August 25, 1999

Mr. Richard Walker, Director
Division of Enforcement
Securities and Exchange Commission
450 5th Street N.W.
Washington, D.C. 20549-0801

Mr. Brian Lane, Director
Corporation Finance Division
Securities and Exchange Commission
450 5th Street N.W.
Washington, D.C. 20549-0401

Dear Messrs. Walker and Lane,

On behalf of shareholders I am writing to urge you to investigate the disclosure practices of Crown Central Petroleum (Crown). The Crown shareholders who have requested and authorized me to submit this letter on their behalf are Ed Lawless residing at 43 South Sycamore Avenue, Aldan, PA 19018-2207 and Gordon Gilg, P.O. Box 146, York, N.Y. 14592. They believe that the company may have failed to report quantitatively and qualitatively material information to its shareholders in its 10-K and 10-Q reports, and may otherwise have violated SEC reporting requirements. Specifically we urge you to investigate, with regard to specific company reports, as detailed below:

- Failure to report certain environmental penalties and proceedings including a $1.1 million penalty, an ongoing appeal of a government penalty decision, and a case known to be under consideration by the Justice Department;
- Failure to report the existence and sales effects of a consumer boycott;
- Failure to report material risks to a $23 million annual federal contract posed by affirmative action and discrimination issues.

I. Crown omitted reporting of significant environmental proceedings in its 1998 10-K Report.

A. Crown omitted reporting the assessment of a $1.1 million air pollution penalty by the state of Texas during 1998 in its 10-K Report for that year.

Due to its ongoing hydrogen sulfide and sulfur dioxide violations, in 1998 Crown was subjected to one of the largest penalties ever imposed on a polluter under the Texas Clean Air Act -- a $1.1 million fine. Crown disclosed the penalty in its November 1998 quarterly report, but not in the ultimate 10-K report for the fiscal year. See exhibit 1.a. Because the large penalty reflects on the quality of management, this omission was material.

B. The report of the appeal of the penalty in the November 1998 10-Q report neglected to report that the relief requested would increase the penalty owing to nearly $14 million.

The company reported in its 10-Q report issued November 1998 that an appeal was filed regarding the *$1.1 million* penalty by environmental plaintiffs. However, it neglected to report the *relief requested*, entailing up to $14 million in additional penalties. See exhibits 1.b and 1.c.

According to the state court lawsuit appealing the TNRCC's penalties, the recovery of economic benefits of noncompliance are mandatory under state and federal law.[1] A research economist with experience in applying federal and state "economic benefit" penalty assessments concluded that Crown owes an economic benefit penalty of $13.9 million for its deferred expenditures on capital and O&M costs necessary for compliance. According to the environmental appeal, the Commission was statutorily required to consider economic benefit, and abused its discretion by failing to do so.[2]

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[1] While the local citizens lost their district court appellate case on this matter, the pending appeal to the circuit court has won an unusual source of support, the US Justice Department, which has weighed in with a Friend of the Court brief asserting that the district court was wrong in dismissing the citizens' case.

[2] The relevant law, the Texas Water Code provides clearly that in determining the amount of an administrative penalty, the commission shall consider "with respect to the alleged violator....economic benefit gained through the violation ..." Texas Water Code, sec. 7.053(3)(D) (Vernon's Supp. 1998) (underlining added). In addition the federal Clean Air Act requires that penalties for violations of the Act take into account the economic benefit gained from noncompliance. 42 U.S.C. § 741 3(e)(1) Motion for reconsideration a rehearing filed by Trial Lawyers for Public Justice on behalf of Texans United and the Sierra Club, Sept. 18, 1998. Judicial appeal: Texans United et al. v. TNRCC, District Court, Travis County, Texas. TNRCC's policy defines economic benefit as "monetary gain derived from failure to comply with TNRCC rules or regulations. Economic benefit may include any or all of the following: (1) the return a violator can earn by delaying the capital costs of pollution control equipment; (2) the return a violator can earn by delaying a one-time expenditure; and (3) the return a violator can earn by avoiding periodic costs." Based on this definition a research economist concluded that Crown gained an economic benefit of $13.9 million by deferring expenditures on capital and O&M costs necessary for compliance. Dr. Michael Kavanaugh, a research economist with over 20 years experience in applied economics, and a national expert in economic benefit analysis in the context of environmental enforcement used the same definition of economic benefit as in TNRCC's Penalty Policy. He analyzed the return Crown earned by delaying the capital and operating costs of pollution control equipment that is necessary for Crown to comply with the $S0_2$ and H_2S standards. He calculated a benefit for pollution control equipment that Crown must install now to achieve compliance (based on Mr. Drucker's report) and for pollution control equipment that Crown has recently installed, but could have installed back when its

