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CROWN NORTHCORP INC
Form 10QSB
November 15, 2004

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: September 30, 2004

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
(State or other jurisdiction of
incorporation or organization)

22-3172740
(I.R.S. Employer
Identification No.)

1251 Dublin Road, Columbus, Ohio 43215
(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 X 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 November 8, 2004, the issuer had 14,656,106 shares of its common stock, par value \$.01 per share, outstanding.

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

CROWN NORTHCORP, INC.
 FORM 10-QSB
 QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

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CROWN NORTHCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
 SEPTEMBER 30, 2004 AND DECEMBER 31, 2003

| | | |
|--------|-----------|-------|
| | UNAUDITED | |
| ASSETS | 2004 | 2003 |
| | ----- | ----- |

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| | | |
|--|---------------|---------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 796,131 | \$ 2,052,065 |
| Accounts receivable - net | 1,248,785 | 2,405,456 |
| Prepaid expenses and other assets | 949,645 | 368,588 |
| | ----- | ----- |
| Total current assets | 2,994,561 | 4,826,109 |
| PROPERTY AND EQUIPMENT - Net | 212,536 | 111,747 |
| RESTRICTED CASH | 373,444 | 257,490 |
| OTHER ASSETS | | |
| Investment in partnerships and joint ventures | 760,676 | 392,985 |
| Other investments | 6,597,412 | 1,939,589 |
| Loan servicing rights- net | 6,908,172 | 7,017,674 |
| Capitalized software cost - net | 737,871 | 1,026,196 |
| Acquisition costs | 2,091 | 2,091 |
| Deposits | 43,434 | 42,585 |
| | ----- | ----- |
| Total other assets | 15,049,656 | 10,421,120 |
| TOTAL | \$ 18,630,197 | \$ 15,616,466 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Current portion of long-term obligation | 1,385,063 | 1,294,202 |
| Accounts payable | 686,980 | 638,133 |
| Accrued expenses: | | |
| Interest | 70,434 | 10,688 |
| Other | 316,023 | 884,875 |
| | ----- | ----- |
| Total current liabilities | 2,458,500 | 2,827,898 |
| LONG-TERM OBLIGATIONS: | | |
| Notes and bonds payable - less current portion | -- | 505,979 |
| Allowance for loan losses & other | 235,979 | 235,979 |
| | ----- | ----- |
| Total long-term obligations | 235,979 | 741,958 |
| MINORITY INTEREST | -- | -- |
| SHAREHOLDERS' EQUITY: | | |
| Common stock | 158,502 | 152,502 |
| Additional paid-in capital | 20,100,425 | 20,058,116 |
| Accumulated comprehensive income | 4,872,927 | 114,231 |
| Accumulated deficit | (9,019,077) | (8,101,180) |
| Treasury stock, at cost | (177,059) | (177,059) |
| | ----- | ----- |
| Total shareholders' equity | 15,935,718 | 12,046,610 |
| TOTAL | \$ 18,630,197 | \$ 15,616,466 |
| | ===== | ===== |

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See notes to condensed consolidated financial statements.

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CROWN NORTHCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
FOR THE THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

| | Third Quarter | | YEAR TO DATE |
|---|---------------|--------------|--------------|
| | 2004 | 2003 | 2004 |
| REVENUES: | | | |
| Management fees | \$ 89,902 | \$ 115,271 | \$ 372,671 |
| Servicing fees | 739,698 | 27,794 | 2,086,926 |
| Interest income | 1,326,764 | 13,586 | 1,458,221 |
| Income from joint ventures and subsidiaries | 363,679 | | 363,551 |
| Other | 232 | -- | 1,463 |
| | 2,520,275 | 156,651 | 4,282,832 |
| EXPENSES: | | | |
| Personnel | 1,336,097 | 164,952 | 3,434,810 |
| Occupancy, insurance and other | 564,551 | 114,569 | 1,811,214 |
| Interest | 20,613 | 4,396 | 76,848 |
| Minority interest in earnings of subsidiary | -- | -- | -- |
| Depreciation and amortization | 146,053 | 15,499 | 487,217 |
| | 2,067,314 | 299,416 | 5,810,089 |
| INCOME (LOSS) BEFORE INCOME TAXES | 452,961 | (142,765) | (1,527,257) |
| INCOME TAX (BENEFIT) | (208,391) | -- | (595,736) |
| NET INCOME (LOSS) | \$ 661,352 | \$ (142,765) | \$ (931,521) |
| OTHER COMPREHENSIVE INCOME | | | |
| Unrealized gain/(loss) | 4,619,494 | -- | 4,645,009 |
| COMPREHENSIVE INCOME (LOSS) | \$ 5,280,846 | \$ (142,765) | \$ 3,713,488 |
| LOSS PER SHARE - BASIC AND DILUTED | \$ 0.05 | \$ (0.01) | \$ (0.07) |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 14,062,628 | 12,060,778 | 14,058,304 |

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See notes to condensed consolidated financial statements.

