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CROWN ENERGY CORP
Form 10-Q
August 19, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended
Commission file number

June 30, 2003
0-19365

CROWN ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction
of incorporation or organization)

87-0368981
(I.R.S. Employer Identification No.)

1710 West 2600 South, Woods Cross, Utah, 84087
(Address of principal executive offices, zip code)

(801) 296-0166
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No .

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

Yes No .

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

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

CROWN ENERGY CORPORATION

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CROWN ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

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	June 30, 2003 [unaudited] -----
CURRENT ASSETS:	
Cash and cash equivalents	\$ 91,378
Accounts receivable, net of allowance for uncollectible accounts of \$291,683 and \$175,927 respectively	3,339,368
Inventory	1,792,281
Prepaid and other current assets	105,408 -----
Total Current Assets	5,328,435
PROPERTY PLANT, AND EQUIPMENT, Net	8,940,319
OTHER INTANGIBLE ASSETS, Net	-
OTHER ASSETS	206,627 -----
TOTAL	\$ 14,475,381 =====

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

CROWN ENERGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND STOCKHOLDERS' DEFICIT

	June 30, 2003 [unaudited] -----
CURRENT LIABILITIES	
Accounts payable	\$ 4,070,353
Preferred stock dividends payable	1,200,000
Accrued expenses	256,522
Accrued interest	272,819
Long-term debt - current portion	462,022 -----
Total current liabilities	6,261,716
Long-term debt	2,593,555
Redeemable preferred stock	5,000,000 -----
Total liabilities	13,855,271
MINORITY INTEREST IN CONSOLIDATED	

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JOINT VENTURES	520,995
STOCKHOLDERS EQUITY:	
Stockholders' equity/(deficit):	
Common Stock \$0.02 par value 50,000,000 shares authorized 26,482,388 shares outstanding for each period	529,647
Additional paid in Capital	3,719,417
Stock warrants	186,256
Accumulated deficit	(4,336,205)

Stockholders' equity	99,115

TOTAL	\$ 14,475,381
	=====

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

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CROWN ENERGY CORPORATION

[Unaudited]

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	For the Three June
	----- 2003 -----
SALES, Net of demerits	\$ 6,241,935
COST OF SALES	5,942,807

GROSS PROFIT	299,128
GENERAL AND ADMINISTRATIVE EXPENSES	(402,589)
Bad debt recovery on accounts previously allowed for	323,524

INCOME FROM OPERATIONS	220,063

OTHER INCOME (EXPENSES):	
Interest income and other income	44,045
Interest expense	(66,778)
Gain on Divestiture of Affiliate	-

Total other income (expense), net	(22,733)

INCOME BEFORE INCOME TAXES	

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AND MINORITY INTERESTS	197,330

DEFERRED INCOME TAX BENEFIT	---
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED JOINT VENTURE	13,950

NET INCOME	\$ 211,280

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

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

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CROWN ENERGY CORPORATION

[Unaudited]

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	For the Six Months Ended
	June 30, 2003

SALES, Net of demerits	\$ 6,356,642
COST OF SALES	6,716,257

GROSS PROFIT (LOSS)	(359,615)
GENERAL AND ADMINISTRATIVE EXPENSES	(738,911)
Bad debt recovery on accounts previously allowed for	323,524

INCOME (LOSS) FROM OPERATIONS	(775,002)

OTHER INCOME (EXPENSES):	
Interest income and other income	45,373
Interest expense	(133,013)
Gain on Divestiture of Affiliate	0

Total other income (expense), net	(87,640)

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(LOSS) INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	(862,642)
DEFERRED INCOME TAX BENEFIT	---
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED JOINT VENTURE	27,422
NET INCOME (LOSS)	\$ (835,220)
NET (LOSS) INCOME PER COMMON SHARE- Basic and diluted	\$ (0.04)

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

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CROWN ENERGY CORPORATION

[Unaudited]