See exhibits 1.b. and 1.c. This ongoing appellate case -- an appeal of a government decision in which Crown has intervened -- was omitted from its 10-K report for 1998, despite an explicit SEC requirement to report in the 10-K report *proceedings involving government agencies* and more than $100,000 in penalties. These require reporting of an environmental proceeding in which

> a governmental authority is a party to such proceeding and such proceeding involves potential monetary sanctions, unless the registrant reasonably believes that such proceeding will result in no monetary sanctions, or in monetary sanctions, exclusive of interest and costs, of less than $100,000; provided, however, that such proceedings which are similar in nature may be grouped and described generically.

The SEC rules require reporting of the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and ***the relief sought.***

C. <u>Crown neglected to report the referral of its air pollution violations from the US EPA to the Department of Justice.</u>

In addition to reporting ongoing proceedings, the SEC rules require reporting of such information as to any such proceedings *known to be contemplated* by governmental authorities. One such proceeding of which the Crown management is clearly aware since its personnel have been intimately involved in discussions and yet has not disclosed in its reports is the Environmental Protection Agency's referral of an air pollution enforcement case to the U.S. Department of Justice. The United States Environmental Protection Agency summed up the inadequacy of TNRCC's Agreement with Crown, saying:

> The Agreed Order fails to reflect the economic benefit that Crown Central has gained through its years of noncompliance. Because Crown Central has repeatedly demonstrated its disregard for state enforcement action, only penalties of sufficient size will ensure Crown Central's full compliance in the future.

Accordingly, among the issues referred to the Department of Justice for enforcement is the need for a higher assessment of penalties for past federal violations at the facility, as well as enforcement against the company for other environmental violations not

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violations began.

identified by the state. We believe that it is not reasonable for the management to assume that these proceedings under consideration will not result in a penalty in excess of $100,000. Therefore we believe that these omissions violate SEC rule S-K item 103 requirements for reporting environmental proceedings.

II. Crown failed to disclose the existence and financial effects of a boycott of its gasoline stations.

A boycott of Crown gas stations was launched by the AFL-CIO in November 1996. A significant portion of Crown's lost gasoline sales especially in 1998 and 1999 have been due to the boycott. Crown failed to report in its 1997 and 1998 10-K's the existence of the boycott, the impact of the boycott on gasoline sales, and the added marketing expenditures the company engaged in to counteract the boycott. In its subsequent 10-Q report of August 1999, the company finally reported the existence of the boycott, but denied any material impacts on the corporation of the boycott and related matters. It appears that the boycott and related matters have caused a material impact.

A. Crown's sales of gasoline during 1998 did not keep pace with the 2.5% growth in gasoline sales in the US economy.

While across the US economy the sale of gasoline grew by 2.24% in 1998 (see exhibit 3.l.), Crown's sales dropped slightly (529 million gallons sold in 1998 compared with 530 million in 1997) even though the company added seven new gas stations. If Crown's sales had simply kept pace with the economy, even without adding any stations, its gasoline sales would have grown by 11 million gallons. With additional growth in sales to reflect seven new gas stations, sales should have grown by as much as a total of 4.2 percent, or 22 million gallons. Using a modest $0.95 per gallon as the selling price of gasoline, this would have meant about $21 million in added gross revenue.

