

CROWN NORTHCORP INC

Form 10QSB

May 25, 2007

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**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: March 31, 2007

**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

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**

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

As of May 8, 2007, the issuer had 29,275,275 shares of its common stock, par value \$.01 per share, outstanding. Transitional Small Business Disclosure Format (check one). Yes  No

**CROWN NORTHCORP, INC.**  
**Form 10-QSB**  
**Quarterly Period Ended March 31, 2006**  
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**Table of Contents****CROWN NORTHCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****MARCH 31, 2007 AND DECEMBER 31, 2006**

	<b>Unaudited 2007</b>	<b>2006</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 33,475,608	\$ 57,586,963
Accounts receivable Servicing fee receivables	4,911,483	7,692,538
Receivable from subsidiaries in liquidation	3,090,091	3,079,686
Miscellaneous receivables	2,915,492	3,000,911
Total accounts receivable	10,917,066	13,773,135
Prepaid expenses and other assets	1,206,378	293,467
Total current assets	45,599,052	71,653,565
PROPERTY AND EQUIPMENT net	2,337,959	2,361,694
RESTRICTED CASH	1,292,316	1,758,274
<b>INTANGIBLE ASSETS</b>		
Bank License	4,113,484	3,960,390
<b>OTHER ASSETS</b>		
Investment in partnerships and joint ventures	35,324	542,475
Mortgage loans, net of reserves	5,212,778	6,803,584
Loan servicing rights- net	4,461,057	4,508,701
Capitalized software cost net	998,811	716,391
Capitalized financing costs net	2,904,311	3,320,607
Tax claims receivable	1,118,245	1,107,804
Deferred tax asset	398,655	304,658
Prepaid tax asset ( see note 8)	4,430,000	
Other assets	793,529	219,078
Trust fund assets	12,135,544	12,963,417
Total other assets	32,488,254	30,486,715
<b>TOTAL</b>	<b>\$ 85,831,065</b>	<b>\$ 110,220,638</b>

**Table of Contents****LIABILITIES AND SHAREHOLDERS EQUITY****CURRENT LIABILITIES**

Accounts payable	\$ 6,931,461	\$ 8,446,241
Foreign interest bearing deposits	533,017	874,331
Accrued expenses:		
Bonuses	824,796	668,758
Interest	757,788	1,217,327
Other	1,191,362	1,096,526
Total accrued expenses	2,773,946	2,982,611
Current portion of long term debt	400,000	20,201,950
Tax payable	5,274,569	1,419,052
Other current liabilities	82,538	225,680
Total current liabilities	15,995,531	34,149,865

**LONG-TERM OBLIGATIONS:**

Long term debt	38,504,360	39,424,628
Subordinated debt	2,649,180	2,640,260
Letters of credit	2,206,140	2,435,550
Deferred data storage expense	1,144,695	1,128,149
Pension provision	94,377	1,176,790
Restructuring provision	1,048,958	1,178,864
Other long term liabilities	2,445,221	2,185,788
Allowance for loan losses	246,269	243,076
Trust fund liabilities	12,245,742	12,963,417
Total long-term obligations	60,584,942	63,376,522

**SHAREHOLDERS EQUITY:**

Common stock	299,673	299,573
Additional paid-in capital	21,957,076	21,947,176
Accumulated comprehensive income	168,518	197,516
Accumulated deficit	(12,997,617)	(9,572,956)
Treasury stock, at cost	(177,058)	(177,058)
Total shareholders equity	9,250,592	12,694,251

<b>TOTAL</b>	<b>\$ 85,831,065</b>	<b>\$ 110,220,638</b>
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See notes to consolidated financial statements.

**Table of Contents****CROWN NORTHCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
REVENUES:		
Management fees	\$ 2,908,067	\$ 1,028,254
Loan servicing fees, net	1,567,361	1,117,430
Disposition fees	128,970	
Interest income	565,182	10,509
Reversal of loan loss provision	237,073	
Other	135,730	113
Total revenues	5,542,383	2,156,306
OPERATING AND ADMINISTRATIVE EXPENSES:		
Personnel	3,826,302	1,677,287
Legal, accounting and professional fees	765,754	524,443
Insurance and other administrative expenses	750,841	190,861
Occupancy	1,052,649	348,481
Write off mortgage servicing rights		165,110
Depreciation and amortization	890,604	215,733
Total operating and administrative expenses	7,286,150	3,121,915
LOSS FROM CONTINUING OPERATIONS BEFORE INTEREST EXPENSE	(1,743,767)	(965,609)
INTEREST EXPENSE	1,435,739	4,542
NET INCOME (LOSS) BEFORE TAX	(3,179,506)	(970,151)
INCOME TAX (BENEFIT)	245,155	7,392
NET INCOME (LOSS)	(3,424,661)	(977,543)
OTHER COMPREHENSIVE INCOME		
Foreign currency translation adjustment, net of tax effect	(28,998)	(83,059)
COMPREHENSIVE INCOME (LOSS)	\$ (3,453,659)	\$ (1,060,602)
EARNINGS (LOSS) PER SHARE	\$ (0.12)	\$ (0.03)

WEIGHTED AVERAGE SHARES OUTSTANDING

29,275,275

28,940,275

See notes to consolidated financial statements.

