

Edgar Filing: ENERCORP INC - Form 10-K

ENERCORP INC  
Form 10-K  
December 20, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-KSB

X  
----- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934, as amended (the "Act")

FOR THE FISCAL YEAR ENDED: June 30, 2002  
OR  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

----- SECURITIES ACT OF 1934, as amended

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File Number: 0-9083

Enercorp, Inc.  
(Exact name of Registrant as specified in its charter)

Colorado 84-0768802  
-----  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification Number)

32751 Middlebelt Road, Suite B 48334  
Farmington Hills, Michigan  
-----  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (248) 851-5651  
Securities registered pursuant to Section 12(b) of the Act:  
None  
Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, No Par Value

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(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, 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 X No

Indicate by a 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 the 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: X

As of October 25, 2002 there were 695,897 shares of common stock outstanding and the aggregate market value of the common stock (based upon the average of the bid and asked prices of these shares on the over-the-counter market of the Registrant) held by non-affiliates was approximately \$ 75,853.

Enercorp, Inc.

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Form 10-K Filing for the Year Ended June 30, 2002

## INDEX

|   | PAGE  |
|---|-------|
| PART I  |       |
| Item 1. Business  | 3     |
| Item 2. Properties  | 12    |
| Item 3. Legal Proceedings   | 12    |
| Item 4. Submission of Matters to a Vote of Security Holders                                   | 13    |
| PART II   |       |
| Item 5. Market for Registrant's Common Equity and Related Stockholder Matters                 | 13    |
| Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations | 14    |
| Item 6A. Quantitative and Qualitative Disclosure About Market Risk                            | 16    |
| Item 7. Financial Statements and Supplementary Data   | 16    |
| Item 8. Changes in and Disagreements with Accountants on accounting and Financial Disclosure  | 16    |
| PART III  |       |
| Item 9. Directors and Executive Officers of the Registrant                                    | 16    |
| Item 10. Executive Compensation   | 18    |
| Item 11. Security Ownership of Certain Beneficial Owners and Management                       | 19-20 |
| Item 12. Certain Relationships and Related Transactions                                       | 20    |
| PART IV   |       |
| Item 13. Exhibits, Financial Statement Schedules and Reports on Form 8-K                      | 21    |
| SIGNATURES  | 23    |

2

Enercorp, Inc.

FORM 10-KSB

PART 1

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Item 1. Business

General. Enercorp, Inc. (the "Registrant" or "Company") is a closed-end, non-diversified Investment Company under the Investment Company Act of 1940, as amended (the "Investment Company Act"). The Registrant was incorporated under the laws of the State of Colorado on June 30, 1978. The Registrant elected to become a business development company under the Investment Company Act on June 30, 1982. A business development company is a type of investment company that generally must maintain 70% of its assets in new, financially troubled or otherwise qualified companies and offers significant managerial assistance to such companies. The Registrant presently has four investee companies to which

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it provides management assistance. Business development companies are not subject to the full extent of regulation under the Investment Company Act, as amended. (See "Regulation-Business Development Companies" below). The Registrant is primarily engaged in the business of investing in and providing managerial assistance to developing companies, which, in its opinion, have significant potential for growth. The Registrant's investment objective is to achieve long-term capital appreciation, rather than current income, on its investments. Currently, the Registrant's investment activity is limited by its working capital. There is no assurance that the Company's objective will be achieved.

On March 7, 2001, the Registrant sold 1,077,800 shares of the common stock it held in its largest investee, Williams Controls, Inc., and on March 12, 2001 the Registrant sold an additional 574,529 shares of Williams Controls, Inc., for a total of 1,652,329 shares, representing all the shares of Williams Controls, Inc. common stock owned by the Registrant at the time of this filing. These shares were acquired by the Registrant in transactions between April 1991 and August 1998. The shares were sold in open market transactions through an unaffiliated broker. Upon settlement of the trades, the Registrant received total net proceeds of approximately \$2,424,800. These proceeds were used to pay off the Company's demand loan from a bank with a balance of \$2,141,649, plus accrued interest and make certain payments of or toward other debt obligations and payables that the Company had outstanding.

**Investment Decisions and Policies.** The Registrant's investment decisions are made by its Management in accordance with policies approved by its Board of Directors. The Registrant is not a registered investment advisor nor does it operate pursuant to a written investment advisory agreement that must be approved periodically by stockholders. The Registrant relies solely upon its Management, particularly its Officers, on a day-to-day basis, and also on the experience of its directors in making investment decisions.

