

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
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### FILER

#### **CORNERSTONE NATURAL GAS INC**

CIK: **725625** | IRS No.: **741952257** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-09103** | Film No.: **94528316**  
SIC: **4922** Natural gas transmission

Business Address  
8080 N CENTRAL EXPWY STE  
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12TH FLR LOCK BOX 47  
DALLAS TX 75206  
2146915536

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 MARCH 31, 1994

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

Commission file number 0-11994

CORNERSTONE NATURAL GAS, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

74-1952257  
(IRS Employer  
Identification No.)

8080 N.CENTRAL EXPRESSWAY  
SUITE 1200  
DALLAS, TEXAS  
(Address of principal executive offices)

75206  
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (214) 691-5536

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  
filings requirements for the past 90 days. Yes  No

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS FILED ALL DOCUMENTS AND  
REPORTS REQUIRED TO BE FILED BY SECTION 12, 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934 SUBSEQUENT TO THE DISTRIBUTION OF SECURITIES UNDER A PLAN  
CONFIRMED BY A COURT.

YES  NO

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES  
OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE.

CLASS OF COMMON STOCK	SHARES OUTSTANDING AT MAY 13, 1994
----- \$.10 PAR VALUE	----- 12,515,959

CORNERSTONE NATURAL GAS, INC.  
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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

CORNERSTONE NATURAL GAS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

<TABLE>  
<CAPTION>

	Three Month Period Ended March 31,	
	1994	1993
<S>	<C>	<C>
Revenues . . . . .	\$ 32,066,000	\$ 65,372,000

Expenses:		
Cost of sales . . . . .	27,548,000	60,005,000
Operating expenses . . . . .	2,177,000	3,560,000
Depreciation and amortization . . . . .	658,000	1,858,000
General and administrative . . . . .	1,268,000	1,484,000
	-----	-----
	31,651,000	66,907,000
	-----	-----
Operating earnings (loss) . . . . .	415,000	(1,535,000)
	-----	-----
Other income (expense):		
Interest income . . . . .	5,000	47,000
Interest expense . . . . .	(320,000)	(1,274,000)
Equity in net earnings (losses) of unconsolidated subsidiaries . . . . .	(16,000)	9,000
Other . . . . .	4,000	(2,000)
Gain (loss) on sale of assets, net . . . . .	--	611,000
	-----	-----
	(327,000)	(609,000)
	-----	-----
Earnings (loss) before reorganization items and income taxes . . . . .	88,000	(2,144,000)
Reorganization items . . . . .	--	517,000
	-----	-----
Earnings (loss) before income taxes . . . . .	88,000	(2,661,000)
Provision for current income taxes . . . . .	4,000	50,000
	-----	-----
Net Earnings (loss) . . . . .	84,000	(2,711,000)
Preferred stock requirements . . . . .	--	(475,000)
	-----	-----
Net Earnings (loss) applicable to common stock . . . . .	\$ 84,000	\$ (3,186,000)
	-----	-----
	-----	-----
Earnings (loss) per common and common share equivalent . . . . .	\$ 0.01	\$ (0.40)
	-----	-----
	-----	-----
Weighted average common and common equivalent shares outstanding . . . . .	12,516,000	7,935,000
	-----	-----
	-----	-----