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CROWN NORTHCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

| | 2004 |
|---|--------------|
| | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net income (loss) | \$ (931,521) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | |
| Depreciation and amortization | 474,129 |
| Equity in income from investment in partnerships and joint ventures | (357,957) |
| Payment of board of directors fees by issuance of common stock | 60,000 |
| Minority interest in earnings | -- |
| Change in operating assets and liabilities: | |
| Accounts receivable | 915,476 |
| Prepaid expenses and other assets | (422,428) |
| Accounts payable and accrued expenses | (235,627) |
| | (497,928) |
| | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchase of property and equipment | (154,255) |
| Decrease (increase) in restricted cash | (115,954) |
| Increase in additional paid in capital | |
| Purchase of minority interest | |
| Increase in warehouse loans | (51,930) |
| Distributions from D-Certificate | -- |
| Deposits | |
| Decrease (increase) in other investments | 56,345 |
| | (265,794) |
| | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Proceeds from notes payable | 156,598 |
| Principal payments on notes payable | (603,219) |
| | (446,621) |
| | |
| NET INCREASE (DECREASE) IN CASH DURING THE PERIOD | (1,210,343) |
| Effect of Exchange rate on cash | (45,591) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 2,052,065 |
| | |

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| | |
|--|---------------------|
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 796,131 ===== |
| SUPPLEMENTAL CASH FLOW INFORMATION | |
| Cash paid for interest | \$ 19,094 |

See notes to condensed consolidated financial statements.

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CROWN NORTHCORP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003
(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, 2003. 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 as treasury stock 1,125,803 of the common stock 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 will be 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

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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

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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.

Other Investments

Two wholly owned subsidiaries of the company, CRS Bond Portfolio, L.P. ("CRS I") and CRS Bond Portfolio II, L.P. ("CRS II"), have as their sole asset a residual interest in a securitization of tax-exempt bonds collateralized by multifamily projects. Since all remaining projects were under contracts for sale as of September 30, 2004, management has increased its estimate of the carrying value of this residual interest to approximately \$4,600,000 as of September 30, based upon the sales contracts. This increase in investment value is reflected in comprehensive income in accordance with SFAS 130 of the Financial Accounting Standards Board.

3. Loss Per Common Share

The losses per share for the nine months ended September 30, 2004 and 2003 are computed based on the loss applicable to common stock divided by the weighted average number of common shares outstanding during each period.

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4. Property and Equipment

Property and equipment consists of the following at September 30, 2004 and December 31, 2003:

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| | 2004 ----- | 2003 ----- |
|-------------------------------|---------------------|---------------------|
| Property and equipment | \$280,667 | \$272,234 |
| Less accumulated depreciation | (68,131) | (160,487) |
| Property and equipment -- net | \$ 212,536 ===== | \$ 111,747 ===== |

5. Preferred Stock

The company has 1,000,000 authorized shares of preferred stock. At September 30, 2004 and December 31, 2003, 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 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 effect the consolidated financial statements of the company.

7. Statements of Recently Adopted Financial Accounting Standards

SFAS No. 149, "Amendment to Statement 133 on Derivative Instruments and Hedging Activities," was issued by the Financial Accounting Standards Board in April 2003. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 on July 1, 2003 did not have any impact on the results of operations or financial position of the company.

SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics

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of both Liabilities and Equity," was issued by the Financial Accounting Standards Board in May 2003. SFAS No. 150 establishes standards for the classification and measurement of certain freestanding financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. Further, SFAS No. 150 requires disclosures regarding the terms of those instruments and settlement alternatives. As originally issued, the guidance in SFAS No. 150 was generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 on July 1, 2003 did not have any impact on the company's results of operation or financial position.

