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CROWN NORTHCORP INC
Form 10QSB
November 14, 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: September 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
(State or other jurisdiction of
incorporation or organization)

22-3172740
(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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). 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

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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 11, 2005, the issuer had 13,145,778 shares of its common stock, par value \$.01 per share, outstanding.

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

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

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CROWN NORTHCORP, INC. AND SUBSIDIARIES

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

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

ASSETS

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CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,583,362	\$ 3,287,104
Accounts receivable	2,400,929	1,756,639
Prepaid expenses and other assets	774,522	734,219
	-----	-----
Total current assets	6,758,813	5,777,962
PROPERTY AND EQUIPMENT - Net	471,810	283,236
RESTRICTED CASH	369,753	351,131
OTHER ASSETS		
Investment in partnerships and joint ventures	1,069,456	889,449
Other investments	907,693	974,652
Loan servicing rights- net	4,900,843	6,548,653
Capitalized software cost - net	960,447	775,974
Acquisition Costs	--	2,091
Deposits	39,996	42,059
	-----	-----
Total other assets	7,878,435	9,232,878
TOTAL	\$15,478,811	\$15,645,207
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	627,775	993,236
Accrued expenses:	534,713	778,125
	-----	-----
Total current liabilities	1,162,488	1,771,361
LONG-TERM OBLIGATIONS:		
Allowance for loan losses & other	235,979	235,979
	-----	-----
Total long-term obligations	235,979	235,979
SHAREHOLDERS' EQUITY:		
Common stock	159,401	159,401
Additional paid-in capital	20,117,522	20,117,522
Accumulated comprehensive income	221,277	536,241
Accumulated deficit	(6,240,798)	(6,998,239)
Treasury stock, at cost	(177,058)	(177,058)
	-----	-----
Total shareholders' equity	14,080,344	13,637,867
TOTAL	\$15,478,811	\$15,645,207
	=====	=====

See notes to condensed consolidated financial statements.

CROWN NORTHCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
FOR THE THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

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	THIRD QUARTER		YEAR TO DATE	
	2005	2004	2005	2004
REVENUES:				
Management fees	\$ 1,064,162	\$ 89,902	\$ 1,523,233	\$ 372,000
Disposition fees	--	--	3,439,389	--
Servicing fees	1,099,099	739,698	3,457,607	2,086,000
Interest income	17,509	1,326,764	121,203	1,458,000
Gain on short term note disposition	--	--	417,276	--
Other	159,843	572,302	680,747	960,000
Total revenues	2,327,497	2,728,666	9,626,338	4,878,000
EXPENSES:				
Personnel	1,585,791	1,336,097	4,416,213	3,434,000
Occupancy, insurance and other	1,055,194	564,551	2,333,161	1,811,000
Interest	5,753	20,613	5,753	76,000
Write off mortgage servicing rights	400,734	--	1,592,533	--
Depreciation and amortization	187,149	146,053	534,100	487,000
Total expenses	3,234,621	2,067,314	8,881,760	5,810,000
INCOME (LOSS) BEFORE INCOME TAXES	(894,008)	661,352	757,695	(931,000)
INCOME TAX (BENEFIT)	--	--	--	--
NET INCOME (LOSS)	\$ (894,008)	\$ 661,352	\$ 757,695	\$ (931,000)
OTHER COMPREHENSIVE INCOME				
Unrealized gain/(loss)	--	4,621,852	--	4,631,000
Foreign currency translation adjustment	(35,423)	(2,358)	(315,218)	13,000
COMPREHENSIVE INCOME (LOSS)	\$ (929,431)	\$ 5,280,846	\$ 442,447	\$ 3,713,000
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED	\$ (0.07)	\$ 0.05	\$ 0.06	\$ (0.07)
WEIGHTED AVERAGE SHARES OUTSTANDING	13,145,778	12,455,778	13,145,778	12,455,778

See notes to condensed consolidated financial statements.