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**Table of Contents****CROWN NORTHCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (3,424,661)	\$ (977,543)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	552,520	216,944
Equity in income from investment in partnerships and joint ventures		12,581
Provision for impairment to mortgage servicing rights		165,110
Payment of board of directors fees by the issuance of common stock	10,000	
Deferres tax asset	718,086	
Change in operating assets and liabilities: net of effects from purchase of subsidiary		
Accounts receivable	2,786,712	548,298
Prepaid expenses and other assets	(4,543,736)	(642,502)
Accounts payable and accrued expenses	2,513,749	380,856
Net cash provided by (used in) operating activities	(1,387,330)	(296,256)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(702,969)	(106,047)
Decrease (increase) in other investments		(338,405)
Decrease (increase) in restricted cash		47,737
Decrease (increase) in other assets	2,522	
Decrease (increase) in warehouse loans	(12,821)	22,008
Net cash provided by (used in) investing activities	(713,268)	(374,707)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on notes payable	(20,922,312)	
Net cash provided by (used in) financing activities	(20,922,312)	
NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	(23,022,910)	(670,963)
EFFECT OF EXCHANGE RATE ON CASH	442	(107,250)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	56,498,076	2,474,005
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 33,475,608	\$ 1,695,792



SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	\$	474,170	\$
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See notes to consolidated financial statements.

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**CROWN NORTHCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2007 and 2006**  
**(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, 2006. 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

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 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.

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**Table of Contents****Investments in Partnerships and Joint Ventures**

Certain of Crown's general partner and joint venture investments (ranging from 20% 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 losses per share for the three months ended March 31, 2007 and 2006 are computed based on the loss applicable to common stock divided by the weighted average number of common shares outstanding during each period.

**4. Property and Equipment and Capitalized Software Costs**

Property and equipment consists of the following at March 31, 2007 and December 31, 2006:

	<b>2007</b>	<b>2006</b>
Property and equipment	\$ 4,124,911	\$ 4,038,677
Less accumulated depreciation	(1,786,952)	(1,676,983)
Property and equipment net	\$ 2,337,959	\$ 2,361,694

Capitalized software consists of the following at March 31, 2007 and December 31, 2006:

	<b>2007</b>	<b>2006</b>
Capitalized software	\$ 2,863,349	\$ 2,545,769
Less accumulated depreciation	(1,917,537)	(1,829,378)
Capitalized software net	\$ 945,812	\$ 716,391

**5. Preferred Stock**

The Company issued the following series of convertible preferred stock to affiliates of Mr. Roark: one share of Series CC Convertible Preferred Stock in September 2000 in exchange for \$500,000 cash; one share of Series DD Convertible Preferred Stock in May 2001 in exchange for \$200,000 cash; one share of Series FF Convertible Preferred Stock in September 2001 in exchange for \$335,803.70 cash; one share of Series GG Convertible Preferred Stock in September 2001 in exchange for \$140,000 cash; pursuant to an agreement effective September 20, 2001, a total of 15 shares of Series HH Convertible Preferred Stock in exchange for \$150,000 cash; and, pursuant to an agreement effective March 27, 2002, a total of 12 shares of Series II Convertible Preferred Stock in exchange for \$120,000 cash. Each of these issuances, except for the Series II, has been converted to common stock in accordance with the terms of the respective issuances. Series II is held by the Company as a result of the merger of Royal.

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**6. Contingencies**

**Axfood Shares**

Pursuant to the terms of a 2005 share transfer agreement governing a prior sale of the Axfood portfolio, the buyer, until June 30, 2006, may make claims against the seller for breaches of the representations and warranties the seller made in the agreement. The seller's aggregate liability for claims could not exceed 72,500,000 Swedish Krona, or approximately \$10 million. Crown guaranteed the seller's liability to pay claims of which approximately 95% of such amount has been guaranteed by a third party. In conjunction with the Axfood Disposition on June 30, 2006, Crown agreed to extend this guarantee until August 31, 2007.

The representations and warranties the seller made in the 2005 agreement with respect to the Axfood portfolio were usual and customary for a stock sale transaction and encompassed 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 was involved in the governance and administration of the entities that owned the Axfood portfolio as well in the management of its real estate assets. As a result of these relationships, the Company has been and remains of the opinion that there is minimal likelihood of successful claims for breaches of representations and warranties. In conjunction with extension of the guarantee noted above, Crown obtained indemnity agreements from parties that had invested in the Axfood portfolio, including certain members of the Company's management, to timely fund any liability Crown may have under its extended guarantee against breaches of representations or warranties.

**Letters of Credit**

Westfalenbank AG (the Bank) has outstanding letters of credit to customers as reflected on the balance sheet of which \$993,705 are unreserved. These letters of credit do not have a maturity date.

**Other**

The Company has certain 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.

Prior to its acquisition, the Bank was involved in some litigation matters. As part of the Share Purchase and Transfer Agreement, the Seller agreed to indemnify and hold the Company harmless in any of these preexisting lawsuits. Accordingly, no provisions have been set aside in connection with any of the pending litigation.