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FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees -- an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34," was issued by the Financial Accounting Standards Board in November 2002. FIN 45 requires a guarantor to provide more detailed interim and annual financial statement disclosures about obligations under certain guarantees it has issued. It also requires a guarantor, at the inception of new guarantees or ones modified after December 31, 2002, to recognize a liability for the fair value of the obligation undertaken in issuing the guarantee. The adoption of FIN 45 as of January 1, 2003 did not have a material impact on the financial position or results of operations of the company.

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.

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8. Subsequent Events

As discussed in Note 2 above, CRS I and CRS II have as their sole asset a residual interest in a securitization of tax-exempt bonds collateralized by multifamily projects. The three remaining projects have now been sold. The sale of two of these projects on October 6, 2004 resulted in a return of \$2,507,315 cash on this investment. The sale of the final project on November 10, 2004 resulted in an investment return of approximately \$2.2 million cash. Crown is using these proceeds to fund operations.

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Item 2. -- Management's Discussion and Analysis

THE COMPANY'S BUSINESSES

Crown offers comprehensive financial services to the real estate industry. In recent years, these services have included third-party asset management and loan servicing for holders of commercial real estate interests in the United States. The company significantly expanded its business with the acquisition of CNL and CMM effective December 31, 2003 (see Note 2 to the Condensed, Consolidated

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Financial Statements). In addition to its U.S. operations, Crown is now actively engaged in Europe in the management and servicing of commercial and residential real estate interests as well as the origination of certain non-conforming residential mortgage loans. Overall, Crown derives its revenues primarily from agreements pursuant to which the company manages commercial, multifamily and residential real estate and loan assets for the account of others; services on an active or standby basis individual loans, loan portfolios and assets in securitized transactions; performs risk management and financial advisory services; and administers the interests of various corporations, partnerships, trusts and special-purpose entities. In the third and fourth quarters of 2004, the company is also deriving very significant revenue from its residual interest in a securitization of tax-exempt bonds.

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 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:

- While, for the quarter ending September 30, 2004, Crown is reporting a very substantial increase in other comprehensive income as a result of the sale of assets, Crown continues to sustain losses from operations following the acquisition of European operations. These European operations have historically been profitable

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and management anticipates that the assimilation of domestic and overseas operations and additional revenues from existing contracts in Europe will lead to operating profitability, but there can be no assurance of this result.

- While Crown's business volumes in Europe are generally increasing, its domestic business is decreasing as the company and certain of its affiliates proceed with efforts to facilitate the sale of substantially all of the assets managed in the U.S. Asset sales completed to date have significantly increased liquidity and non-operating income. Crown is now attempting to utilize the proceeds of these sales to expand or redeploy its business lines to achieve operating profitability. There can be no assurance that these efforts will be successful.
- While Crown has increased its capital resources, those resources remain limited when compared to those of many of its competitors. The company may not be able to compete for business if it cannot increase its capital resources through profitable operations, strategic alliances or combinations, the raising of additional capital or other means.

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- Crown and certain of its subsidiaries operate as a rated servicers. If these entities were to no longer be rated, there would be an adverse effect on the company's current business. Additionally, the company's ability to obtain new business in certain commercial real estate markets would be impaired.

OUTLOOK

Crown's U.S. operations offer third-party asset management and loan servicing meeting the specialized needs of holders of interests in commercial and multifamily real estate. Domestic business volumes are decreasing. The company and certain of its affiliates have been actively engaged in efforts to sell substantially all of the assets in the U.S. under Crown's management. This sales strategy is capitalizing on the current environment of low prevailing interest rates as well as regulatory and other factors impacting certain managed assets. The company has received substantial cash and non-recurring income from sales that have closed in July, October and November 2004 (see Note 2 -- Significant Accounting Policies and Note 8 -- Subsequent Events -- to the Condensed, Consolidated Financial Statements). As asset dispositions occur, Crown's domestic asset Management and servicing portfolios are correspondingly reduced. The company is actively engaged in evaluations of how best to redeploy the cash proceeds from asset dispositions.

European operations have historically secured significant asset management business from the privatization of formerly government-held assets as well as the desire of certain entities to no longer have real estate holdings as a part of their core business. Management anticipates continuing to secure business from such sources in the United Kingdom and Scandinavia and developing similar business in Germany, Belgium and other locales. Management anticipates that transactions in a portfolio of managed assets in Sweden will yield very substantial cash returns to Crown by the end of this year.

