

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

CROWN NORTHCORP INC
Form 10QSB
August 15, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-QSB

(Mark One)

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

For the quarterly period ended: June 30, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For transition period from _____ to _____

Commission File No.: 0-22936

Crown NorthCorp, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware

22-3172740

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

P.O. Box 613, Cheyenne, Wyoming 82001

(Address of principal executive offices)

(614) 488-1169

(Issuer's telephone number)

N/A

(Former name, former address and former fiscal year,
if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such
shorter period that the issuer was required to file such reports), and (2) has
been subject to such filing requirements for the past 90 days. Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS.

Check whether the registrant filed all documents and reports required to
be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution
of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of August 10, 2005, the issuer had 13,145,778 shares of its common
stock, par value \$.01 per share, outstanding.

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

Transitional Small Business Disclosure Format (check one). Yes [] No [X]

CROWN NORTHCORP, INC.
FORM 10-QSB
QUARTERLY PERIOD ENDED JUNE 30, 2005

INDEX

	PAGES

PART I	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets as of June 30, 2005 and December 31, 2004	1
Condensed Consolidated Statements of Operations for the second quarter and the six months ended June 30, 2005 and 2004.....	2
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2005 and 2004	3
Notes to Condensed Consolidated Financial Statements- June 30, 2005 and 2004.....	4
Item 2. Management's Discussion and Analysis.....	8
Item 3. Controls and Procedures.....	16
PART II	
Item 1. Legal Proceeding.....	16
Item 2. Changes in Securities.....	16
Item 3. Defaults Upon Senior Securities.....	16
Item 4. Submission of Matters to a Vote of Security Holders.....	16
Item 5. Other Information.....	16
Item 6. Exhibits.....	17

CROWN NORTHCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2005 AND DECEMBER 31, 2004

ASSETS	UNAUDITED	
	2005	2004
	-----	-----

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

CURRENT ASSETS:		
Cash and cash equivalents	\$ 861,148	\$ 3,287,104
Accounts receivable	--	--
Disposition fee receivable	3,439,389	
Distribution receivable	4,004,043	
Other	1,566,765	1,756,639
Prepaid expenses and other assets	599,297	734,219
	-----	-----
Total current assets	10,470,642	5,777,962
PROPERTY AND EQUIPMENT - Net	281,626	283,236
RESTRICTED CASH	341,995	351,131
OTHER ASSETS		
Investment in partnerships and joint ventures	1,062,097	889,449
Other investments	1,172,408	974,652
Loan servicing rights- net	5,320,579	6,548,653
Capitalized software cost - net	859,101	775,974
Acquisition Costs	--	2,091
Deposits	40,164	42,059
	-----	-----
Total other assets	8,454,349	9,232,878
	-----	-----
TOTAL	\$ 19,548,612	\$ 15,645,207
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term obligation	--	--
Accounts payable	381,559	993,236
Notes payable- short term	3,586,767	
Deferred revenue	--	--
Accrued expenses:		
Interest	--	--
Other	334,530	778,125
	-----	-----
Total current liabilities	4,302,856	1,771,361
LONG-TERM OBLIGATIONS:		
Notes and bonds payable - less current portion	--	--
Allowance for loan losses & other	235,979	235,979
	-----	-----
Total long-term obligations	235,979	235,979
MINORITY INTEREST	--	--
SHAREHOLDERS' EQUITY:		
Common stock	159,401	159,401
Convertible preferred stock	--	--
Additional paid-in capital	20,117,522	20,117,522
Accumulated comprehensive income	256,446	536,241
Accumulated deficit	(5,346,534)	(6,998,239)
Treasury stock, at cost	(177,058)	(177,058)
	-----	-----

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

Total shareholders' equity	15,009,777	13,637,867
	-----	-----
TOTAL	\$ 19,548,612	\$ 15,645,207
	=====	=====

See notes to condensed consolidated financial statements.