From January through June 1999 Crown should have experienced 1.6 % growth over 1998 to keep pace with national growth in gasoline sales. But according to its quarterly report published in August 1999, its total volume pumped was down 4.6% (from 259 million gallons to 247 million gallons). In addition, Crown's sales should have grown approximately 1.1% to reflect addition of four more stores. In other words, a normal growth path would have meant selling 259 + 2.7% or 266 million gallons. This is a total difference of 7.2 % or 19 million gallons compared with expected sales, which would have produced added sales of at least $19 million dollars using a modest $1/gallon.

B. Crown's sales of gasoline should have increased further in 1998 due to its

concentration of convenience stores.

According to the company's 10-K report, at December 31, 1998, the company had 76 convenience stores, 121 mini-marts and 146 gasoline stations. According to Convenience Store News, during 1998 gasoline sales at *convenience stores* in the US rose at an average convenience store by thirteen percent. (See exhibit 3.m.) In the absence of the boycott, this growth in convenience store gasoline sales would have resulted in substantial further growth in Crown's sales.

C. The massive boycott of Crown gas stations contributed significantly to loss of sales.

The boycott of Crown gas stations was launched in November 1997 by the AFL-CIO. As documented in the enclosed attachments, it has continued to build substantial momentum through 1998 and the first half of 1999. See Exhibits 3.a,b,d-k.

D. The company's explanation for lack of growth in gasoline sales omits mention of the boycott.

In explaining the decline and lack of expected growth in gasoline sales during the 1998 reporting year in its 10-K report and in the preceding 10-Q reports and the subsequent first quarter 1999 10-Q report, Crown omitted reporting the existence of a boycott of its gas stations, a factor which may have been equal to or even more significant than the "competitive" factors referenced in the 10-K report for reporting year 1998.

The company did not mention the impact of the boycott in discussing the volume of gasoline sales in 1998. Instead, it mentioned market competition and pricing policies.[3] Yet it appears that a large loss, e.g as much as 7.2% in sales of gasoline in the first half of 1999, could be attributable to the boycott, which may have cost the company tens of millions in gross revenue. Failure to report on the boycott while referring instead to "competitive factors" is materially misleading to the shareholders.

E. Crown's second quarter 10-Q report for 1999 denied a material impact of the boycott, despite appearances to the contrary.

The company finally reported the existence of the boycott which has existed since 1996 in its second quarter 1999 10-Q report:

[3] The 10-K report noted, for instance, "The Company faces intense competition in all of the business areas in which it operates. Many of the Company's competitors are substantially larger and, therefore, the Company's earnings can be affected by the marketing and pricing policies of its competitors, as well as changes in raw material costs."

> Additionally, as discussed in Item 3. Legal Proceedings of the Annual Report on Form 10-K for the fiscal year ended December 31, 1998, the Company's collective bargaining agreement at its Pasadena refinery expired on February 1, 1996, and on February 5, 1996, the Company invoked a lock-out of employees in the collective bargaining unit. Since that time, the union to which the collective bargaining unit belongs has waged an orchestrated corporate campaign including **sponsoring a boycott of the Company's retail facilities and supporting various lawsuits against the Company**. (Also, see Item 3. Legal Proceedings as previously discussed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.) The Company has been operating the Pasadena refinery since the lock-out and intends to continue to do so during the negotiation period with the collective bargaining unit. **Management does not believe that the corporate campaign has had a material adverse impact on the Company's operations.** However, it is possible that the corporate campaign could have a material adverse impact on the Company's future results of operations.