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ending June 30,
	2003
Cash flows from operating activities:	
Net income (loss)	\$ (835,220)
Adjustments to reconcile net income (loss) to net cash used by operating activities:	
Amortization, depreciation and depletion	361,974
Recovery of doubtful accounts receivable	(323,524)
Gain on divestiture of affiliate	-
Minority interest	(27,422)
Change in assets and liabilities:	
Accounts receivable	(2,476,630)
Inventory	(1,188,175)
Prepaid and other assets	122,341
Deposits on settlement option	0
Accounts payable	1,721,111
Accrued expenses and interest	111,955
Total adjustments	(1,698,370)

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Net cash used in operating activities	(2,533,590)

Cash flows used in investing activities-	
Purchase of property and equipment	(328,261)

Net cash used by investing activities	(328,261)

Cash flows from financing activities:	
Capital contributions from partners	40,842
Proceeds from borrowings of long term debt	400,000
Payments on long-term debt	(210,681)

Net cash provided by (used in) financing activities	\$ 230,161

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

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CROWN ENERGY CORPORATION

[Unaudited]

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[Continued]

	For the Six Months Ended
	June 30, 2003

Net Increase (Decrease) in Cash:	\$ (2,631,690)
	=====
Cash at Beginning of Period	\$ 2,723,068
	=====
Cash at End of Period	\$ 91,378
	=====
Supplemental Disclosure of Cash Flow Information	
Cash paid during the period:	
Interest	\$ 88,560
	=====
Income taxes	---
	=====

Supplemental Schedule of Non-cash Investing and Financing Activities:

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For the period ended June 30, 2003 we accrued dividends on preferred stock of \$200,000.

For the period ended June 30, 2002:

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

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

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CROWN ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Organization - Crown Energy Corporation ("CEC") and its wholly-owned subsidiary, Crown Asphalt Products Company ("CAPCO"), and Crown Distribution, an entity in which CAPCO and CEC now own all interests (collectively referred to as the "Company"), are engaged in the production, manufacturing, distribution and selling of asphalt

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products. Crown Distribution owns a majority interest in Cowboy Asphalt Terminal, L.L.C. ("CAT, LLC"). CAT, LLC is a joint venture formed on September 16, 1998, between CAPCO and Foreland Asphalt Corporation ("Foreland"), which owns an asphalt terminal and storage facility. Crown Distribution owns 66.67% and Foreland owns 33.33% of CAT, LLC.

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

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

Going Concern - The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As of June 30, 2002, the Company had a working capital deficit, an accumulated deficit and has had substantial recurring losses. The consolidated operations of the Company have not had sustained profitability and the Company has relied upon debt financing to satisfy its obligations. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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CROWN ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

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

NOTE 2 - LONG-TERM DEBT

During the period we entered into a financing arrangement with GE Capital for \$400,000 to finance an expansion of the emulsion facility at our Rawlins facility to increase production capacity. The loan bears

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interest at 8.77% is payable in equal monthly installments over 5 years, matures in June 2008 and is secured by property and equipment.

NOTE 3 - CAPITAL TRANSACTIONS

Preferred Stock - In September 1997, we sold to an unrelated third party for \$5.0 million in cash 500,000 shares of \$10 Series A Cumulative Convertible Preferred Stock and a warrant to purchase 925,771 shares at \$0.002 per share. In February 2002, the Series A Preferred Stock, the warrant, and all associated rights were purchased from the original holder by Manhattan Goose, LLC, which was then owned 32.5% by Jay Mealey, our Chief Executive Officer, President and a director, and 67.5% by other directors and unrelated parties. During 2002, we paid accrued dividends on the Series A Preferred Stock of \$400,000 in cash and \$200,000 in 13,793,103 shares of common stock, or at \$0.0145 per share, the approximate market price on the date of payment. In November 2002, Jay Mealey acquired the other 67.5% membership interests in Manhattan Goose and simultaneously conveyed all membership interests to the Mealey Family Limited Partnership, which is the current holder of the Series A Preferred Stock, the warrant, all associated rights, and accrued dividends. Mr. Mealey owns 48.5% of the Mealey Family Limited Partnership and is its general partner and his immediate family is its beneficiary.