1

CROWN NORTHCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
FOR THE SECOND QUARTER AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004

	SECOND QUARTER		2005
	2005	2004	
	-----	-----	-----
REVENUES:			
Management fees	\$ 198,723	\$ 155,543	\$ 459,723
Disposition fees	3,439,389		3,439,389
Servicing fees	1,313,657	701,040	2,358,657
Interest income	83,010	9,827	103,827
Gain on short term note disposition	417,276	--	417,276
Other	161,190	186,889	520,190
	-----	-----	-----
Total revenues	5,613,245	1,053,299	7,298,245
	-----	-----	-----
EXPENSES:			
Personnel	1,577,101	1,078,461	2,830,101
Occupancy, insurance and other	622,452	611,972	1,277,452
Interest	--	53,899	--
Write-off mortgage servicing rights	122,617	--	1,191,617
Depreciation and amortization	175,249	193,943	346,249
	-----	-----	-----
Total expenses	2,497,419	1,938,275	5,647,419
	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	3,115,826	(884,976)	1,651,826
INCOME TAX (BENEFIT)	--	--	--
	-----	-----	-----
NET INCOME (LOSS)	\$ 3,115,826	\$ (884,976)	\$ 1,651,826
OTHER COMPREHENSIVE INCOME			
Unrealized gain/(loss)		27,873	
Foreign currency translation adjustment	(224,498)	(5,566)	(279,498)
	-----	-----	-----
COMPREHENSIVE INCOME (LOSS)	\$ 2,891,328	\$ (862,669)	\$ 1,371,328
	=====	=====	=====
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED	\$ 0.24	\$ (0.07)	\$ 0.24

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	13,145,778	12,455,778	13,145,778

See notes to condensed consolidated financial statements.

2

CROWN NORTHCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)	\$ 1
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation and amortization	1
Provision for impairment to mortgage servicing rights	1
Equity in income from investment in partnerships and joint ventures	1
Change in operating assets and liabilities:	
Accounts receivable	(7)
Prepaid expenses and other assets	3
Accounts payable and accrued expenses	3

Net cash provided (used) in operating activities (1)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	---
Increase in warehoused loans	---
Decrease (increase) in restricted cash	---
Other investments	---
Deposits	---

Net cash provided (used) in investing activities

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from notes payable	---
Principal payments on notes payable	---

Net cash provided (used) by financing activities

NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	(2)
Effect of exchange rate on cash	3
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	---

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$

SUPPLEMENTAL CASH FLOW INFORMATION:

CASH PAID FOR INTEREST

\$

See notes to condensed consolidated financial statements.

3

CROWN NORTHCORP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(UNAUDITED)

1. General and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Crown NorthCorp, Inc. and subsidiaries reflect all material adjustments consisting of only normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of results for the interim periods. Certain information and footnote disclosures required under generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although the company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the year-end financial statements and notes thereto included in the company's Form 10-KSB for the year ended December 31, 2004. Investments in majority-owned affiliates where the company does not have a majority voting interest and non-majority-owned affiliates are accounted for on the equity method. All significant inter-company balances and transactions have been eliminated. Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

2. Significant Accounting Policies

Acquisitions

Effective December 31, 2003, the company acquired 100% of the issued and outstanding stock of Royal Investments Corp. for 12,000,000 shares of common stock of the company. Crown now holds has treasury stock 1,125,803 of the company formerly owned by Royal. Through this transaction, the company has acquired Crown NorthCorp Limited ("CNL"), a corporation organized under the laws of the United Kingdom, and CNL's operating subsidiaries, including Crown Mortgage Management ("CMM"). The acquisition was accounted for using the purchase method of accounting and, accordingly, the results of operations are reflected in the financial statements from January 1, 2004 forward. Royal was a Delaware corporation whose sole shareholder was the company's chairman and chief executive officer.

