the Company to Oriental. The action seeks to recover from the Company \$50,000 liquidated damages, plus interest, and attorneys fees and costs, for alleged breaches of the convertible debentures. The Company answered the Complaint on March 1, 2000, denying any and all liability, and believes that Oriental's claims are merit less. The Company will vigorously defend its position that Oriental's claims are meritless. However, due to the uncertainties inherent in any litigation proceeding, there can be no assurance that the Company will ultimately prevail.

On June 20, 2000, MCNIC filed a Complaint in the Third Judicial District Court, Salt Lake County, Utah, against Crown Distribution. The action seeks to foreclose on alleged mortgage and security interest in and to certain real and personal property of Crown

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Distribution, which property constitutes a substantial part of the operating assets of Crown Distribution. In summary, in the MCNIC Complaint, MCNIC does not acknowledge its prior commitment to "roll" the working capital loan into the working capital line of credit and alleges that Crown Distribution is in default on the promissory note evidencing the Loan to Crown Distribution in the amount of \$7,141,930. MCNIC further alleges that the total amount owed by Crown Distribution to MCNIC is in excess of \$15,000,000, as well as interest at the rate of 18% from January 1, 2000 until paid in full. The MCNIC Complaint also seeks the appointment of a receiver to ensure and protect the interests of MCNIC in the property of Crown Distribution, pending a determination by the Court of the merits of the Complaint. Crown Distribution has moved to vigorously defend against this litigation and believes that it has certain available defenses, claims and counterclaims. Crown Distribution's management further believe that certain of MCNIC's allegations are lacking in either legal or factual basis.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

15. Commitments
and
Contingencies
Continued

On July 25, 2000, the Company filed the Crown Complaint against MCN, MCNIC and certain officers of MCN and MCNIC. The suit was brought in the United States District Court for the District of Utah, Central Division, and is styled Crown Energy Corporation, Crown Asphalt Corporation, and Crown Asphalt Products Company v. MCN Energy Group, Inc., MCNIC Pipeline & Processing Company, Howard L. ("Lee") Dow III, and William E. Kraemer, Civil No. 2:00CV-05873ST. The Company's action arises from the joint ventures between affiliates of the Company and MCNIC with regard to the asphalt business in the Western United States involving the mining, processing, storage, manufacture, and marketing of asphalt the Company alleges claims against defendants for breach of fiduciary duties, economic duress, breach of implied covenants of good faith and fair dealing, breach of contracts, estoppel, intentional interference, and trade libel and slander of title as a result of defendants' wrongful and bad faith conduct in the joint venture relationships. Damages of an amount exceeding \$100 million are sought on the Company's claims for breach of fiduciary duties, economic duress, and breach of implied covenants of good faith and fair dealing, with the full amount of damages on all claims to be proven at trial.

On August 1, 2000, Crown Distribution filed its Answer and Counterclaims to the MCNIC Complaint and named additional counterclaim defendants, MCN Energy Group, Inc., Howard L. ("Lee") Dow III, and William E. Kraemer. Crown Distribution's Answer and Counterclaims substantially denied all of the allegations set forth in the MCNIC Complaint and alleged numerous

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counterclaims, including breach of fiduciary duty, economic duress, breach of implied covenants of good faith and fair dealing, breach of contracts, estoppel, intentional interference, trade libel and slander of title, and abuse of process. Crown Distribution, pursuant to its counterclaims, has requested a jury trial and is seeking relief in the way of damages in amounts to be proven at trial, punitive damages, attorney's fees, interest, costs and any other relief to which they may be entitled.

On August 31, 2000, MCNIC filed motions to stay both the state court and federal court actions and have them submitted to an arbitration panel in accordance with the rules of the American Arbitration Association. The Company contested whether either lawsuit should be subject to arbitration and filed an answer to both motions on October 2, 2000 to that effect. On November 8, 2000, the state court signed a minute entry stating that MCNIC's motion to stay proceedings pending arbitration would be granted. The federal court has yet to decide on these motions.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

15. Commitments
and
Contingencies
Continued

On January 29, 2000, the Company agreed that binding arbitration of all of the claims set forth above would be in the Company's best interest. Accordingly, an Arbitration Agreement was signed between all of the parties on January 29, 2001. The arbitration (the "Arbitration") is being arbitrated before Judge John G. Davies (ret.) in Salt Lake City, Utah. The arbitration hearing is scheduled for July 23, 2001 through August 10, 2001, with extensive pre-hearing discovery to occur prior to that time.

Commencing March 5, 2001, the Company, MCNIC, MCN and various officers exchanged claims and counterclaims relating to the Arbitration. The claims contained therein substantially restate the parties' prior positions within the litigation described above. However, in its claims in arbitration, MCNIC, MCN and certain of its officers have included the Company's chief executive officer, president and treasurer, Jay Mealey, as a party. Mr. Mealey and the Company believe that this inclusion of Mr. Mealey at this point is highly improper due to the fact that he had not been a party to the pending actions nor to the Arbitration Agreement pursuant to which the actions were submitted to the Arbitration.