Consistent with its objective of long-term capital appreciation, the Registrant consults with its investees with respect to obtaining capital and offers managerial assistance to selected businesses that, in the opinion of the Registrant's Management, have a significant potential for growth.

3

In addition to acquiring investment positions in new and developing companies, the Registrant also may occasionally invest in more mature privately and publicly-held companies, some of which may be experiencing financial difficulties, but which, the Registrant believes, have potential for further development or revitalization, and which, in the long-term, could experience growth and achieve profitability.

Should its working capital position allow it to do so, the Registrant plans to take advantage of other opportunities to maintain and create independent companies with a significant potential for growth. The Registrant's priorities for the future will be to attempt to (1) maximize the value and liquidity of its present investees, (2) increase its cash flow and intermediate term value through the acquisition of securities or assets of more established companies, and (3) make new higher risk investments in new and developing companies.

The Registrant has no fixed policy as to the business or industry group in which it may invest or as to the amount or type of securities or assets that it may acquire. To date, the Registrant has made investments primarily in new and developing companies the securities of which had no established public market. Most of these companies initially were unable to obtain significant capital on reasonable terms from conventional sources. The Registrant endeavors to assist its investee companies and their management teams in devising realistic business strategies and obtaining necessary financing.

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The Registrant believes that it will be most likely to succeed in its investment strategies if its investee companies have strong management teams. Generally, the Registrant focuses as much or more on finding and supporting business executives who have the ability, entrepreneurial motivation and experience required to build independent companies with a significant potential for growth, as it does on identifying, selecting and financing investment opportunities based on promising ideas, products or marketing strategies. Consistent with this belief, the Registrant's managerial assistance often is provided in ways designed to build strong, independent management rather than simply providing management services. For example, the Registrant encourages its investee companies to afford their management teams opportunities for meaningful equity participation and assists them in planning means to accomplish this result. The Registrant also assists in arranging financing, provides guaranties from time to time and occasionally provides limited financing to its investee companies to assist management of its investee companies to achieve their goals with limited supervision from the Registrant.

The Registrant has never paid cash dividends nor does it have any present intent to do so. The Registrant's future dividend policy is to make limited in kind distributions to its stockholders of its larger investment positions if and when its Board of Directors deems such distributions appropriate. The Registrant, to date, has not made any distributions of its investment portfolio, nor does it have any immediate plans to do so.

Business development is by nature a high-risk activity that often results in substantial losses. The companies, in which the Registrant invests and will invest, especially in the early stages of an investment but to some extent with established investees, often lack effective management, face operating problems and have incurred substantial losses. Potential investees include established businesses which may be experiencing severe financial or operating difficulties or may, in the opinion of their management, be managed ineffectively and yet have the potential for substantial growth or for reorganization into separate independent companies.

4

The Registrant will attempt to reduce the level of its investment risks through one or more of the following factors:

- carefully investigating potential investees;
- financing only what it believes to be practical business opportunities, as contrasted to research projects;
- selecting effective, entrepreneurial management for its investees;
- providing managerial assistance and support to investees in areas, where the need is apparent;
- obtaining, alone or with others, actual or working control of its investees;
- supporting the investees in obtaining necessary financing, and where feasible, arranging major contracts, joint ventures or mergers and acquisitions; and
- where possible, maintaining sufficient capital resources to make follow-on investments where necessary, appropriate and feasible.

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As a business development company, the Registrant is subject to the provisions of Sections 55 through 65 of the Investment Company Act of 1940, as amended, and certain additional provisions of that Act made applicable to business development companies by Section 59 of that Act. Under these regulations, the Registrant's investment policies are defined and subject to certain limitations. See "Regulation-Business Development Companies." Furthermore, under Section 58 of that Act, the Registrant may not withdraw its election to be so regulated without the consent of a majority of its issued and outstanding voting securities.

The Registrant has no fixed policy as to any particular business or industry group in which it may invest or as to the amount or type of securities or assets that it may acquire. The Registrant has in the past, and may continue in the future to invest in assets that are not qualifying assets as defined by Section 55 of the Investment Company Act; however, no such additional assets have been identified as of June 30, 2001, and the Registrant does not intend to fall below the 70% requirement as set forth in Section 55 of that Act.