CROWN NORTHCORP, INC. AND SUBSIDIARIES

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

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CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 757,695	\$ (931,521)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	539,958	474,129
Provision for impairment to mortgage servicing rights	1,592,533	-
Equity in income from investment in partnerships and joint ventures	(268,266)	(357,957)
Payment of Board of Directors fees by issuance of common stock		60,000
Change in operating assets and liabilities:		
Accounts receivable	(515,139)	915,476
Prepaid expenses and other assets	(763,576)	(422,428)
Accounts payable and accrued expenses	50,979	(235,627)
Net cash provided (used) in operating activities	1,394,184	(497,928)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(878,879)	(154,255)
Decrease (increase) in warehoused loans	127,312	(51,930)
Decrease (increase) in restricted cash	(24,472)	(115,954)
Other investments	(166,925)	56,345
Deposits	(46)	--
Net cash provided (used) in investing activities	(943,010)	(265,794)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	--	156,598
Principal payments on notes payable	--	(603,219)
Net cash provided (used) by financing activities	--	(446,621)
NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	451,174	(1,210,343)
Effect of exchange rate on cash	(154,916)	(45,591)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,287,104	2,052,065
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$3,583,362	\$ 796,131
SUPPLEMENTAL CASH FLOW INFORMATION:		
CASH PAID FOR INTEREST	\$ --	\$ 19,094

See notes to condensed consolidated financial statements.

CROWN NORTHCORP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 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

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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 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. 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

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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 exchange 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

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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. and CRS Bond Portfolio II, L.P., had 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 increased its estimate of the carrying value of this residual interest to approximately \$4,600,000 as of September 30, 2004 based upon the sales contracts. The sales contracts closed during the fourth quarter of 2004. 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, 2005 and 2004 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, 2005 and December 31, 2004:

	2005	2004
	-----	-----
Property and equipment	\$ 1,591,559	\$ 1,365,133
Less accumulated depreciation	(1,119,749)	(1,081,097)
	-----	-----
Property and equipment - net	\$ 471,810	\$ 283,236
	=====	=====

5. Preferred Stock

The company has 1,000,000 authorized shares of preferred stock. At September 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 and weekly pay.

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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. 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 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.

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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 public 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. 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.

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

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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

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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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Item 2. - Management's Discussion and Analysis

THE COMPANY'S BUSINESSES

Crown provides comprehensive financial services to holders of real estate interests in Europe and the United States. 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: management of 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.

In 2004, Crown generated net income in 2004 primarily from asset sales that yielded very significant returns from the residual interest the company held in a securitization of tax-exempt bonds. In 2005, a substantial portion of the loss reported in the first quarter 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. Net income reported in the second quarter of 2005 was primarily derived from very substantial management and servicing fees earned in the disposition of certain assets managed under contract. The loss being reported in the third quarter of 2005 primarily reflects reductions in loan servicing values resulting from faster-than-anticipated loan payoffs in a portfolio of loans in Europe. Separate and apart from these quarterly fluctuations, Crown continues to incur losses from operations. The company is actively addressing presently unprofitable business lines and deploying 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. The company continues to develop partnerships, business combinations or other arrangements or transactions to leverage the company's liquidity and capital resources, maximize the value of its core businesses,

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provide 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

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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:

- The company is sustaining losses from operations. 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 and financial condition may affect its servicer ratings.

OUTLOOK

Crown provides comprehensive, integrated financial services addressing all phases of the life cycle of an asset from acquisition to disposition. The company's asset management work often includes asset securitizations and other complex capital markets transactions. Participants in such transactions typically require the involvement of a rated servicer and asset manager. In this regard, Crown is well-positioned as the first servicer in Europe to receive multiple ratings for commercial and residential servicing from three rating agencies. These comprehensive ratings and the company's success in transactions such as the Crown Fastigheter AB ("CFAB") transaction closed at the end of the

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second quarter have generated new asset management business in Europe. The market knowledge Crown

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has obtained from operating in several countries is aiding in identifying additional opportunities.

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. While certain servicing portfolios have reduced in size, the company is obtaining additional commercial and residential servicing and mortgage management business, particularly in Germany. The company, in conjunction with a joint venture partner, is seeking to continue to develop 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 continued activity in this category and seeking to develop similar business lines elsewhere in Europe. Crown is continuing with the development of the capability to originate commercial mortgage loans in the U.K. Both residential and commercial originations should increase loan servicing and mortgage management portfolios. The company continues to pursue 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 participation in a commercial mortgage lending program, the acquisition of servicing portfolios or other means. Pending the outcome of these discussions, operations in the U.S. continue in transition following the disposition in 2004 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.

Crown is committing 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 continues to actively explore additional partnerships, alliances and other business structures with existing and new clients that facilitate the development of business both in Europe and the United States. The company provides investment capital to such entities to advance growth opportunities maximizing the value of Crown's comprehensive financial services and providing recurring revenue to its business lines. In certain cases, 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 achieving sustained operating profitability.

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RESULTS OF OPERATIONS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2005 COMPARED TO THE THIRD QUARTER ENDED SEPTEMBER 30, 2004

Total revenues decreased \$388,053 to \$2,340,613 for the third quarter of 2005 from \$2,728,666 during the same period in 2004. The majority of the decrease is

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attributable to interest received in 2004 from the sale of a certain property collateralizing a residual interest in housing revenue bonds. This decrease was partially offset by increases in management fees received in 2005.