The Company believes that it has a strong case on the claims and counterclaims in the Arbitration. However, because arbitration proceedings are inherently uncertain, the Company cannot predict the outcome of any such proceedings. Management of the Company is keenly aware of the importance of the Arbitration to

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the Company. If MCNIC prevails in the Arbitration, and depending upon the extent in nature of any relief granted by the Arbitrator, the Company may be severely and adversely impacted and may lose possession of some or all of its primary assets and sources of revenues.

Other

The Company may become or is subject to other investigations, claims, or lawsuits ensuing out of the conduct of its business, including those related to environmental, safety and health, commercial transactions, etc. Management of the Company is currently not aware of any other investigations, claims, or lawsuits which it believes could have a material adverse affect on its financial position.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

16. Agreements

The Company, through its subsidiary, Crown Distribution had an agreement with Santa Maria Refining Company (SMRC) and SABA Petroleum whereby Crown Distribution purchased crude oil for processing at the Santa Maria Refinery, and markets the slate of products produced, primarily asphalt. This agreement was acquired through the Petro Source asset acquisition described in note 6. Revenues resulting from the agreement were approximately \$15.9 million in 1998, which accounted for approximately 65% of total consolidated revenues. Gross profits for the year ended December 31, 1999 from operations at the Santa Maria Refinery totaled approximately \$1.2 million. SMRC extended the agreement, which expired on December 31, 1998, to April 30, 1999. The agreement was not extended subsequent to April 30, 1999.

17. Segment Reporting

In accordance with the provisions of SFAS No. 131, the Company makes key financial decisions based on certain operating results of certain of its subsidiaries. Segment information as reviewed by the Company is as follows:

| | | Year Ended December 31, 2000 | |
|----------------------------------|---|--|----------------|
| | Crown Asphalt Distribution ----- | Crown Asphalt Products Company ----- | CAC --- |
| Revenues from | | | |
| external customers | \$ 20,464,624 | \$ 2,322,479 | \$ - |
| Gross profit (loss) | \$ (1,119,221) | \$ 301,261 | \$ - |
| Interest expense | \$ 2,096,565 | \$ 180,715 | \$ 298,067 |
| Depreciation and amortization | \$ 708,614 | \$ 109,840 | \$ 62,037 |
| Segment net loss | \$ (11,365,018) | \$ 712,126 | \$ (7,328,766) |
| Segment total assets | \$ 13,461,698 | \$ 3,500,902 | \$ 15,871 |

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| | Year Ended December 31, 1999 | | |
|----------------------------------|---|------------------------------|------------|
| | Crown Asphalt Distribution ----- | Rawlins Terminal ----- | CEC --- |
| Revenues from external customers | \$ 32,934,592 | \$ 2,583,949 | \$ |
| Gross profit | \$ 2,458,780 | \$ 48,758 | |
| Interest expense | \$ 1,933,359 | \$ 146,884 | \$ 123, |
| Depreciation and amortization | \$ 595,168 | \$ 64,089 | \$ 87, |
| Segment net loss | \$ (1,325,229) | \$ (344,661) | \$ (1,383, |
| Segment total assets | \$ 23,341,506 | \$ 2,454,902 | \$ 14,979, |

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

17. Segment Reporting Continued

| | Year Ended December 31, 1998 | | |
|----------------------------------|---|----|-------------|
| | Crown Asphalt Distribution ----- | | CEC --- |
| Revenues from external customers | \$ 23,835,734 | \$ | - |
| Segment gross profit | \$ 2,118,991 | \$ | - |
| Interest expense | \$ 843,184 | \$ | 8,733 |
| Depreciation and amortization | \$ 223,181 | \$ | 72,838 |
| Segment net income (loss) | \$ 300,970 | \$ | (1,413,937) |
| Segment total assets | \$ 17,809,867 | \$ | 10,895,235 |

| | 2000 ----- | 1 ----- |
|---|---------------|------------|
| Reconciliation of assets | | |
| Total assets for reportable segments | \$ 1,697,425 | \$ 40,7 |
| Elimination of investment in subsidiaries | 19,609,908 | (2,9 |
| Elimination of intercompany receivables | (4,255,155) | (4,6 |
| Total consolidated assets | \$17,052,178 | \$ 33,1 |

During 2000, 1999 and 1998, the Company operated primarily in the production and distribution of asphalt. The Company's operations and sales are dispersed throughout Utah, Arizona, California, Nevada, Wyoming, and Colorado and could be adversely affected by economic downturns in these states and by federal or state funding policies related to road construction or improvements.

18. Employee

In 1999, the Company established a defined contribution

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Benefit Plan

plan which qualifies under Section 401(k) of the Internal Revenue Code. The plan provides retirement benefits for employees meeting minimum age and service requirements. Participants may contribute up to the lesser of \$10,000 or 15 percent of their gross wages, subject to certain limitations. The plan provides for a discretionary amount to be contributed to the plan each year. The contribution for the year ended December 31, 2000 and 1999 totaled approximately \$36,000 and \$35,000, respectively.

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