The Registrant endeavors to achieve its objectives in accordance with the following general policies:

(1) The Registrant acquires securities through negotiated private placement transactions directly from the investee company, its affiliates, or third parties, or through open market transactions.

(2) The Registrant attempts to acquire, if possible and consistent with the Registrant's capital resources, a large or controlling interest in its investees through purchases of equity securities, including warrants, options, and other rights to acquire such securities combined, if appropriate, with debt securities, including demand notes, term loans and guarantees, or debt instruments or preferred stock, convertible into, or with warrants to purchase additional equity securities.

(3) The Registrant may make additional or "follow-on" investments in its investees, when appropriate to sustain the investees or to enhance or protect the Registrant's existing investment.

(4) The Registrant will determine the length of time it will retain its investment by evaluating the facts and circumstances of each investee and the Registrant's relationship with such investee. The Registrant generally will retain its investments for a relatively long period, sometimes as long as many years, with the result that its rate of portfolio turnover is low.

5

Investments are retained until, in the sole opinion of the Registrant, the investee company has a demonstrated record of successful operations and there is a meaningful public market for its securities which reflects the investment value the Registrant sought (or such a market can be readily established) or until the Registrant, in its sole discretion, decides that its investment is not likely to result in future long-term capital appreciation.

At the time of sale of the Registrant's portfolio securities, there may not be a market of sufficient stability to allow the Registrant to sell its entire position, potentially resulting in the Registrant not being able to sell such securities at prevailing market prices or at the prices at which the Registrant may have valued its position in the investee's securities.

### Valuation-Policy Guidelines

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The Registrant's Board of Directors is responsible for the valuation of the Registrant's assets in accordance with its approved guidelines. The Registrant's Board of Directors is responsible for (1) recommending overall valuation guidelines and (2) the valuation of the specific investments.

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There is a range of values which are reasonable for an investment at any particular time. Fair value is generally defined as the price at which the investment in question could change hands, assuming that both parties to the transaction are under no unusual pressure to buy or sell and both have reasonable knowledge of all the relevant facts. To increase objectivity in valuing the securities, the Registrant uses external measures of value such as public markets or significant third-party transactions whenever possible. Neither a long term workout value nor an immediate liquidation value is used, and no increment of value is included for changes, which may take place in the future. The Registrant's largest investee, Williams Controls, Inc., represents over 80% of the total value of the Registrant's investment portfolio and is valued by the public market method, subject to the judgment of its Board of Directors, except for valuing the majority of the warrants held by the Registrant, which are valued under the appraisal method and using the best judgment of its Board of Directors. Certain members of the Company's Board of Directors may hold minor positions in some of the Registrant's investee companies and certain members of the Board may hold officer or director positions with some of the Company's investee companies. No such positions held by any of the Registrant's Board or Officers exceed 5% of the investee company's issued and outstanding securities.

Valuations assume that, in the ordinary course of its business, the Registrant will eventually sell its position in the public market or may distribute its larger positions to its stockholders. Accordingly, no premiums are placed on investments to reflect the ability of the Registrant to sell block positions or control of companies, either by itself or in conjunction with other investors. In fact, in certain circumstances, the Registrant may have to sell the securities it owns of its investees in the open market at discounts to market prices at the time of sale, due to the large position it may hold relative to the average daily trading volume.

The Registrant uses four basic methods of valuation for its investments and there are variations within each of these methods. The Registrant's Board of Directors, in its sole discretion, has determined that the Registrant's four basic valuation methods constitute fair value. As an investee evolves, its progress may sometime require changes in the Registrant's method of valuing the investee's securities. The Registrant's investment is separated into its component parts (such as debt, preferred stock, common stock or warrants), and each component is valued separately to arrive at a total value. The Company believes that a mixture of valuation methods is often essential to represent a fair value of the Registrant's investment position in any particular investee. For example, one method may be appropriate for the equity securities of a company while another method may be appropriate for the senior securities of the same company. In various instances of valuation, the Board of Directors of the Registrant may modify the valuation methods mentioned below based on the Board's best judgment of any particular situation.