The company claims no material impact of the boycott and attributes its loss of sales in the first half of 1999 to pricing policy, but the increasing proportion of lost sales appears reflective of continually escalating boycott activities. It appears that the company lost as much as $22 million in gross sales in 1998 and as much as $19 million in gross sales in 1999, much of which may have been as a result of the boycott. **In view of the company's gross revenue in 1998 of $1.264 billion dollars, a loss of gross revenue of .5 to 1% of that amount, or $6.3 to $12.6 million should be considered quantitatively material for these purposes. Thus it is probable that the impact of the boycott exceeded the materiality threshold.**

F. <u>Crown increased its marketing expenditures, but failed to disclose the extent to which the boycott caused these expenditures.</u>

In addition, the company probably spent a substantial amount on marketing, to attempt to counteract the effects of the boycott. The company's selling expenses rose by 11.9%, or $9.2 million, during the 1998 reporting year, and marketing efforts geared to counteracting negative influences of the boycott may have been a substantial portion of these expenditures. Yet the company did not disaggregate or mention such expenditures responding to the boycott in its 1998 10-K report.

Since the company made statements in its 10-K report regarding its depressed gasoline sales and its marketing expenses and included explanations for these matters that focused on competitive factors, it was misleading to not mention the material role individually or in the aggregate that the boycott played in these issues. This appears to be an omission of material information in violation of SEC rules 12b-20 and 10b-5.

III. Crown failed to report material risks to federal contracts from discrimination and affirmative action issues.

Crown's reporting of discrimination issues in its 1998 10-K and its 10-Q reports omitted to report risks to material federal contracts posed by underlying affirmative action issues. While Crown reported the existence of a workplace discrimination lawsuit, it omitted disclosure of potentially material risks as a result of the underlying issues of workplace discrimination and affirmative action, such as the risk posed to federal contracting.

Crown notes in its 1998 10-K report that:

> Seven employees at the Pasadena refinery and one at the Tyler refinery have filed a purported class action suit in the United States District Court for the Eastern District of Texas alleging race and sex discrimination in violation of Title VII of the Civil Rights Act of 1964, as amended, and in violation of the Civil Rights Act of 1871, as amended. Lorretta Burrell, et al. vs. Crown Central Petroleum Corporation, C.A. No. 97-CVO-357 (E.D. Tex.)...

The company's disclosure report neglects to state that several employees, both hourly and salaried, both union and nonunion, have leveled the civil rights allegations. They assert that the management has a pervasively hostile and abusive work environment where (a) racist and sexist comments, handbills and graphics are condoned; (b) women's bathrooms are lacking or have holes in the walls; (c) strippers entertain at worksite parties and pornographic videos are shown in the workplace on company time; and (d) supervisors retaliate against female employees who resist sexual advances and inappropriate contact. See exhibit 2.a. A similar workplace discrimination case, brought against Texaco cost that company $176 million dollars in a 1997 settlement. But Crown does not specifically estimate the potential liabilities associated with this suit.

The implications of the issues raised in this discrimination case, documented as the case has evolved, go beyond the potential for many millions of dollars in liability owed to employees who were discriminated against. In the course of the case it has become apparent that the company may risk losing government contracts, due to its failures on affirmative action obligations.

Even before the lockout of its unionized employees, information discovered in the civil rights suit has shown that Crown was not meeting its affirmative action goals and requirements. Crown's 1997 Affirmative Action Plans for its Pasadena and Tyler, Texas refineries showed underutilization of women and/or minorities in every job group from middle management to trainees. In the plan, Crown admitted that females

and minorities are underutilized and set forth specific corrective action needed to remedy those problem areas. However, despite the company's "commitments" to aggressive recruitment in and out of the workplace, Crown maintained an official policy against posting many of its job vacancy announcements, thereby denying women and minorities the opportunity to apply for positions. See exhibit 2.b. After the lockout, the racial diversity of the workforce worsened --- the workers hired to replace the unionized workers were almost entirely Caucasian.

The management also admits to destroying and discarding its 1996 affirmative action plan for its Baltimore, MD corporate office. This plan may have been destroyed after employees and supervisors filed EEOC charges against the company.