</TABLE>

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

CORNERSTONE NATURAL GAS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

	March 31, 1994	December 31, 1993
	----- (UNAUDITED)	-----
<S>	<C>	<C>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 1,215,000	\$ 2,416,000
Accounts receivable . . . . .	9,811,000	15,101,000
Inventory . . . . .	1,918,000	1,711,000
Other current assets . . . . .	181,000	655,000
	-----	-----
Total current assets . . . . .	13,125,000	19,883,000
Property, plant and equipment, at cost . . . . .	55,907,000	54,457,000
Less: accumulated depreciation . . . . .	(32,434,000)	(31,805,000)
	-----	-----
Net property, plant and equipment . . . . .	23,473,000	22,652,000
Goodwill . . . . .	3,664,000	3,793,000
Other assets . . . . .	273,000	118,000
	-----	-----
	\$ 40,535,000	\$ 46,446,000
	-----	-----
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current installments of long-term debt . . . . .	\$ 3,107,000	\$ 2,501,000
Accounts payable . . . . .	16,187,000	22,097,000
Accrued interest payable . . . . .	43,000	45,000
Income taxes payable . . . . .	189,000	185,000
Other current liabilities . . . . .	--	206,000
	-----	-----
Total current liabilities . . . . .	19,526,000	25,034,000
Long-term debt . . . . .	7,347,000	7,768,000
Other liabilities . . . . .	2,025,000	2,090,000
Stockholders' equity:		
Common stock, \$.10 par value; 25,000,000 shares authorized; 12,515,959 shares issued and outstanding . . . . .	1,252,000	1,252,000
Additional paid-in capital . . . . .	51,298,000	51,298,000
Accumulated deficit . . . . .	(40,913,000)	(40,996,000)
	-----	-----
Total stockholders' equity . . . . .	11,637,000	11,554,000
	-----	-----
	\$ 40,535,000	\$ 46,446,000
	-----	-----

</TABLE>

CORNERSTONE NATURAL GAS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

<TABLE>  
<CAPTION>

	Three Month Period Ended March 31,	
	1994	1993
<S>	<C>	<C>
Cash flows from operating activities:		
Net Earnings (loss) . . . . .	\$ 84,000	\$ (2,711,000)
Net Non-cash items included in earnings (loss)		
Depreciation . . . . .	658,000	1,858,000
Interest compromised . . . . .	--	573,000
Equity in earnings (loss) of unconsolidated subsidiaries . . . . .	16,000	(9,000)
Gain on sale of assets, net . . . . .	--	(611,000)
Other . . . . .	7,000	16,000
Reorganization items . . . . .	--	517,000
Working capital provided (used) by operations before reorganization items . . . . .	765,000	(367,000)
Changes in operating assets or liabilities which provided (used) cash during the period:		
Decrease in accounts receivable . . . . .	5,290,000	1,271,000
Increase in inventory . . . . .	(206,000)	(743,000)
(Increase) decrease in other current assets . . . . .	473,000	(1,113,000)
Increase in other assets . . . . .	(17,000)	--
Decrease in accounts payable . . . . .	(5,669,000)	(2,320,000)
Increase (decrease) in accrued interest payable . . . . .	(2,000)	310,000
Decrease in other current liabilities . . . . .	(202,000)	(309,000)
Decrease in other liabilities . . . . .	(2,000)	--
Cash provided (used) by operations before reorganization items . . . . .	430,000	(3,271,000)
Cash used by reorganization items - professional fees . . . . .	(305,000)	(517,000)
Cash provided (used) by operating activities . . . . .	125,000	(3,788,000)
Cash flows from investing activities:		
Proceeds from sale of assets . . . . .	--	851,000
Additions to property, plant and equipment . . . . .	(1,450,000)	(1,626,000)
Increase in investment in unconsolidated subsidiaries . . . . .	(62,000)	(14,000)
Other . . . . .	--	31,000

Cash used by investing activities. . . . .	(1,512,000)	(758,000)
Cash flows from financing activities:		
Borrowings of revolving debt . . . . .	700,000	235,000
Reduction of long-term debt. . . . .	(514,000)	(436,000)
Other. . . . .	--	28,000
Cash provided (used) by financing activities . . . . .	186,000	(173,000)
Decrease in cash and cash equivalents. . . . .	(1,201,000)	(4,719,000)
Cash and cash equivalents:		
Beginning of period. . . . .	2,416,000	6,882,000
End of period. . . . .	\$ 1,215,000	\$ 2,163,000
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest . . . . .	\$ 244,000	\$ 363,000
Income taxes . . . . .	\$ --	\$ 1,000