Management fees increased \$974,260 to \$1,064,162 for the third quarter ended September 30, 2005 from \$89,902 for the corresponding period in 2004. The majority of this increase is attributable to the accrual of special servicing fees relating to the management of sub-performing loan portfolios from European operations. Also contributing to the increase were fees earned from a new asset management contract in Europe totaling some \$306,000. These increases were partially offset by a decrease in fees earned in the U.S. of some \$30,000 due to a reduction in assets managed.

Servicing fees increased to \$1,099,099 for the quarter ended September 30, 2005 from \$739,698 for the quarter ended September 30, 2004. This \$359,401 increase is the result of service fees earned from European operations increasing some \$364,000 as the result of new contracts and increased volumes in existing contracts and a decline in U.S. service fees of some \$6,000 due to a reduction of the servicing portfolio.

Interest income decreased to \$17,509 for the quarter ended September 30, 2005 from \$1,326,764 for the corresponding period in 2004. This decrease, as noted above, is due almost entirely to the receipt of cash in 2004 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 the bonds.

Other income decreased to \$159,843 for the quarter ended September 30, 2005 from \$572,302 for the same period in 2004. This decrease of some \$412,000 was attributable to a decrease in expected tax refunds in Europe of some \$181,000 and a decrease in European joint venture income of approximately \$217,000.

Personnel expenses include salaries, related payroll taxes and benefits, travel and living expenses and professional development expenses. Personnel expenses increased \$249,694 to \$1,585,791 for the third quarter of 2005 from \$1,336,097 for the same period in 2004. The increase was due to increases in European payroll costs and travel as well as start-up costs incurred for the new office in Germany. These increases totaled approximately \$396,000. These increases were partially offset by reductions in U.S payroll and travel costs of some \$175,000.

Occupancy, insurance and other operating expenses increased to \$1,055,194 for the quarter ended September 30, 2005 from \$564,551 for the comparable period in 2004. The

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increase of \$490,643 was attributable in part to increases in office rent and bad debt expenses in Europe of some \$256,000 and \$187,000 respectively. Also contributing to the increase was an increase in professional services of approximately \$84,000 and an increase in general office overhead of approximately \$25,000. The company's new office in Germany was responsible for a \$10,000 increase in operating expenses. In the United States, the company experienced a net decrease in these expenses of approximately \$29,000. Offsetting the increases in Europe was a decrease of approximately \$51,000 in computer-related expenses.

Interest expense decreased to \$5,753 for the third quarter of 2005 from \$20,613 for the third quarter of 2004. The decrease is due entirely to the reduction of

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borrowings for the European operations.

The write-down of capitalized mortgage servicing rights increased by approximately \$401,000 over the corresponding period in 2004. This action was necessitated by the early payoff of several loans in the company's U.S. servicing portfolio as well as reductions in the value of the European servicing portfolios due to early payoffs.

Depreciation and amortization increased from to \$187,149 for the quarter ended September 30, 2005 from \$146,053 for the third quarter of 2004. The majority of the \$41,096 increase is the result of a depreciation expense increase of approximately \$18,000 attributable to European operations and an increase in depreciation expense attributable to the U.S. operations of some \$7,000. The amortization of capitalized servicing and software costs associated with European operations increased approximately \$14,000.

Other comprehensive income decreased to \$0 for the quarter ended September 30, 2005 from \$4,621,852 for the quarter ending September 30, 2004. The majority of this decrease is from a 2004 change in estimated carrying value of an investment in the residual interest in a securitization of tax-exempt housing bonds. (see Note 2 - Significant Accounting Policies- to the Condensed, Consolidated Financial Statements).

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2004

Total revenues increased \$4,760,887 to \$9,639,455 in the first nine months of 2005 from \$4,878,568 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 \$1,150,562 to \$1,523,233 for the nine months ended September 30, 2005 from \$372,671 for the corresponding period in 2004. This increase can be attributed in large measure to the receipt of approximately \$276,000 as part of a final settlement of an early termination of a servicing contract held by one of the company's European subsidiaries. Also contributing to the increase was the accrual of special servicing fees relating to the management of sub-performing loans and the addition

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of a new management contract in Europe. These fees totaled approximately \$1,016,000. These increases were offset by a decrease in fees earned in the U.S. of some \$180,000 due to a reduction in assets managed.