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Additionally, European real estate markets make growing use of capital markets transactions, including mortgage backed securitizations. CNL has been a market leader in real estate servicing in Europe. The company believes its ability to provide the extensive data that securitization investors require places the company in a favorable competitive position to obtain additional business as these markets continue to expand. The company is also favorably positioned to attempt to capitalize on regulatory and economic forces that may lead many European financial institutions to outsource certain services they have traditionally provided.

In the U.S., the company's loan servicing activities are presently concentrated on loans and securitizations related to commercial real estate. While this business is presently declining as serviced loans are paid off, the company continues to operate as a rated servicer in the U.S. and is actively engaged in efforts to remain rated.

Crown's European operations service a variety of commercial, multifamily and residential loans. The residential servicing portfolio in the United Kingdom is growing at a significant rate. The company receives fees to serve as a standby servicer in several transactions and continues to develop a master servicing business in conjunction with a partner. Crown is the only loan servicer operating in Europe to receive multiple ratings for both commercial and residential servicing from three rating agencies. New servicing opportunities in Europe increasingly call for the use of rated servicers. The company is seeking to capitalize on its multiple ratings to take maximum advantage of this trend.

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Crown's mortgage banking business in Europe is in its early stages. Last year, the company commenced origination of non-conforming residential loans for loan conduit and correspondent programs. Crown now holds a minority interest in an entity that is originating a steadily increasing volume of such loans. The company seeks to further expand this activity. Crown has also begun development of a program to originate commercial loans in Europe.

The CNL and CMM acquisitions have significantly expanded Crown's financial services business. Both the company's revenues and expenses are now substantially higher than in prior periods. While European operations have historically been profitable, domestic and European operations combined are presently operating at a loss, primarily because of initial costs associated with the absorption of European operations. To improve operating performance, management has implemented various strategies designed to lead to the disposition of most of the real estate assets in the company's domestic asset management and servicing portfolios. As dispositions have occurred, the company has realized significant amounts of cash and income, which the company is utilizing to address operational needs. At the same time that it is winding down much of its domestic business operations, the company is actively looking to expand its established asset management, loan servicing and loan origination businesses in Europe.

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Although the company's business volumes have expanded and its liquidity has improved, its capital resources remain limited when compared to those of many of its competitors. Until Crown can demonstrate improved operations to the investment community, it will continue to rely, as it has in the past, on affiliates for such investment capital as may be necessary.

RESULTS OF OPERATIONS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2004 COMPARED TO THE THIRD QUARTER ENDED SEPTEMBER 30, 2003

As set forth in Note 2 to the Condensed, Consolidated Financial Statements, the acquisition of CNL and CMM effective December 31, 2003 was accounted for using the purchase method of accounting. Beginning January 1, 2004, the company's results of operations reflect the combined entities. Therefore, most of the large variances in operating results between the third quarter of 2004 and the third quarter of 2003 as well as the nine month periods ending September 30, 2004 and 2003 are attributable to 2004 being the initial reporting period for the consolidated entity.

Total revenues increased \$2,363,624 to \$2,520,275 for the third quarter of 2004 from \$156,651 during the same period in 2003. The majority of the increase is attributable to interest received from the sale of a certain property collateralizing a residual interest in housing revenue bonds. The remainder of the increase is from servicing fees generated from European operations.

Management fees decreased \$25,369 to \$89,902 for the third quarter ended September 30, 2004 from \$115,271 for the corresponding period in 2003. The majority of this decrease -- approximately \$77,000 -- is attributable to declines in the volume of managed assets due to property sales. Offsetting this reduction is approximately \$54,000 in fees earned from European operations.

Servicing fees increased from to \$739,698 for the quarter ended September 30, 2004 from \$27,794 for the quarter ending September 30, 2003. This \$711,904 increase is the result of service fees earned from European operations of approximately \$723,600 and a decline in U.S. service fees of some \$12,000 due to a reduction in the servicing portfolio.

Interest income increased from \$13,586 for the quarter ended September 30, 2003

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to \$1,326,764 for the corresponding period in 2004. This increase, as noted above, is due almost entirely to the receipt of cash from a residual interest in a securitization of tax-exempt bonds owned by Crown subsidiaries. The receipt came as the result of the sale of a property collateralizing one of the bonds.