A Presidential Executive Order, EO 11246, prohibits the federal government from doing business with contractors who discriminate on the basis of race, national origin, religion or gender. The Executive Order also requires that contractors take affirmative action to ensure that employees are treated in a nondiscriminatory manner. (See exhibit 2.c.)

Crown currently has at least two substantial federal contracts. These include a $23 million contract with the Air Force for jet fuel as well as another contract for gasoline for government vehicles. Crown's ability to obtain and maintain federal contracts is at risk from its discriminatory practices.

We believe that the reporting of the existence of the discrimination litigation, and the company's expectation that the litigation will not have a material effect on the corporate bottom line, may be misleading because it does not also acknowledge an important contingency -- that workplace discrimination failings raised by the suit may otherwise materially affect the corporation's finances.

IV. Crown's poor performance is inadequately explained in its shareholder reports.

Over the last decade Crown Petroleum has become widely regarded as the most poorly performing independent refining business in the entire US oil industry. One example of the financial indicators of this is that the company's earnings per share in 1998 were the lowest of the entire sector, amounting to a *loss* of $2.54 per share. Crown's per barrel refinery margins of $1.59 per barrel were by far the lowest of independent refiners in 1998 and 60 percent lower than the average among the eight independent oil refiners for which data was available. Crown's low refinery margins may be attributed in part to its lockout of experienced workers as well as to poor judgment in purchases of crude oil futures. Buried in a massive 13-D report filed with the SEC in December 1998 was the disclosure that as a result of a deal with other members of the Rosenberg

family, the company's President Henry A. Rosenberg Jr. and two of his sisters will be compensated by other family members if the value per share of Crown stock goes down further during 1999. This agreement does not extend the same promise of compensation to other parties who may buy or sell stock during the intervening period. Given the degree of influence Rosenberg has over stock prices from his management of the corporation, this agreement deserves full scrutiny of the SEC and public shareholders for any irregularities entailed therein.

A Ten Year Decline of Crown Central Petroleum			
	1988	1998	%Decrease
Annual Revenues	$2 billion	$1.6 billion	25%
Stock Price	41 3/4	7.68	80%

Crown Central Petroleum is a company in trouble. See, e.g. exhibit 4.a. But its shareholder reports have not adequately provided an explanation of the underlying reasons for this trouble.

V. Crown omitted material information on which shareholders have a right and a need to know.

Individually and collectively Crown's undisclosed environmental, social and operational issues appear to constitute a quantitatively and qualitatively material omission, in violation of SEC rules 10b-5 and 12b-20. A prudent investor would want and need to know more than Crown Central Petroleum has been reporting.

A. Information omitted constitutes *quantitatively* material information.

Individually and collectively the information omitted constitutes omission of quantitatively material information. In view of the company's gross revenue in 1998 of $1.264 billion dollars, a loss of gross revenue of .5 to 1% of that amount, or $6.3 to $12.6 million should be considered quantitatively material for these purposes. Thus the boycott impacts, the omitted $14 million environmental penalties sought in the pending proceeding, and the contracts at risk due to affirmative action shortcomings all may be quantitatively material. In addition, as a corporation which has been losing money, shareholders are entitled to information on significant losses which have occurred or may soon occur at the corporation.

B. Information omitted is *qualitatively* material because it indicates the quality of management.

The omission of indicia of environmental and social mismanagement of the company deprives shareholders of information needed to appraise the quality of management. The need for disclosure of environmental and social factors is important to shareholders from at least two vantage points.

1. Environmental performance in the refining sector is an important predictor of economic performance. Innovest, a stock analysis and advisory corporation, published a review of petroleum refiners in May 1999 which showed that environmental performance indicators are tightly correlated with economic performance. Innovest suggests that evaluation of performance on environmental factors can be utilized to improve investor returns, by focusing on companies with superior "eco-efficiency" (i.e. relative environmental performance). See Exhibit 4.d. Of course it is also the case that a company which squandered capital resources on environmental projects, rather than engaging in effective management, would not be expected to improve value to shareholders. It is the type and effectiveness of environmental management and investment that a firm engages in, rather than the overall level of investment in environmental matters that is deemed an indicia of shareholder value. The availability of environmental management information is needed so that analysts can assess whether the company is taking the "high road" or "low road" approach to environmental and social issues, and whether it is doing so effectively.