Foreign Currency Translation

Results of operations for the company's non-U.S. subsidiaries and affiliates are translated from the designated functional currency to the U.S. dollar using average exchange rates during the period, while assets and liabilities are translated at the

average monthly exchange rate in effect at the reporting date. Resulting gains or losses from translating foreign currency financial statements are reported as other comprehensive income (loss). The effect of changes in exchanges rates between the designated functional currency and the currency in which a transaction is denominated are recorded as foreign currency transaction gains (losses).

Capitalized Software Costs

The company follows the accounting guidance as specified in Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The company capitalizes significant costs in the acquisition or development of software for internal use, including the costs of the software, materials, consultants, interest and payroll and payroll-related costs for employees incurred in developing internal-use computer software once final selection of the software is made. Costs incurred prior to the final selection of software and costs not qualifying for capitalization are charged to expense.

Investments in Partnerships and Joint Ventures

Certain of Crown's general partner and joint venture investments (ranging from 1% to 50%) are carried at cost, adjusted for the company's proportionate share of undistributed earnings and losses because the company exercises significant influence over their operating and financial activities.

3. Loss Per Common Share

The income (loss) per share for the six months ended June 30, 2005 and 2004 are computed based on the income (loss) applicable to common stock divided by the weighted average number of common shares outstanding during each period.

4. Property and Equipment

Property and equipment consists of the following at June 30, 2005 and December 31, 2004:

	2005	2004
	-----	-----
Property and equipment	\$ 1,366,581	\$ 1,365,133
Less accumulated depreciation	(1,084,955)	(1,081,897)
	-----	-----
Property and equipment - net	\$ 281,626	\$ 283,236
	=====	=====

5. Preferred Stock

The company has 1,000,000 authorized shares of preferred stock. At June 30, 2005 and December 31, 2004, Crown had no outstanding shares of preferred stock.

6. Contingencies

The company has certain contingent liabilities resulting from contractual requirements in the United Kingdom in regards to employment contracts acquired in the merger with Royal. Upon termination (but only in the event of redundancy, as defined under the employment laws of the United Kingdom), 11 employees may be entitled to receive severances based upon a formula taking into account years of service and weekly pay.

The company has certain other contingent liabilities resulting from claims incident to the ordinary course of business. Management believes that the probable resolution of such contingencies will not materially affect the consolidated financial statements of the company.

7. Statements of Financial Accounting Standards

SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets" were issued by the Financial Accounting Standards Board in July 2001. SFAS No. 141 requires that purchase method of accounting be used for all business combinations entered into after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations ceased upon SFAS No. 142, which for the company was January 1, 2002. The adoption of this standard did not materially impact the company's financial position, results of operations or cash flows.

SFAS No. 123 (revised 2004) "Share-Based Payment" (SFAS No 123R), was issued December 2004, amends SFAS No. 123 and supersedes Accounting Principles Board Opinion No. 23, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R requires a publicly traded entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Costs are to be recognized over the period during which an employee is required to provide services in exchange for the award. SFAS No.

6

123R is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The company does not anticipate that the adoption of this statement will have a material effect on the financial position or results of operations.

SFAS No. 153 "Exchanges of Nonmonetary Assets, an amendment of Accounting Principles Board Opinion No. 29" eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception of exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in the fiscal period beginning after June 15, 2005. The company does not anticipate that the adoption of this statement will have a material effect on the financial position or results of operations.

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

In December 2003, the FASB issued a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R") issued in January 2003. FIN 46R clarifies the application of ARB No. 51, "Consolidated Financial Statements," with respect to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R requires the consolidation of these entities, known as variable interest entities ("VIEs"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. Among other changes, the revisions of FIN 46R clarified some requirements of the original FIN 46 issued in January 2003, eased some implementation problems and added new scope exceptions. FIN 46R deferred the effective date of the interpretation for public companies to the end of the first reporting period after March 15, 2004, except that all public companies must at minimum apply the provisions of the interpretation to entities that were previously considered "special-purpose entities" under the FASB literature prior to the issuance of FIN 46R by the end of the first reporting period ending after December 15, 2003. During the year ended December 31, 2003, adoption of FIN 46R did not have a material impact on the company's financial statements.