Income from partnerships and joint ventures was \$363,679 for the quarter ended September 30, 2004; the amount for the corresponding period in 2003 was \$0. This increase was the result of income from a partnership interest from European operations.

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Personnel expenses include salaries, related payroll taxes and benefits, travel and living expenses and professional development expenses. Personnel expenses increased \$1,171,145 to \$1,336,097 for the third quarter of 2004 from \$164,952 for the same period in 2003. The increase was due to European payroll costs of \$938,553 as well as travel expenditures of approximately \$68,000 associated with European operations. Also contributing to the increase were salary increases and staff additions in the U.S., which totaled approximately \$164,750 for the period.

Occupancy, insurance and other operating expenses increased to \$564,551 for the third quarter of 2004 from \$114,569 for the comparable period in 2003. The increase of \$449,982 was attributable in part to rent and office overhead in Europe of approximately \$204,000. The remainder of the increase is attributable to operations in the U.S. and is the result of increases in franchise tax expense of approximately \$18,500, accounting fees of approximately \$23,000 and legal expenses of \$178,000. The increase in legal fees is primarily attributable to a dispute Crown is arbitrating concerning the terms and conditions of Crown's use of future improvements to a loan servicing system. The increase in accounting fees is related to the acquisition of Royal at December 31, 2003.

Interest expense increased to \$20,613 for the third quarter of 2004 from \$4,396 for the third quarter of 2003. The increase is due entirely to the accrual of interest expense on borrowings for the European operations.

Depreciation and amortization increased to \$146,053 for the third quarter of 2004 from \$15,499 for the corresponding period in 2003. The majority of the \$130,554 increase is the result of depreciation expense of \$29,259 attributable to European operations and the amortization of capitalized servicing and software costs associated with European operations totaling \$100,223.

Other comprehensive income increased to \$4,619,494 for the quarter ending September 30, 2004 from \$0 for the comparable period in 2003. The majority of this increase is from a change in estimated carrying value of an investment in the residual interest in a securitization of tax-exempt housing bonds (see Note 8 -- Significant Accounting Policies -- to the Condensed, Consolidated Financial Statements).

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2003

Total revenues increased \$3,429,587 to \$4,282,832 in the first nine months of 2004 from \$853,245 during the same period in 2003. This increase was primarily due to an increase in interest income and servicing fees.

Management fees decreased \$153,186 to \$372,671 for the nine months ended September 30, 2004 from \$525,857 for the corresponding period in 2003. The majority of this decrease is attributable to a fee of approximately \$172,500 collected in 2003 for the

management and disposition of an asset in a securitization. Also, due to this and other dispositions, monthly fees collected in conjunction with management of assets declined by approximately \$167,000 for the nine months ending September 30, 2004 compared to the same period in 2003. Offsetting these two reductions are fees earned from European operations of approximately \$151,000 as well as a fee totaling \$30,740 earned in conjunction with the disposition of a managed asset.

Servicing fees increased \$2,003,209 to \$2,086,926 for the nine months ended September 30, 2004 from \$83,717 for the first nine months of 2003. This increase is attributable almost entirely to servicing fees earned in Europe.

Interest income increased \$1,218,593 to \$1,458,221 for the nine months ended September 30, 2004 from \$239,628 for the corresponding period in 2003. This increase is due almost entirely to the receipt of cash from a residual interest in a securitization of tax-exempt bonds owned by one of Crown's subsidiaries. The receipt came as the result of the sale of a property collateralizing one of the bonds.

Income from partnerships and joint ventures increased to \$363,551 for the nine months ended September 30, 2004 from \$0 for the first nine months of 2003. This increase was the result of income from a European partnership interest.

Personnel expenses include salaries, related payroll taxes and benefits, travel and living expenses and professional development expenses. Personnel expenses increased \$2,985,088 to \$3,434,810 for the first nine months of 2004 from \$449,722 for the same period in 2003. The increase was due to European payroll costs of \$2,297,917 as well as travel expenditures of approximately \$325,000 associated with European operations. Also contributing to the increase were salary increases and staff additions in the U.S., which totaled approximately \$315,000 for the period, as well as increase in contract labor of \$45,000.