Disposition fees increased approximately \$3.4 million for the nine months ended September 30, 2005 compared to no disposition fees for the comparable period in 2004. On June 30, 2005, Crown European Holding Limited ("CEH"), a subsidiary of Crown, sold all of the stock of 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.

Servicing fees increased \$1,370,681 to \$3,457,607 for the nine months ended September 30, 2005 from \$2,086,926 for the first nine months of 2004. This increase is the result of service fees earned from European operations increasing some \$1,360,000 as the result of new contracts and increased volumes in existing contracts. Also contributing to the increase was the net effect of a

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one-time prepayment fee received in the U.S.

Interest income decreased \$1,337,018 to \$121,203 for the nine months ended September 30, 2005 from \$1,458,221 for the corresponding period in 2004. This decrease, as noted above, is due almost entirely to the receipt of cash in 2004 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 the bonds.

In conjunction with the sale of CFAB and its receipt of the incentive compensation noted above, Crown purchased from two holders approximately \$3.5 million in promissory notes payable by Royal LLC. Royal LLC was an owner of approximately 26.7% of CEH. Royal LLC then repaid the promissory notes in full from its proceeds of sale. The amount of the Royal distribution received in excess of the amounts needed to repay the notes in full was approximately \$417,000.

Other income decreased to \$680,747 for the nine months ended September 30, 2005 from \$960,750 for the comparable period in 2004. This decrease of some \$280,000 was attributable to a decrease in expected tax refunds in Europe of some \$289,000 and a decrease in joint venture income of approximately \$91,000. This decrease was partially offset by receipt of approximately \$100,000 as a guaranty fee in connection with the CEH sale of CFAB mentioned above.

Personnel expenses include salaries, related payroll taxes and benefits, travel and living expenses and professional development expenses. Personnel expenses increased \$981,403 to \$4,416,213 for the first nine months of 2005 from \$3,434,810 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 \$577,000 arising from addition personnel in the company's information technology, compliance and loan servicing areas. Additional

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contributing factors to the increase were start-up costs incurred for the new office in Germany of approximately \$391,000 and increases in U.S. payroll, contract payroll and travel of some \$17,000.

Occupancy, insurance and other operating expenses increased to \$2,333,161 for the nine months ended September 30, 2005 from \$1,811,214 for the comparable period in 2004. The \$521,947 increase in these expenses was attributable to increases in office rent and bad debt expenses of approximately \$321,000 and \$203,000 respectively for European operations. Professional services, which include, among other categories, legal fees, rating agency fees and audit fees increased some \$187,000. 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 \$76,000. Offsetting the increases in Europe was a decrease of approximately \$202,000 in expenses attributable to information technology in Europe.

Interest expense decreased to \$5,753 for the nine months ended September 30, 2005 from \$76,848 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 \$1,593,000 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

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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. The remainder of the write-down was due to declines in the value of the servicing portfolios occasioned by early loan payoffs.

Depreciation and amortization increased to \$534,100 for the third quarter of 2005 from \$487,217 for the corresponding period in 2004. The majority of the \$46,883 increase is the result of an adjustment to the amortization of capitalized servicing costs in 2004 of approximately \$44,000. This \$44,000 decrease is offset by increases in depreciation expense of some \$55,000 attributable to European operations and some \$32,000 attributable to U.S. operations and amortization of capitalized software costs.

Other comprehensive income decreased to \$0 for the quarter ended September 30, 2005 from \$4,631,385 for the comparable period in 2004. The majority of this decrease is from a 2004 change in estimated carrying value of an investment in the residual interest in a securitization of tax-exempt housing bonds. (see Note 2 - "Significant Accounting Policies"- to the Condensed, Consolidated Financial Statements).

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LIQUIDITY AND CAPITAL RESOURCES

GENERAL

Cash and cash equivalents increased by \$451,174 to \$3,583,362 at September 30, 2005 from \$3,287,104 at December 31, 2004. The increase was due primarily from 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 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 provided \$1,394,184 during the first nine months of 2005. These activities used \$497,928 in the corresponding period of 2004.

Investing activities used \$943,010 during the first nine months of 2005. For the comparable period in 2004, \$265,794 was used for investing activities. The increase in use of funds over 2004 is attributable in part to purchases of property and equipment and an increase in investments.

Financing activities used \$0 in 2005 as compared to \$446,621 for the same period in 2004. The use in 2004 was for the repayment of debt.

Item 3. - Controls and Procedures

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

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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

None

Item 6. - Exhibits

31.10 Certification of officers of Crown Filed herewith.
32.9 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, 2005

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

31.10 Certification of officers of Crown (1)
32.9 Certification of officers of Crown (1)

(1) Filed herewith.

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