7

Item 2. - Management's Discussion and Analysis

THE COMPANY'S BUSINESSES

Crown provides comprehensive financial services to the holders of real estate interests in Europe and the United States. The company's principal business activities include third-party asset management and loan servicing. Additional Crown businesses include an interest in a company that originates sub-prime residential real estate loans in the United Kingdom. Crown's business lines in Europe and the United States generate revenues in several ways: agreements to manage commercial, multifamily and residential real estate and loan assets for the account of others; loan servicing and mortgage management on an active or standby basis of individual loans, loan portfolios and assets in securitized transactions; fees and other income associated with loan origination and the securitization of those loans; risk management, fund management, financial advisory and due diligence services; and administration of the interests of various corporations, partnerships, investments consortiums and special-purpose entities.

Crown generated net income in 2004 primarily from asset sales that resulted in very significant returns from the residual interest the company held in a securitization of tax-exempt bonds. A substantial portion of the loss reported in the first quarter of 2005 was attributable to a charge to earnings to adjust downward the value of the company's servicing rights as a result of a contract termination. The net income being reported in the second quarter of 2005 is primarily a result of very substantial management and servicing fees from the disposition of certain assets managed under contract. Crown, however, continues to sustain losses from operations separate and apart from these one-time occurrences. The company has been and will continue to actively deploy its resources, primarily in Europe, to replace expiring or terminating contracts, pursue opportunities in the banking sector and otherwise seek to expand its businesses and attempt to return to operating profitability. These efforts include from time to time the formation of partnerships, business combinations or other arrangements or transactions to leverage the company's liquidity and capital resources, maximize the value of its core businesses, provide

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

opportunities for recurring revenue and improve operating results.

FORWARD LOOKING STATEMENTS

The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 21E of the Exchange Act, including statements regarding the company's expectations, hopes, intentions or strategies regarding the future. Forward-looking statements include terminology such as "anticipate," "believe," "has the opportunity," "seeking to," "attempting," "appear," "would," "contemplated," "believes," "in the future" or comparable language. All forward-looking statements included in this document are based on information available to the company on the date hereof, and the company assumes no obligation to update any such forward-looking

8

statements. It is important to note that the company's actual results could differ materially from those in such forward-looking statements. The factors listed below are among those that could cause actual result to differ materially from those in forward-looking statements. Additional risk factors are listed from time to time in the company's reports on Forms 10-QSB, 8-K and 10-KSB.

Among the risk factors that could materially and adversely affect the future operating results of the company are:

- Crown's net income for the second quarter of 2005 derives primarily from non-recurring sources. Management believes that growth in its core asset management and servicing businesses, primarily in Europe, will increase recurring revenue and lead to consistent operating profitability, but there can be no assurance of this.
- Crown has and will continue to attempt to utilize proceeds from the disposition of assets under management to maintain and expand business volumes, primarily in Europe. There can be no assurance that the company will be able to successfully redeploy these proceeds to generate new business that results in operating profitability.
- Crown's capital resources remain limited when compared to virtually all of its competitors. To successfully compete for many business opportunities, the company will need to form partnerships, alliances or other combinations if it cannot increase its capital through profitable operations or other means.
- Crown and certain of its subsidiaries operate as rated servicers. If these entities were to no longer be rated, or if those ratings were lowered, there would be an adverse effect on the company's operations. Crown's business volumes may affect its servicer ratings.

OUTLOOK

Crown is realizing value from its European operations and utilizing that value to expand operations. On June 30, 2005, Crown European Holding Limited ("CEH"), a subsidiary of Crown, sold all of the stock of Crown Fastigheter AB (formerly Crown Properties Holding AB) ("CFAB"). At the time of the sale, CFAB held a portfolio of 59 real estate assets in Sweden. Crown managed the assets in the portfolio. Pursuant to the terms of agreements governing this management relationship, Crown received incentive compensation of \$3,439,389 net of payment of expenses.