As of December 31, 2002, and June 30, 2003, there were dividends payable to the holder of the Series A Preferred Stock of \$1.0 million and \$1.2 million, respectively, that may, at the election of the holder, be taken in cash or common stock. At the market price of \$0.015 per share as of June 30, 2003, 80.0 million shares of common stock would have to be issued to satisfy the dividend payable. The Series A Preferred Stock is convertible to 4,285,000 shares of common stock, if so elected by the holder of the Series A Preferred Stock.

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

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CROWN ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

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NOTE 4 - PROFIT/ LOSS PER SHARE

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

	Six Months 2003		Six Months 2002		Three Months 2003	
	Loss	Per Share	Profit	Per Share	Profit	Per Share
Net Profit (Loss)	(\$835,220)		\$780,078		\$197,330	
Redeemable preferred stock dividends and accretion	(200,000)		(228,302)		(100,000)	
Add back stock dividends and accretion	----		228,302		100,000	
Net profit (loss) attributable to common stockholders	(\$1,035,220)	(\$0.04)	\$780,078	\$0.01	\$197,330	\$0.01
Weighted average common shares outstanding - basic and diluted	26,482,388		77,217,590		84,821,442	

We had at June 30, 2003, and December 31, 2002, incremental options and warrants to purchase, 3,988,919 shares and 3,163,148 shares of common stock, respectively, that were not included in the computation of diluted earnings (loss) per share because their effect was anti-dilutive. We also had preferred stock outstanding at June 30, 2003, and June 30, 2002, which is convertible into approximately 4,285,000 shares of common stock that was not included in the computation of diluted loss per share as its effect was anti-dilutive. Accordingly, diluted loss per share does not differ from basic loss. As of June 30, 2003, there were preferred stock dividends payable in the amount of \$1,200,000. Pursuant to the designations and preferences of the preferred stock, the foregoing dividends could be satisfied, at the option of the holder, by the issuance of shares of the Company's common stock in lieu of cash payments at the "fair market value" of the common stock as defined in the designations and preferences. At the market price of \$0.015 per share as of June 30, 2003, 80.0 million shares of common stock would have to be issued to satisfy the dividend payable.

NOTE 5 - BAD DEBT RECOVERY ON ACCOUNTS PREVIOUSLY ALLOWED FOR

During the three months ended June 30, 2003 the Company collected on significant receivables it had provided an allowance for in a prior year in the amount of \$323,524. The Company has recognized this collection through operations as a bad debt recovery.

NOTE 6 - RECENT ACCOUNTING PRONOUNCEMENTS

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative

CROWN ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

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

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 requires that certain financial instruments, which under previous guidance may have been accounted for as equity, must now be accounted for as liabilities (or an asset in some circumstances). The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. This Statement is effective for all such financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS 150 was adopted in the quarter ended June 30, 2003 and did not have a material impact on results of operations or financial position.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors, including, but not limited to changes in economic conditions generally or with respect to our asphalt products market in particular, new or increased governmental regulation, increased competition, shortages in labor or materials, delays or other difficulties in shipping or transporting, the risk of loss of certain operating assets serving as collateral to secure financing, and other similar risks inherent in our operations or in business operations generally. Any such risks or uncertainties, either alone or in combination with other factors, may cause our actual results, performance or

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achievements to differ materially from our anticipated future results, performance or achievements (which may be expressed or implied by such forward-looking statements). Consequently, the following management's discussion and analysis, including all forward-looking statements contained therein, is qualified and limited by the foregoing cautionary factors. Interested persons are advised to consider all forward-looking statements within the context of such cautionary factors.