6

The Cost Method values an investment based on its original cost to the Company, adjusted for the amortization of original issue discount, accrued interest and certain capitalized expenditures of the Company. While the cost method is the simplest method of valuation, it is often the most unreliable because it is applied in the early stages of an investee's development and is often not directly tied to objective measurements. All investments are carried at cost until significant positive or adverse events subsequent to the date of the original investment warrant a change to another method. Some examples of such events are: (1) a major recapitalization; (2) a major refinancing; (3) a significant third-party transaction; (4) the development of a meaningful public market for the investee's common stock; and (5) material positive or adverse changes in the investee's business.

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The Appraisal Method is used to value an investment position based upon a careful analysis of the best available outside information when there is no established public or private market in the investee company's securities and it is no longer appropriate to use the cost method. Comparisons are made using factors (such as earnings, sales or net worth) that influence the market value of similar public companies or that are used in the pricing of private transactions of comparable companies. Major discounts, usually 50%, are taken when private companies are appraised by comparing them to similar public companies. Liquidation value may be used when an investee is performing substantially below plan and its continuation as an operating entity is in doubt. Under the appraisal method, the differences among companies in terms of the source and type of revenues, quality of earnings, and capital structure are carefully considered.

An appraisal method value can be defined as the price at which the investment in question could change hands, assuming that both parties to the transaction are under no unusual pressure to buy or to sell, and both have reasonable knowledge of all the relevant facts. In the case of start-up companies where the entire assets may consist of only one or more of the following: (1) a marketing plan, (2) management or (3) a pilot operation, an evaluation may be established by capitalizing the amount of the investment that could reasonably be obtained for a predetermined percentage of the particular company. Valuations under the appraisal method are considered to be more subjective than the cost, public market or private market methods.

The Private Market Method uses third-party transactions (actual or proposed) in the investee's securities as the basis for valuation. This method is considered to be an objective measure of value since it depends upon the judgment of a sophisticated, independent investor. Actual firm offers are used as well as historical transactions, provided that any offer used was seriously considered and well documented.

The public market method is the preferred method of valuation when there is an established public market for the investee's securities, since that market provides the most objective basis for valuation. In determining whether the public market is sufficiently established for valuation purposes, the Registrant examines the trading volumes, the number of stockholders and the number of market makers. Under the public market method, as well as under the other valuation methods, the Registrant may discount investment positions that are subject to significant legal, contractual or practical restrictions. When an investee's securities are valued under the Public Market Method, Common Stock equivalents such as presently exercisable warrants or options are valued based on the difference between the exercise price and the market value, subject to management and board discretion, of the underlying common stock. Although the Registrant believes that a public market could be created for the options and warrants of certain of its investees, thereby possibly increasing the value of these rights above their arbitrage value, the Registrant does not reflect this possibility in its valuation.

7

### Regulation - Business Development Companies

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The following is a summary description of the Investment Company Act of 1940, as amended, as applied to business development companies. This description is qualified in its entirety by reference to the full text of the Act and the rules adopted thereunder by the Securities and Exchange Commission (the "SEC").

The Small Business Investment Incentive Act of 1980 became law on October 21, 1980. This law modified the provisions of the Investment Company Act of 1940, as amended, that are applicable to a company, such as the Registrant, which

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elects to be treated as a "business development company." The Registrant elected to be treated as a business development company on June 30, 1982. The Registrant may not withdraw its election without first obtaining the approval of a majority of its outstanding voting securities.

A business development company must be operated for the purpose of investing in the securities of certain present and former "eligible portfolio companies" and certain bankrupt or insolvent companies and must make available significant managerial assistance to its investee companies. An eligible portfolio company generally is a United States company that is not an investment company (except for wholly-owned SBIC's licensed by the Small Business Administration) and (1) does not have a class of securities included in the Federal Reserve Board's over-the-counter margin list, (2) is actively controlled by the business development company and has an affiliate of the business development company on its board of directors, or (3) meets such other criteria as may be established by the SEC. Control, under the Investment Company Act of 1940, as amended, is presumed to exist where the business development company, and its affiliates or related parties, own 25% or more of the issued and outstanding voting securities of the investee.