</TABLE>

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

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CORNERSTONE NATURAL GAS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1 - BASIS OF FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X, "Interim Financial Statements", and accordingly do not include all information and footnotes required under generally accepted accounting principles for complete financial statements. The financial statements have been prepared in conformity with the accounting principles and practices as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 1993. In the opinion of management, these interim financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company's financial position as of March 31, 1994, the results of its operations for the three months ended March 31, 1994, and the Company's cash flows for the three months ended March 31, 1994. Results of operations for the periods presented herein are not necessarily indicative of the results that may be expected for the year ending December 31, 1994. Certain reclassifications of prior period financial information have been made to conform to the 1994 presentation.

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

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations was \$125,000 in the first quarter of 1994 compared to cash used by operations of \$3.8 million in 1993. The improvement in performance comes in the first full quarter of operations since the Company completed its plan of reorganization. For a more detailed discussion of the plan of reorganization, see the Company's Annual Report on Form 10-K for the year ended December 31, 1993. Working capital provided by operations before reorganization items was \$765,000 for the first three months of 1994 compared to working capital used by operations before reorganization items of \$367,000 in the same period last year.

The Company had a working capital deficit of \$6.4 million at March 31, 1994. The Company expects to maintain a working capital deficit in order to effectively manage cash. Management expects that cash provided by operations combined with amounts available under its \$6.0 million line of credit will be sufficient to meet its cash requirements in 1994.

Cash used for investing activities was \$1.5 million in the first quarter of 1994. Approximately \$1.4 million was used to substantially complete the installation of two cryogenic plants in Lincoln Parish, Louisiana. These plants became operational on March 31, 1994 and were a major part of the Company's plan of reorganization. The Company will experience additional start-up costs in the second quarter but expects these plants to be operating near full capacity and efficiency by the third quarter of 1994.

The Company's Senior Loan requires lender approval to finance major projects. The Company's capital budget for 1994 is limited under the Senior Loan to \$500,000 (excluding the installation of the two cryogenic plants). However, the Company continues to pursue projects that would require long-term borrowing. These funds and the approvals necessary under existing loan agreements will be secured prior to committing to any new projects. The Company believes that its current relationships with existing lenders will allow borrowing capacity for future requirements. There can be no assurance regarding the Company's ability to obtain additional capital when needed on acceptable terms or that all necessary consents or waivers will be obtained from its lenders.

Cash provided by financing activities was \$186,000 in the first quarter of 1994. The Company repaid \$441,000 on its Senior Note and \$73,000 on project debt. In the first quarter of 1994, the Company borrowed \$700,000 under its revolving credit agreement and the financial institution had issued, for the Company's benefit, approximately \$1.5 million in standby letters of credit for natural gas purchases. The revolving credit agreement, which allows for up to an aggregate of \$6.0 million in letters of credit or working capital loans, is subject to certain borrowing base requirements. At March 31, 1994, the Company's borrowing base requirements limited this line of credit to \$4.7 million.

The Company also maintains a line of credit which may be used for buying crude oil and condensate needed in its refining operations. The current line of credit covers the Company's refining requirements through May 1994 business. The Company will extend or replace this line in May 1994 or reduce its purchases of crude oil for June business. The Company is also evaluating the disposition of its refining operations.



RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 1994 COMPARED  
TO THREE MONTHS ENDED MARCH 31, 1993

GENERAL. The Company recorded net earnings applicable to common stock of \$84,000 (\$.01 per share) in the first quarter of 1994 compared to a net loss of \$3.2 million (\$.40 per share). The Company's operating earnings were \$415,000 in the first quarter of 1994 compared to operating

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losses of \$1.5 million in 1993. The improvement in performance comes in the first full quarter of operations since the Company completed its plan of reorganization. Also as a result of the reorganization the Company reduced its interest expense and preferred dividend requirements by \$1.4 million.