Liquidity and Capital Resources

At June 30, 2003, we had cash and other current assets of \$5.3 million, as compared to cash and other current assets of \$4.0 million at December 31, 2002. The increase of approximately \$1.3 million was generally due to an increase in accounts receivable and inventory which is offset by a corresponding increase in accounts payable and a decrease in cash used in operations.

Our business requires a large amount of working capital to purchase and store inventory and for accounts receivable and general operations. We do not have adequate working capital to operate our business currently and must rely on outside third-party sources to finance that requirement. We have not had outside working capital financing since 1999 and, to date, we have been unable to obtain adequate financing on acceptable terms, and cannot assure that we will be able to. We continue to explore avenues to obtain working capital financing, including supplier financing, through-put arrangements, structured supply arrangements and joint ventures with industry participants, facility leasing and conventional financing from commercial sources. Given our financial condition, generally, outside working capital funding requires significant equity and personal guarantees, that our officers and directors are unwilling to provide for our benefit as a publicly-held company. We do not believe that working capital financing will be available because of our poor operating history and our corporate structure as a public company. Failure to obtain the necessary working capital financing will likely continue to have a significant negative impact on our future operations and may make it unable for us to continue as a going concern.

A portion of our accounts receivable is subject to the risks and uncertainties of litigation and related collection risks. In the event that we are unable to collect our current accounts receivables, we are unable to secure the necessary working capital line of credit for our operations, our operating losses and working capital deficits continue, or if we are unable to recoup our losses, we may not have sufficient capital to operate through 2003.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

As of June 30, 2003, we had a working capital deficit of approximately \$0.9 million, an accumulated deficit of \$4.3 million, and stockholders' equity attributable to the common stock of \$99,115. Our auditor's report on our financial statements for the year ended December 31, 2002, as for prior years, contained an explanatory paragraph about our ability to continue as a going concern. We continue to suffer from shortages of working capital needed to optimize operating economies. Further, our operating history and the prevailing current conditions in the investment markets generally have made it difficult to obtain outside equity capital. Given our financial condition, generally, outside working capital funding requires significant equity and personal guarantees that our officers and directors are unwilling to provide for our benefit as a publicly-held company. The market price for our common stock has ranged from a

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low of \$0.010 to a high of \$0.025 during 2003, closing on June 30, 2003, at \$0.015 per share. The accounting and legal costs required to meet regulatory and stockholder requirements associated with being a publicly held company subject to the periodic reporting, proxy and other requirements under the Securities Exchange Act along with the increased cost of insurance and other burdens have become prohibitive and threaten the Company's survival. The enactment of the Sarbanes-Oxley Act of 2002 and the adoption of related regulations have increased the costs of compliance. These new laws and regulations have also made it more difficult for us to attract qualified persons as directors.

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

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

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

Accounting Policies

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

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reasonably assured.

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

Plant and improvements and tankage	10-30 years
Equipment	7 years
Vehicles	5 years
Computer equipment, furniture and fixtures	3 years

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

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

Results of Operations

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

Total revenue increased from \$6,184,136 for the three-month period ended June 30, 2002, to \$6,241,935 for the three-month period ended June 30, 2003, an increase of \$57,799. Cost of sales increased from \$5,685,865 for the same period in 2002 to \$5,942,807 for the same period in 2003, an increase of \$256,942. The increase in revenues was primarily the result of an increase in sales volume of approximately 2,675 tons offset partially by the reduced average selling price per ton in the three month period. The increase in cost of sales in the 2003 interim period is primarily the result of increased base stock costs for the volume of sales offset by a reduction of operating expenses at the facilities for the same period.

General and administrative expenses decreased from \$654,438 for the three-month period ended June 30, 2002, to \$402,589 for the three-month period ended June 30, 2003, a decrease of \$251,849. This decrease is primarily due to decreased rent expense for our administrative offices and a reduction in salaries and wages.