The Investment Company Act of 1940, as amended, prohibits or restricts the Registrant from investing in certain types of companies, such as brokerage firms, insurance companies, investment banking firms and investment companies. Moreover, the Investment Company Act of 1940, as amended, limits the type of assets that the Registrant may acquire to "qualifying assets" and certain assets necessary for its operations (such as office furniture, equipment and facilities) if, at the time of the acquisition, less than 70% of the value of the Registrant's assets consists of qualifying assets. The effect of the regulation is to require that at least 70% of a business development company's assets be maintained in qualifying assets. Qualifying assets include: (1) securities of companies that were eligible portfolio companies at the time the Registrant acquired their securities; (2) securities of bankrupt or insolvent companies that are not otherwise eligible portfolio companies; (3) securities acquired as follow-on investments in companies that were eligible at the time of the Registrant's initial acquisition of their securities but are no longer eligible, provided that the Registrant has maintained a substantial portion of its initial investment in those companies; (4) securities received in exchange for or distributed on or with respect to any of the foregoing; and (5) cash items, government securities and high-quality, short-term debt. The Investment Company Act of 1940, as amended, also places restrictions on the nature of the transactions in which, and the persons from whom, securities can be purchased in order for the securities to be considered to be qualifying assets. The Registrant believes that, as of June 30, 2002, that more than 90% of its assets would be considered qualifying assets.

8

The Registrant is permitted by the Investment Company Act of 1940, as amended, under specified conditions, to issue multiple classes of senior debt and a single class of preferred stock, if its asset coverage, as defined in the Investment Company Act of 1940, as amended, is at least 200% after the issuance of the debt or the preferred stock. The Registrant currently has no policy regarding issuing of multiple classes of senior debt or a class of preferred stock.

The Registrant may issue, in limited amounts, warrants, options and rights to purchase its securities to its directors, officers and employees (and provide loans to such persons for the exercise thereof) in connection with an executive compensation plan, if certain conditions are met. These conditions include the authorization of such issuance by a majority of the Registrant's voting securities (as defined below) and the approval by a majority of the independent members of the Board of Directors and by a majority of the Directors who have



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no financial interest in the transaction. The issuance of options, warrants or rights to Directors who are not also Officers requires the prior approval of the SEC.

As defined in the Investment Company Act of 1940, as amended, the term "majority of the Registrant's outstanding voting securities" means the vote of (a) 67% or more of the Registrant's common stock present at a meeting, if the holders of more than 50% of the outstanding common stock are present or represented by proxy, or (b) more than 50% of the Registrant's outstanding common stock, whichever is less.

The Registrant may sell its securities at a price that is below the prevailing net asset value per share only upon the approval of the policy by the holders of a majority of its voting securities, including a majority of the voting securities held by non-affiliated persons, at its last Annual Meeting or within one year prior to the transaction. In addition, the Registrant may repurchase its Common Stock, subject to the restrictions of the Investment Company Act of 1940, as amended.

In accordance with the Investment Company Act of 1940, as amended, a majority of the members of the Registrant's Board of Directors must not be "interested persons" of the Registrant, as that term is defined in the Investment Company Act of 1940, as amended. Generally, "interested persons" of the Registrant include all affiliated persons of the Registrant and members of their immediate families, any "interested person" of an underwriter or of an "investment advisor" to the Registrant, any person who has acted as legal counsel to the Registrant within the last two fiscal years, or any broker or dealer, or affiliate or a broker or dealer.

Most of the transactions involving the Registrant and its affiliates (as well as affiliates of those affiliates) which were prohibited without the prior approval of the SEC under the Investment Company Act of 1940, as amended, prior to its amendment by the Small Business Investment Incentive Act now require the prior approval of a majority of the Registrant's independent Directors and a majority of the Directors having no financial interest in the transactions. The effect of this Amendment is that the Registrant may engage in certain affiliated transactions that would be prohibited, absent prior SEC approval in the case of investment companies, which are not business development companies. However, transactions involving certain closely affiliated persons of the Registrant, including its Directors, Officers and employees, still require the prior approval of the SEC. In general, "affiliated persons" of a person include: (a) any person who owns, controls or holds with power to vote, more than five percent of the Registrant's issued and outstanding Common Stock, (b) any Director, Executive Officer or General Partner of that person, (c) any person who directly or indirectly controls, is controlled by, or is under common control with that person, and (d) any person five percent or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote, by such other person. Such persons generally must obtain the prior approval of a majority of the Registrant's independent directors and, in some situations, the prior approval of the SEC, before engaging in certain transactions involving the Registrant or any company controlled by the Registrant. In accordance with the Investment Company Act of 1940, as amended, a majority of the members of the Registrant's Board of Directors are not interested persons as defined in the Act of 1940, as amended. The Investment Company Act generally does not restrict transactions between the Registrant and its investee companies.