NATURAL GAS PROCESSING OPERATIONS. The following table provides pertinent information relating to the Company's gas processing operations.

<TABLE>  
<CAPTION>

	Three Months Ended March 31,		Increase (Decrease)
	1994	1993	
	-----	-----	-----
<S>	<C>	<C>	<C>
(In thousands)			
Gross margin	\$ 3,396	\$ 2,942	\$ 454
Earnings (loss) from operations before depreciation	1,066	(4)	1,070
(Million cubic feet per day)			
Natural gas inlet volumes			
North Louisiana	58	65	(7)
Other	26	61	(35)
(Barrels per day)			
Liquid sales volumes - North Louisiana	12,048	17,695	(5,647)

</TABLE>

The Company's earnings from operations before depreciation increased \$1.1 million in the first quarter of 1994. This was primarily at the Company's North Louisiana facilities. The Company ceased operations at one of its two refineries in July 1993. The Company has since worked to consolidate its operations in North Louisiana. With only one refinery operating, sales volumes have decreased; however, the Company has recognized some efficiencies which has resulted in a reduction of operating expenses. The Company's margin per barrel on its North Louisiana operations increased to \$2.92 from \$.95 in the prior year.

The Company completed installation of two cryogenic plants at its North Louisiana facilities on March 31, 1994. The Company is working to increase the operational efficiencies of these two plants. Although there will be additional start up expenses during the second quarter of 1994, the Company expects these

plants to provide additional cash flows beginning on the second half of the year.

NATURAL GAS PIPELINE OPERATIONS. The following table sets forth pertinent information relating to the Company's natural gas pipeline operations.

<TABLE>  
<CAPTION>

	Three Months Ended March 31,		Increase (Decrease)
	1994	1993	
	-----	-----	-----
<S>	<C>	<C>	<C>
(In thousands)			
Gross margin	\$ 1,122	\$ 2,423	\$(1,301)
Earnings from operations before depreciation	662	1,050	(388)
(Million cubic feet per day)			
Natural gas sales	80	267	(187)

</TABLE>

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Earnings from the Company's natural gas pipeline operations decreased \$388,000 in the first quarter of 1994. This was primarily from the transfer of certain assets to the Company's former noteholders as part of the Company's reorganization. The transferred assets contributed \$928,000 to earnings from operations in 1993. This decrease was partially offset by increased earnings from the Company's Mountain Creek system, the addition of the Company's Port Hudson system and increased margins on offsystem sales. Although throughput volumes declined 70%, earnings were only decreased 37%.

GENERAL AND ADMINISTRATIVE. General and administrative expense decreased \$216,000 (15%) in the first quarter of 1994. This reduction reflects specific management effort to reduce overhead costs as part of the reorganization.

OTHER. Interest expense was reduced by \$954,000 as a result of the new financing under the Company's reorganization. Additionally, the Company retired all its outstanding preferred stock as part of the reorganization which eliminated the preferred dividend requirement of \$475,000 per quarter. The Company recorded reorganization expenses in the first quarter of 1993 of \$517,000. The Company also recorded a gain on the sale of its interest in the Three Rivers Partnership of \$611,000 in the first quarter of 1993.

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## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company is involved in certain legal actions and claims arising in the ordinary course of business. It is the opinion of Management (based on advice of legal counsel) that such litigation and claims will be resolved without material effect on the Company's financial position.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

None.

(b) REPORTS ON FORM 8-K

None.

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SIGNATURES

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

CORNERSTONE NATURAL GAS, INC.  
(Registrant)

Date: May 13, 1994  
-----

By: /s/Robert L. Cavnar  
-----

Robert L. Cavnar  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: May 13, 1994  
-----

By: /s/Richard W. Piacenti  
-----

Richard W. Piacenti  
Vice President and Controller  
(Principal Accounting Officer)

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