Net other income/expenses decreased from income of \$2,305,147 for the three-month period ended June 30, 2002, to an expense of \$22,733 for the three-month period ended June 30, 2003, a decrease of \$2,327,880. This decrease is primarily due to a non-recurring gain on the divestiture of affiliate in Crown Asphalt Ridge through a settlement with MCNIC Pipeline and Processing Company ("MCNIC") which was included in our financial results for the three-month period ended June 30, 2002.

Minority interest of \$13,950 represents Foreland's approximate 33% interest in the loss of CAT, LLC.

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OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

For the six month period ended June 30, 2003, compared to the six-month period ended June 30, 2002

Total revenue decreased from \$6,652,457 for the period ended June 30, 2002 to \$6,356,642 for the period ended June 30, 2003, a decrease of \$295,815. Cost of sales also decreased from \$6,998,165 for the period ended June 30, 2002, to \$6,716,257 for the period ended June 30, 2003, a decrease of \$281,908. The decrease in revenues was primarily due to a reduction in sales revenue per ton of approximately \$9.35. The increase in cost of sales is primarily the result of higher asphalt costs per ton, due from our lack of working capital and in-ability to purchase in the early season when costs are typically lower.

General and administrative expenses decreased from \$1,277,340 for the period ended June 30, 2002 to \$738,911 for the period ended June 30, 2003, a decrease of \$538,429. This decrease is primarily due to decreased legal expenses, rent expense on the administrative offices and labor efficiencies. \$323,524 of bad debt recovery was recorded as described in Note 5 to the financial statements included in Item I of Part I of this report.

Net other income/expenses decreased from an income of \$1,534,878 for the period ended June 30, 2002 to expense of \$87,640 for the period ended June 30, 2003, an expense increase of \$1,622,518. The 2002 total was comprised of \$1,319,756 interest related to the Company's credit facility and the Preferential Capital Contribution for its asphalt distribution business. This amount was offset by a non-recurring a gain on the divestiture of the Crown Ridge interest to MCNIC of \$2,998,176 which was included in period ended June 30, 2002. Neither of these items reoccurred in the period ended June 30, 2003. Interest income and other income of \$45,373 was recorded during this period in 2003.

Minority interest of \$27,422 represents Foreland's approximate 33% interest in the loss of CAT, LLC.

ITEM 3. QUANTITATIVE AND QUALITATIVE

DISCLOSURES ABOUT MARKET RISK

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

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

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures:

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

(b) Changes in internal controls:

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

On May 22, 2003, GATX Financial Corporation filed a complaint against us in the Third Judicial District Court of Salt Lake County, Utah. In the complaint, GATX seeks to recover damages in the amount of \$285,148.79, plus further damages continuing to accrue, and interest for railcar rent and railcar cleaning. On June 19, 2003, we answered GATX's complaint and made a counterclaim for damages in the amount of \$63,442.17, all interest on all sums awarded and reasonable attorney fees and costs. We intend to vigorously contest its claims. This legal dispute is in its early stages and there can be no assurance that we will ultimately prevail or what the outcome will be.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As of June 30, 2003, there were arrearages in the amount of \$1,200,000 on dividends on our preferred stock. Pursuant to the designations and preferences of the preferred stock, the foregoing arrearages could be satisfied, at the option of the holder, by the issuance of shares of our common stock in lieu of cash payments at the "fair market value" of the common stock as defined in the designations and preferences. As of June 30, 2003, approximately 80.0 million shares of common stock would have been issuable at the then "fair market value" in satisfaction of the preferred stock dividend arrearages, which exceeds the number of shares of common stock currently authorized to be issued by the Company.

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

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS AND REPORT ON FORM 8-K

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

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

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

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SIGNATURES

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

CROWN ENERGY CORPORATION
(Registrant)

Date: August 19, 2003

By: /s/ Jay Mealey

Jay Mealey, Chief Executive Officer

Date: August 19, 2003

By: /s/ Alan Parker

Alan Parker, Controller