While Crown nominally held the equity of CEH, financing arrangements entered into in 2003 placed 73.13% of the beneficial ownership of CEH in the hands of

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

Kenmore Scandinavian Limited ("Kenmore") and 26.87% of the beneficial ownership with Royal

9

Investments, L.L.C. ("Royal LLC"). Ronald E. Roark, Crown's vice chairman and chief executive officer, is the managing member of Royal LLC.

In conjunction with the sale of CFAB, Crown has entered into a new asset management agreement with the buyer to continue managing the acquired portfolio as well as other assets.

Also in conjunction with the sale of CFAB and its receipt of the incentive compensation noted above, Crown purchased from two holders promissory notes payable by Royal LLC for an aggregate purchase price of approximately \$3.5 million. Royal LLC then repaid the promissory notes in full from its proceeds of sale.

The CFAB transaction exemplifies how holders of real estate interests in Europe have increasingly utilized asset securitizations and other complex capital markets transactions to realize value from their investments. Management believes this trend will continue and that Crown will continue to be well positioned to benefit from it. The structuring of these transactions typically requires the involvement of a rated servicer; Crown is the first servicer in Europe to receive multiple ratings for both commercial and residential servicing from three rating agencies. Additionally, the market knowledge Crown has obtained from operations in several countries is an aid in identifying and pursuing emerging opportunities.

Crown provides comprehensive, integrated services addressing all phases of the life cycle of an asset from acquisition to disposition. The company's loan servicing and mortgage management business in Europe includes a wide range of commercial, multifamily and residential loans. Crown provides servicing on both an active and standby basis. The company continues to obtain additional commercial and residential servicing and mortgage management business. The company, in conjunction with its joint venture partner, is seeking to expand its master servicing business.

Crown holds a minority interest in Rooftop Mortgages Limited, which is originating sub-prime residential loans in the United Kingdom. The company anticipates a continued strong volume of originations in this category and seeking to develop similar business lines elsewhere in Europe. Crown continues to develop the capability to begin originating commercial mortgage loans in the U.K. later this year. Both residential and commercial originations should increase loan servicing and mortgage management portfolios. The company is also exploring opportunities in the banking sector to further expand lending and servicing opportunities in Europe.

In the United States, the company is in active discussions with possible strategic partners regarding ongoing operations. Opportunities under consideration may possibly increase the servicing volumes in the U.S. through the acquisition of servicing portfolios, participation in lending programs or other means. Pending the outcome of these discussions, operations in the U.S. continue in transition following the disposition in 2004

10

of a substantial portion of assets under management in the U.S. A small number of assets remain under management in the United States and efforts are under way to resolve these.

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

Crown is utilizing funds derived from its core business activities in Europe to further expand those businesses in Germany, Scandinavia, the United Kingdom and other European markets as well as the United States. Crown has and will continue to explore partnerships and other business structures with existing or new clients that facilitate the development of business both in Europe and the United States. The company is prepared to provide investment capital to such entities to advance growth opportunities that maximize the value of Crown's comprehensive financial services and provide recurring revenue to its business lines. Such investments may be made in conjunction with an investment partner. Crown believes that proceeding in this manner is the most effective way of expanding the company's revenues and sustaining operating profitability.

RESULTS OF OPERATIONS FOR THE SECOND QUARTER ENDED JUNE 30, 2005 COMPARED TO THE SECOND QUARTER ENDED JUNE 30, 2004

Total revenues increased \$4,559,946 to \$5,613,245 for the second quarter of 2005 from \$1,053,299 during the same period in 2004. The majority of the increase is attributable to disposition fees and servicing fees generated from European operations.

Management fees increased \$43,180 to \$198,723 for the second quarter ended June 30, 2005 from \$155,543 for the corresponding period in 2004. The majority of this increase can be attributed in part to an increase in fees collected from European operations of approximately \$120,000. Approximately \$93,500 of this increase was part of a final settlement of an early termination of a subservicing contract held by one of the company's European subsidiaries. This increase was offset by a decrease in fees earned in the U.S. of some \$75,000 due to a reduction in assets managed.