Finally, notwithstanding restrictions imposed under Federal Securities Laws, it is anticipated that the Registrant will acquire securities of investee companies pursuant to stock purchase agreements or other agreements that may

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further limit the Registrant's ability to distribute, sell or transfer such securities. And as a practical matter, even if such transfers are legally or contractually permissible, there may be no market, or a very limited market, for such securities. Economic conditions may also make the price and terms of a sale or transfer transactions unattractive.

### Other Securities Law Considerations

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In addition to the above-described provisions of the Investment Company Act of 1940, as amended, there are a number of other provisions of the Federal Securities Laws which affect the Registrant's operations. For example, restrictions imposed by the Federal Securities Laws, in addition to possible contractual provisions, may adversely affect the ability of the Registrant to sell or otherwise to distribute or dispose of its portfolio securities.

Most if not all securities which the Registrant acquires as venture capital investments will be "restricted securities" within the meaning of the Securities Act of 1933 ("Securities Act") and will not be permitted to be resold without compliance with the Securities Act of 1933, as amended. Thus, the Registrant will not be permitted to resell portfolio securities unless a registration statement has been declared effective by the SEC with respect to such securities or the Registrant is able to rely on an available exemption from such registration requirements. In most cases the Registrant will endeavor to obtain from its investee companies "registration rights," pursuant to which the Registrant will be able to demand that an investee company register the securities owned by the Registrant at the expense of the investee company. Even if the investee company bears this expense, however, the registration of any securities owned by the Registrant is likely to be a time-consuming process, and the Registrant always bears the risk, because of these delays, that it will be unable to resell such securities, or that it will not be able to obtain an attractive price for such securities.

At times the Registrant will not register portfolio securities for sale but will seek to sell and sometimes seek an exemption from registration. The most likely exemption available to the Registrant is section 4(1) of the Securities Act of 1933, as amended, which, in effect, exempts sales of securities not involving a public distribution of the securities. This exemption will likely be available to permit a private sale of portfolio securities, and in some cases a public sale, if the provisions of Rule 144 under the Securities Act of 1933, as amended, are complied with. Among other things, Rule 144 generally requires that securities be sold in "broker transactions," and imposes a one-year holding period prior to any resale of restricted securities.

The Registrant may elect to distribute in-kind securities of investee companies to its stockholders. Prior to any such distribution, the Registrant expects that it will need to file, or cause the issuers of such distributed securities, to file, a registration statement or, in the alternative, an information statement, which when declared effective by the SEC, will permit the distribution of such securities and also permit distributee stockholders of the Registrant to sell such distributed securities.

### Federal Income Tax Matters

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For federal and state income tax purposes, the Registrant is taxed at regular corporate rates on ordinary income and realized gain. It is not entitled to the special tax treatment available to more regulated investment companies, although the Registrant plans to conduct its affairs, if possible, to minimize or eliminate federal and state income taxes. Distributions of cash or property by the Registrant to its stockholders will be taxable as ordinary income only to the extent that the Registrant has current or accumulated earnings and profits.

The "alternative tax" rate at which corporations are taxed on long-term capital gains is up to 35% pursuant to the Tax Reform Act of 1986 (the "Tax Reform Act"). A corporation generally may offset capital loss only against capital gain. Generally, if the Registrant realizes a net capital loss for any taxable year, it can carry back such net capital loss only against capital gain. Such a net capital loss for any taxable year can generally be carried back to each of the three preceding taxable years, and then any unused portion thereof may be carried over into the subsequent taxable years for a period of five years.

#### Future Distributions

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The Registrant does not currently intend to pay cash dividends. The Registrant's current dividend policy is to make in-kind distributions of its larger investment positions to its stockholders when the Registrant's Board of Directors deems such distributions appropriate. Because the Registrant does not intend to make cash distributions, stockholders would need to sell securities distributed in-kind, when and if distributed, in order to realize a return on their investment.