Occupancy, insurance and other operating expenses increased to \$1,811,214 for the nine months ended September 30, 2004 from \$377,030 for the comparable period in 2003. The increase of \$1,434,184 is attributable in part to rent and office overhead in Europe of approximately \$1,053,000. The remainder of the increase is attributable to operations in the U.S. and is the result of an increase in legal expenses of approximately \$258,000, an increase in computer expense of some \$18,000, an increase in accounting fees of approximately \$43,000, an increase in franchise tax expense of about \$16,000, an increase in office rent of some \$12,000 and an increase in professional services of approximately \$34,000. The increase in legal fees is primarily due to a pending arbitration proceeding. The increase in accounting fees is related to the acquisition of Royal at December 31, 2003 while the rest of the increases were the result of and in conjunction with normal business operations.

Interest expense increased to \$76,848 for the nine months ended September 30, 2004 from \$12,866 for the comparable period in 2003. The increase is due entirely to the accrual of interest expense on borrowings for the European operations.

Minority interest in earnings of subsidiary decreased \$25,887 for the nine months ended September 30, 2004. This decrease is the result of the purchase in 2003 of the minority interest by a subsidiary of the company. There have been no corresponding transactions in 2004.

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Depreciation and amortization increased to \$487,217 for the nine months ended September 30, 2004 from \$46,498 for the corresponding period in 2003. The majority of the \$440,719 increase is the result of depreciation expense of \$69,862 attributable to European operations as well as amortization of capitalized servicing and software costs associated with European operations totaling \$365,500.

Other comprehensive income increased to \$4,645,009 for the nine months ending September 30, 2004 from \$(25,002) for the comparable period in 2003. The majority of this increase is from a change in the estimated carrying value of an investment in a residual interest in a securitization of tax-exempt housing bonds (see Note 2 -- Significant Accounting Policies -- to the Condensed, Consolidated Financial Statements).

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

Cash and cash equivalents decreased by \$1,210,343 to \$796,131 at September 30, 2004 from \$2,052,065 at December 31, 2003. The decrease was due primarily to the funding of ongoing operations. 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 asset sales (See Note 8 -- Subsequent Events -- to the Condensed, Consolidated Financial Statements) 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 anticipates that the results of operations for the remainder of the year will be sufficient to fund its cash operating obligations. However, the company will continue to seek to expand revenues for 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 \$479,928 during the first nine months of 2004. Operating activities used \$29,599 in the corresponding period of 2003.

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Investing activities used \$265,794 during the first nine months of 2004. For the comparable period in 2003, \$179,476 was used for investing activities. The increase in use of funds over 2003 is attributable in part to increases in investments in Europe, warehouse loan fundings in Europe as well as the purchase of furniture, fixtures and equipment in Europe.

Financing activities used cash flows of \$446,621 during the first nine months of 2004. Such activities provided cash flows of \$223,991 during the comparable period in 2003. During the first nine months of 2004, the company borrowed \$156,598 from an affiliate and repaid \$603,219. During the first nine months of 2003, the company borrowed \$306,199 from an affiliate and repaid \$82,208 on existing debt.

Item 3. -- Controls and Procedures

Crown's principal executive and financial officers have evaluated the company's disclosure controls and procedures in place on September 30, 2004 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

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significantly affect these controls.

PART II -- OTHER INFORMATION

Item 1. -- Legal Proceedings

None

Item 2. -- Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. -- Defaults Upon Senior Securities

None

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

None

Item 5. -- Other Information

Two wholly owned subsidiaries of the company, CRS I and CRS II, have as their sole asset a residual interest in a securitization of tax-exempt bonds collateralized by multifamily projects. As a result of the sale of two of these projects on October 6, 2004,

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the company received a return of \$2,307,515 cash on this investment. The sale of the final project on November 10, 2004 resulted in an investment return of approximately \$2.2 million cash. Crown is using these proceeds to fund operations.

Item 6. -- Exhibits

| | | |
|------|------------------------------------|-----------------|
| 31.6 | Certification of officers of Crown | Filed herewith. |
| 32.5 | Certification of officers of Crown | Filed herewith. |

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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: November 11, 2004

By: /s/ Rick Lewis

Rick Lewis, Vice President,
Treasurer and Chief Financial
Officer

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By: /s/ Stephen W. Brown

Stephen W. Brown, Secretary

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INDEX TO EXHIBITS

31.6 Certification of officers of Crown (1)
32.5 Certification of officers of Crown (1)

(1) Filed herewith.

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