Disposition fees increased approximately \$3.4 million for the three months ended June 30, 2005 compared to no disposition fees for the comparable period in 2004. Crown's receipt in the CFAB transaction noted above of incentive compensation of \$3,439,389, net of payment of expenses, accounts for this increase.

Servicing fees increased to \$1,313,657 for the quarter ending June 30, 2005 from \$701,040 for the quarter ending June 30, 2004. This \$612,617 increase is the result of service fees earned from European operations increasing some \$629,000 as the result of new contracts and increased volumes in existing contracts and a decline in U.S. service fees of some \$16,000 due to a reduction of the servicing portfolio.

Interest income increased to \$83,010 for the quarter ended June 30, 2005 from \$9,827 for the corresponding period in 2004.

11

Other income increased approximately \$391,000 to \$578,466 for the quarter ended June 30, 2005 from \$186,889 for the quarter ended June 30, 2004. Crown received a guaranty fee of approximately \$100,000 in connection with the CEH sale of CFAB mentioned above. Also as noted above, in conjunction with the CFAB sale and the receipt of incentive compensation, Crown purchased from two holders promissory notes payable by Royal LLC for an aggregate purchase price of approximately \$3.5 million. Royal LLC then repaid the promissory notes in full from its proceeds of sale. The amount of the Royal LLC distribution received in excess of the amounts needed to repay the notes in full was approximately \$417,000. These two increases were partially offset by a decrease in expected tax refunds in Europe of some \$85,000 and a decrease in joint venture income of approximately \$47,000.

Personnel expenses include salaries, related payroll taxes and benefits, travel and living expenses and professional development expenses. Personnel expenses

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

increased \$498,640 to \$1,577,101 for the second quarter of 2005 from \$1,078,461 for the same period in 2004. The majority of the increase was due to an increase in payroll and contract labor costs in Europe of approximately \$484,000 arising from addition personnel in the company's information technology, compliance and loan servicing areas as well as start-up cost incurred for the new office located in Germany. In addition, net increases in U.S. personnel and travel expenses of some \$20,000 accounted for the remainder of the total increase.

Occupancy, insurance and other operating expenses increased to \$622,452 for the second quarter of 2005 from \$611,972 for the second quarter of 2004. This \$10,480 increase in these expenses was attributable to increases in office rent and bad debt expenses in Europe of some \$63,000 as well as increases of approximately \$34,000 relating to the company's new offices in Germany. In the United States, the company experienced a net decrease in these expenses of approximately \$32,000. Offsetting the increases in Europe was a decrease of approximately \$42,000 in Europe on information technology infrastructure upgrades and related expenses and a reduction in other office overheads of approximately \$13,000.

Interest expense decreased to \$0 for the second quarter of 2005 from \$53,899 for the second quarter of 2004. The decrease is due to the repayment of debt incurred in Europe during 2004.

The write-down of capitalized mortgage servicing rights increased by approximately \$123,000 over the corresponding period in 2004. This write down was necessitated by the early payoff of a large loan in the company's U.S. servicing portfolio.

Depreciation and amortization decreased to \$175,249 for the second quarter of 2005 from \$193,943 for the corresponding period in 2004. The majority of the \$18,694 decrease is the result of an adjustment to the amortization of capitalized servicing costs in 2004 of approximately \$44,000. This decrease is offset by increases in depreciation expense of

12

some \$25,000 attributable to European operations for the second quarter of 2005.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2004

Total revenues increased \$5,148,942 to \$7,298,844 in the first six months of 2005 from \$2,149,902 during the same period in 2004. The majority of the increase is attributable to disposition fees and servicing fees generated from European operations.

Management fees increased \$176,304 to \$459,072 for the six months ended June 30, 2005 from \$282,768 for the corresponding period in 2004. This increase can be attributed in large measure to the receipt of approximately \$280,000 as part of a final settlement of an early termination of a subservicing contract held by one of the company's European subsidiaries. Other fees collected from European operations total approximately \$48,000. These increases were offset by a decrease in fees earned in the U.S. of some \$150,000 due to a reduction in assets managed.