An in-kind distribution will be made only when, in the judgment of the Registrant's Board of Directors, it is in the best interest of the Registrant's stockholders to do so. The Board of Directors will review, among other things, the investment quality and marketability of the securities considered for distribution; the impact of a distribution of the investee's securities on the investee's customers, joint venture associates, other investors, financial institutions and management; tax consequences and the market effects of an initial or broader distribution of such securities. Securities of the Registrant's larger investment positions in more mature investee companies with established public markets are most likely to be considered for distribution. It is possible that the Registrant may make an in-kind distribution of securities that are substantially liquid irrespective of the distributee's stockholder rights to sell such securities. Any such in-kind distribution would require stockholder approval only if the distribution represents substantially all of the Registrant's assets. It is possible that the Registrant may make an in-kind distribution of securities which have appreciated or depreciated from the time of purchase depending upon the particular distribution. The Registrant has not established a policy as to the frequency or size of distributions and indeed there can be no assurance that any distributions will be made. To date, no such distributions have been made and the Registrant is not considering doing so, but the Registrant may consider doing so in the future.

#### Managerial Assistance

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The Registrant believes that providing managerial assistance to its investees is critical to its business development activities. "Making available significant managerial assistance" as defined in the Investment Company Act of 1940, as amended, with respect to a business development company such as the Registrant means (a) any arrangement whereby a business development company, through its directors, officers, employees or general partners, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company; or (b) the exercise by a business development company of a controlling influence over the management or policies of a portfolio company by the business development company acting individually or as a part of a group acting together which controls such portfolio company. The Registrant is required by the Investment Company Act of 1940, as amended, to make significant managerial assistance available at least with respect to investee companies that the Registrant treated as qualifying assets for purposes of the 70% test. The nature, timing and amount of managerial assistance provided by the

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Registrant varies depending upon the particular requirements of each investee company.

11

The Registrant may be involved with its investees in recruiting management, product planning, marketing and advertising and the development of financial plans, operating strategies and corporate goals. In this connection, the Registrant may assist clients in developing and utilizing accounting procedures to record efficiently and accurately, transactions in books of account which will facilitate asset and cost control and the ready determination of results of operations. The Registrant may also seek capital for its investees from other potential investors and occasionally subordinates its own investment to those of other investors. Where possible, the Registrant may introduce its investees to potential suppliers, customers and joint venture partners and assists its investees in establishing relationships with commercial and investment bankers and other professionals, including management consultants, recruiters, legal counsel and independent accountants. The Registrant also assists with joint ventures, acquisitions and mergers.

In connection with its managerial assistance, the Registrant may be represented by one or more of its Officers or Directors who are members of the Board of Directors of an investee. As an investment matures and the investee develops management depth and experience, the Registrant's role will become progressively less active. However, when the Registrant owns or, on a pro forma basis, could acquire a substantial proportion of a more mature investee company's equity, the Registrant remains active in, and will frequently be involved in, the planning of major transactions by the investee. The Registrant's goal is to assist each investee company in establishing its own independent and effective board of directors and management. Currently, the Registrant provides managerial assistance to CompuSonics Video Corporation, Williams Controls, Inc. Ajay Sports, Inc. and Pro Golf International, Inc.

### Competition

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The Registrant is subject to substantial competition from business development companies, venture capital firms, new product development companies, marketing companies and diversified manufacturers, most of whom are larger than the Registrant and have significantly larger net worth, financial and personnel resources than does the Registrant. In addition, the Registrant competes with companies and individuals engaged in the business of providing management consulting services.

### Employees

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As of September 30, 2002 the Registrant had no employees.

### Item 2. Properties

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The Registrant subleases office space from a stockholder of the Registrant. The Registrant occupies an office and shares a common area with such stockholders. The Registrant believes that the lease rate paid for this space represents current market rates. The sublease is on a month-to-month basis.

### Item 3. Legal Proceedings

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None.

12

### Item 4. Submission of Matters to a Vote of Security Holders

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Annual Shareholders Meeting

## PART II

### Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

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#### Market Information

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From April 11, 1996 through September 17, 1998, the Registrant's common stock was listed for trading on the Nasdaq SmallCap Market under the stock symbol ENCP. In early 1998, Nasdaq implemented new increased standards for continued listing. The Registrant was not able to meet these new standards and Nasdaq delisted the common stock after the close of business on September 17, 1998. Since September 18, 1998, the principal market in which the Registrant's common stock is traded has been the Over-The-Counter (OTC) market, through the OTC electronic bulletin board. The ranges of the high and low bid quotations as published by the OTC electronic bulletin board for the periods from September 30, 2001 through June 30, 2002, are as set forth below. The "OTC" electronic bulletin board pricing information reflects inter-dealer prices, without retail mark-up or mark-down or commissions and may not necessarily represent actual transactions.