According to *Security Analysis* by Graham and Dodd[4], considered to be the "bible" of stock analysts:

> "How management deals with major policy decisions within the four walls of the boardroom will seldom if ever be fully known to the security analyst, but valuable insights into this process can be obtained from close observation of management's dealings with employees, customers, public bodies, media, analysts and shareholders. **Insensitivity, inflexibility and ignorance of the environment in which the company operates are almost infallible signs of potential frictions and failures in the effective management and motivation of key employees."**

2. Social investors have a need for this information to screen investments. A substantial portion of the investing community, now amounting to $1.185 trillion in investment funds (approximately nine percent of the investing market), is built on

[4] Graham and Dodd's *Security Analysis*, Fifth Edition, 1998, page 121.

screened investment. Social Investment Forum, 1997 Trend Report.[5] These investors are reliant on good information on social and environmental issues, including issues such as a firm's involvement in major violations or penalty assessments and in major controversies.

SEC disclosure requirements for qualitative materiality mean little if they will not address a situation such as this, in which a company is managed incompetently but in its reporting conceals most of its serious managerial issues on operational, environmental and labor matters. To reiterate, examples of information denied to shareholders that we believe fills this category include:

- Payment during the preceding fiscal year of a $1.1 million penalty, one of the highest ever assessed in Texas, for air pollution violations. Omitted from the 1998 10-K report.

- The existence of a labor-environmental-civil rights boycott of the company's gas stations (omitted from the 1997 and 1998 10-K), and its growing impact on sales.

- Civil rights issues, including failures to attain affirmative action goals, and the potential impact on federal contracts.

We urge the SEC to intercede and provide appropriate punitive or enforcement response, or an opinion letter, to deter this corporation as well as others from failing to disclose this type of information in the future, and to require revision of previous filings to accurately reflect these issues.

Respectfully submitted,

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[5] http://www.socialinvest.org/Areas/Research/trends/1997-Trends.htm

EXHIBITS REGARDING
CROWN CENTRAL PETROLEUM
SHAREHOLDER DISCLOSURE ISSUES

1. Environmental Enforcement Proceedings

    1. Agreed Order of Crown Central Petroleum with the Texas Natural Resources and Conservation Commission, August 1998
    2. Administrative Appeal of Agreed Order: Texans United and Sierra Club's Motion for Reconsideration
    3. State Court Appeal of Agreed Order.
    4. Environmental Civil Rights Complaint

2. Affirmative Action
    1. Civil Rights Lawsuit: Burrell vs. Crown
    2. Opinion and Order for Document Preservation; Excerpts of Affirmative Action Plan
    3. President Lyndon Johnson's Executive Order 11246 on Affirmative action

3. Boycott
    1. Crown Boycott Press Releases
    2. Newspaper Articles
    3. Crown Promotional Advertisement
    4. Official Campaign News and Updates
    5. Documentation of Pickets
    6. Documentation of rallies
    7. Publicity Fliers
    8. Letters from unions and organizations supporting the strike
    9. Government Resolutions
    10. Resolutions by Non-Government Organizations
    11. "Open Letters" from Non-Government Organizations
    12. US Dept. of Commerce, Finished Motor Gasoline Supply and Disposition 1996-1998
    13. Convenience Store News - 1998 Gasoline Sales Results Reported

4. Mismanagement Issues
    1. Crown Under Siege
    2. Dirty Business
    3. Shareholder Derivative suit
    4. Innovest, The Petroleum Industry: Hidden Risks and Value Potential for Strategic Investors (May 1999) Executive Summary.