Disposition fees increased approximately \$3.4 million for the six months ended June 30, 2005 compared to no disposition fees for the comparable period in 2004. Crown's receipt in the CFAB transaction noted above of incentive compensation of \$3,439,389, net of payment of expenses, accounts for this increase.

Servicing fees increased \$1,011,279 to \$2,358,508 for the six months ending June

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

30, 2005 from \$1,347,229 for the comparable period in 2004. This increase is the result of service fees earned from European operations increasing some \$1,000,000 as the result of new contracts and increased volumes in existing contracts. Also contributing to the increase was the net effect of a one-time prepayment fee received in the U.S.

Interest income decreased \$27,762 to \$103,695 for the six months ended June 30, 2005 from \$131,457 for the comparable period in 2004. The majority of the decrease is attributable to the resolution of a substantial portion of a portfolio of interest-bearing notes owned by one of the company's European subsidiaries.

Other income increased to \$938,180 for the six months ended June 30, 2005 from \$388,448 for the six months ended June 30, 2004, an increase of approximately \$549,000. Crown received a guaranty fee of approximately \$100,000 in connection with the CEH sale of CFAB mentioned above. Also as noted above, in conjunction with the CFAB sale and the receipt of incentive compensation, Crown purchased from two holders promissory notes payable by Royal LLC for an aggregate purchase price of approximately \$3.5 million. Royal LLC then repaid the promissory notes in full from its proceeds of sale. The amount of the Royal LLC distribution received in excess of the amounts needed to repay the notes in full was approximately \$417,000. These two increases were partially offset by a decrease in expected tax refunds in Europe of some \$110,000 and a increase in joint venture income of approximately \$141,000.

13

Personnel expenses include salaries, related payroll taxes and benefits, travel and living expenses and professional development expenses. Personnel expenses increased \$731,709 to \$2,830,422 for the first six months of 2005 from \$2,098,713 for the same period in 2004. The majority of the increase was due to an increase in payroll and contract labor costs in Europe of approximately \$467,000 arising from addition personnel in the company's information technology, compliance and loan servicing areas. Also contributing to the increase was start-up cost incurred for the new office located in Germany of approximately \$287,000. Offsetting this increase were reductions in U.S. payroll and travel of some \$20,000.

Occupancy, insurance and other operating expenses increased to \$1,277,968 for the six months ended June 30, 2005 from \$1,246,663 for the comparable period in 2004. The \$31,305 increase in these expenses was attributable to increases in office rent, bad debt expenses and consultancy costs for Scandinavian operations totaling approximately \$140,000. Other increases of some \$73,000 relate to activities of the company's new offices in Germany. In the United States, the company experienced a net decrease in these expenses of approximately \$33,000. Offsetting the increases in Europe was a decrease of approximately \$151,000 in Europe on information technology infrastructure upgrades and related expenses.

Interest expense decreased to \$0 for the six months ended June 30, 2005 from \$56,235 for the comparable period in 2004. The decrease is due to the repayment of European debt during 2004.

The write down of capitalized mortgage servicing rights increased by approximately \$1,191,000 over the corresponding period in 2004. The majority of this write down was necessitated by the termination of a subservicing agreement held by one of the company's European subsidiaries, which termination was not for cause but rather the result of a business decision by the company's client to perform the servicing itself.. The termination was effective as of March 31, 2005. In accordance with SFAS No. 5 "Accounting for Contingencies," the company provided for the reduction in the value of its servicing portfolio by making the \$1,069,000 charge to current earnings at that date.

Edgar Filing: CROWN NORTHCORP INC - Form 10QSB

OFF-BALANCE SHEET ARRANGEMENT

Pursuant to the terms of the share transfer agreement governing the sale of CFAB, the buyer, until June 30, 2006, may make claims against CEH for breaches of the representations and warranties CEH has made in the agreement. CEH's aggregate liability for claims shall not exceed 72,500,000 Swedish Krona, or approximately \$10 million. Crown has guaranteed CEH's liability to pay claims.