|                               | HIGH BID | LOW BID |
|-------------------------------|----------|---------|
|                               | -----    | -----   |
| Fiscal 2001 - Quarters Ended: |          |         |
| -----                         |          |         |
| September 30, 2000            | \$1.25   | \$1.14  |
| December 31, 2000             | \$0.97   | \$0.88  |
| March 31, 2001                | \$0.91   | \$0.77  |
| June 30, 2001                 | \$0.77   | \$0.35  |
| Fiscal 2002-Quarters Ended:   |          |         |
| -----                         |          |         |
| September 30, 2001            | \$1.00   | \$0.65  |
| December 31, 2001             | \$0.89   | \$0.30  |
| March 31, 2002                | \$0.30   | \$0.05  |
| June 30, 2002                 | \$0.37   | \$0.10  |

#### Holders

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The approximate number of record holders of the Registrant's common stock as of June 30, 2002 was approximately 1,340. This number does not include beneficial owners whose shares are held on account in "street name" by banks or brokerage firms.

#### Dividends

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The Registrant has paid no dividends on its common stock within the past five years, and has no intention to pay cash dividends in the future.

#### Recent Sales of Securities.

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None.

### Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

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Capital Resources and Liquidity.  
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Due to limited working capital, beginning at May 31, 2000, the Registrant executed a promissory note to borrow working capital funds from its President in order to meet its working capital needs and to pay the interest on its outstanding bank loan. As of March 22, 2001, the Note which was made payable to the Registrant's President was \$187,000 plus accrued interest of \$7,960. Upon the sale of the Williams Controls, Inc. common stock, the full principal of the promissory note plus \$2,000 of the \$7,960 of accrued interest on the Note were repaid to the Registrants President. The balance due of \$5,960 was paid on September 29, 2001.

Currently, the Registrant's investment activity and operations are limited by its limited working capital position. Capital required for the Registrant's investment activities, if available, is expected to be generated from new investments, the sale of portfolio securities or from additional offerings of the Registrant's restricted and legended common stock, of which there can be no assurance of any success in any of those efforts. The ability of the Registrant to liquidate portfolio held securities is dependent on market conditions over which the Registrant has no control. The Registrant had no material commitments for capital expenditures as of June 30, 2001.

On March 7, 2001, the Registrant sold 1,077,800 shares of the common stock it held in its largest investee, Williams Controls, Inc., and on March 12, 2001 the Registrant sold an additional 574,529 shares of Williams Controls, Inc., for a total of 1,652,329 shares, representing all the shares of Williams Controls, Inc., common stock owned by the Registrant at the time of this Filing. All of the shares were acquired by the Registrant in transactions between April 1991 and August 1998. The shares were sold in open market transactions through an unaffiliated broker. Upon settlement of the trades, the Registrant received total net proceeds of approximately \$2,424,800. These proceeds were used to pay off the Company's demand loan payable to a bank with a balance of \$2,141,649, plus accrued interest and make payments, of or toward other debt obligations and payables that the Company owed and were outstanding.

Total assets for the fiscal year ending June 30, 2002 were \$1,046,965 an aggregate increase of \$61,476 from the total assets at June 30, 2001 of \$985,489. The changes in total assets at June 30, 2002 versus June 30, 2001 were mainly the result of the change in portfolio value of the Registrant's securities.

Net assets as of June 30, 2002 were \$ 954,562 as compared to \$929,922 in 2001. The increase in net assets from 2001 to 2002 was due to the change in the value of the Registrant's investment portfolio. For the years ended June 30, 2001, and June 30, 2002, the Company's cash flow was dependent primarily upon cash received from the Wen group, proceeds from the sale of investee shares and advances from the Registrant's bank lines of credit, and loans made to the Company by Officers.

The Registrant's liquidity is affected primarily by the business success, securities prices and marketability of its investee companies and by the amount and timing of new or incremental investments it makes, along with its ability to borrow funds and make sales of its portfolio securities, when, and to the extent, the Board of Directors decides such sales are appropriate or necessary.

One of the Registrant's investees is Ajay Sports, Inc ("Ajay"). Through its operating subsidiaries including Pro Golf, Ajay is a franchisor of retail golf stores. The Registrant's President is a Director and CEO of Ajay, and is Chairman of Pro Golf International, Inc. ("PGI") and ProGolf.com, Inc, two

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majority owned operating subsidiaries of Ajay.