The representations and warranties CEH has made in the share transfer agreement with respect to CFAB are usual and customary for a stock sale transaction and encompass

14

matters relating to: corporate existence, power, authority, capitalization and title; the preparation of financial statements in accordance with governing standards; the accuracy and completeness of corporate records; and the operation of properties in the real estate portfolio. Crown has been involved in the governance and administration of CFAB and the management of its real estate assets and is of the opinion that there is minimal likelihood of successful claims for breaches of representations and warranties.

In conjunction with guaranteeing CEH's liability for claims under the share transfer agreement, Crown has obtained agreements from Kenmore and Royal LLC to timely fund any liability Crown may have for a breach of a representation or warranty made by CEH. Additionally, Crown has received the guaranty fee of approximately \$100,000 noted above.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

Cash and cash equivalents decreased by \$2,279,660 to \$861,148 at June 30, 2005 from \$3,287,104 at December 31, 2004. The decrease was due primarily to the funding of ongoing operations and equipment purchases. The company's domestic and European operations presently have no operating lines or similar bank credit facilities. The European operations do have a warehouse facility to fund lending operations. Crown is increasing its liquidity through the disposition of assets under management and is also seeking to further improve liquidity and access to cash resources by generating new business revenues, raising additional capital and, in selected instances, entering into strategic alliances.

Management continues to believe that the results of operations for the coming year will be sufficient to fund its cash operating obligations. The company continues to seek to expand revenues from its existing client base while endeavoring to develop new sources of revenue and capital.

HISTORICAL CASH FLOWS

Cash flows from operating activities required the use of \$1,599,112 during the first six months of 2005. Operating activities required the use of \$943,890 for the corresponding period of 2004.

Investing activities used \$680,548 during the first six months of 2005. For the comparable period in 2004, \$405,208 was used for investing activities. The increase in use of funds over 2004 is attributable to an increase in the purchases of furniture, fixtures and equipment in Europe and the U.S.

Financing activities used cash flows of \$3,459 during the first six months of 2004. There

were no such activities during the comparable period in 2005.

Item 3. - Controls and Procedures

Crown's principal executive and financial officers have evaluated the company's disclosure controls and procedures in place on June 30, 2005 and have concluded that they are effective. There have been no significant changes in Crown's internal controls or in other factors since that date that could significantly affect these controls.

PART II - OTHER INFORMATION

Item 1. - Legal Proceedings

None

Item 2. - Changes in Securities

None

Item 3. - Defaults Upon Senior Securities

None

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

None

Item 5. - Other Information

None

Item 6. - Exhibits

The following exhibits are filed as part of this report:

Exhibit Number	Exhibit	Method of Filing
-----	-----	-----
10.96	Share Transfer Agreement between Crown European Holdings, Ltd. and Niam Retail Holding AB regarding Crown Fastigheter AB	Filed herewith
10.97	Counter-Indemnity Agreement among the company, Kenmore Scandinavian Limited and Royal Investments, L.L.C.	Filed herewith
31.9	Certification of officers of Crown	Filed herewith
32.8	Certification of officers of Crown	Filed herewith

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CROWN NORTHCORP, INC.

Dated: August 12, 2005

By: /s/ Rick Lewis

Rick Lewis, Vice President,
Treasurer and Chief Financial
Officer

By: /s/ Stephen W. Brown

Stephen W. Brown, Secretary

INDEX TO EXHIBITS

- 10.96 Share Transfer Agreement between Crown European Holdings, Ltd. and Niam Retail Holding AB regarding Crown Fastigheter AB (1)
- 10.97 Counter-Indemnity Agreement among the company, Kenmore Scandinavian Limited and Royal Investments, L.L.C. (1)
- 31.9 Certification of officers of Crown (1)
- 32.8 Certification of officers of Crown (1)

(1) Filed herewith.