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.

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Upon termination (but only in the event of redundancy, as defined under the employment laws of the United Kingdom), nine (9) employees may be entitled to receive severances based upon a formula taking into account years and weekly pay. The total payout is capped at a maximum two years of pay.

In late 2002, the Company began the process of terminating an Employee Stock Ownership Plan (the Plan). The Company applied for and received a Determination Letter from the Internal Revenue Service permitting the distribution of all assets of the Plan and its subsequent termination. During the course of the Legal Review, it was discovered certain assets consisting of 68,412 shares of the Company held by the Plan of the Company were not properly distributed to twenty-one (21) participants of the Plan. This improper distribution of assets may have resulted in non-compliance with various laws and regulations governing the Plan and its termination. The Company has entered the Voluntary Correction Program of the Internal Revenue Service Employee Plans Compliance Resolution System and the Delinquent Filer Voluntary Compliance Program offered by the Department of Labor to ensure that the Plan is in full compliance with law, that distributions are made to the twenty-one (21) remaining participants and the Plan is terminated.

In addition to those remediation efforts described above, and in order to address the material weakness in the oversight of legal compliance, personnel previously assigned to these legal oversight functions have been removed from their previous roles and reassigned by the Company, a new transfer agent has been appointed, and controls have been put in place to uncover and correct any future deficiencies.

As of December 31, 2006, the Company had a contingent liability regarding the pension of the Bank. This pension reduction has been segregated and funded.

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), nine (9) 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**

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156 Accounting for Servicing of Financial Assets – An Amendment of FASB No. 140 (SFAS No 156). SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset, by entering into a servicing contract in any of the following situations: 1) a transfer of the servicer's financial assets that meets the requirements for sale accounting, 2) a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities, or 3) an acquisition or assumption

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of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. Further, SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. And lastly, SFAS No. 156 permits the entity to choose either the amortization method or fair value measurement method for subsequent measurement of each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective as of the beginning of the first fiscal year that begins after September 15, 2006, with earlier adoption permitted. The Company has not yet assessed the effect of this accounting standard on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements but does not in itself require any new fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

Management is evaluating this standard and its impact, if any, on the Company's consolidated financial statements. In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires employers to recognize the over funded or under funded status of a defined post-retirement plan in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. The provisions of SFAS No. 158 are effective for fiscal years ending after December 15, 2006 for employers with publicly traded equity securities. See Note 14 for disclosure on adoption of SFAS No. 158.

In June 2006, the FASB issued interpretation No. 48, Accounting for the Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies certain aspects of accounting for uncertain tax positions, including issues related to the recognition and measurement of those tax positions. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Management is evaluating the potential impact of the adoption of this interpretation.

In June 2005, the FASB ratified the EITF's consensus on EITF Issue No. 04-05, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. The Task Force reached a consensus that for general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified, the guidance is effective after June 29, 2005. The Task Force also reached a consensus that for general partners in all other limited partnerships, the guidance is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The adoption of the consensus did not have a material effect on the consolidated results of operations or the consolidated financial position of the Company.

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**8. Income Taxes**

In connection with the Company's ongoing reorganization plan, on February 28, 2007 Crown NorthCorp, Inc. sold its interests in Crown NorthCorp, Ltd., Crown Mortgage Management, Ltd. ( UK Subsidiaries ) and Titrisation Belge-Belgische Effectiserings SA/NV, the Belgium joint venture ( TBE ) to one of its subsidiaries, Westfalenbank AG for \$21,994,771 in cash.

Westfalenbank AG has recorded goodwill of \$20,276,000 in connection with this purchase of stock. In accordance with German tax law, goodwill will be amortized and deducted for income tax purposes over a period of not more than forty (40) years.

The transfer of funds from Germany to Crown NorthCorp Inc. will create a U.S. tax liability of approximately \$4,430,000, net of foreign tax credit and use of the Company's remaining operating loss carryforward. In accordance with the guidance contained in ARB #51 *Consolidated Financial Statements* and Paragraph 9(e) of SFAS 109 *Accounting for Income Taxes*, the Company has deferred recognition of the tax currently payable and recorded it as a deferred (prepaid) asset.

ARB #51 states in part, "If income taxes have been paid on inter-company profits on assets remaining within the group, such taxes should be deferred." Paragraph 9(e) of SFAS 109 confirms that this concept in ARB #51 continues to be appropriate. Therefore, the prepaid tax asset will be recognized, as the goodwill discussed above, is amortized for German taxes.

**Reclassifications**

Certain reclassifications of prior year amounts have been made to conform with current year presentation.

**Item 2. Management's Discussion and Analysis**

**The Company's Businesses**

Crown NorthCorp, Inc. ( Crown or the Company ) provides comprehensive financial services to holders of real estate and asset backed interests in Europe and the United States. Principal business activities include third-party asset management and loan servicing. The Company, formed in 1994, is a Delaware corporation presently operating through seven offices in Europe and two in the United States.

The Company has begun to utilize Westfalenbank AG's (a bank chartered under the laws of Germany acquired by the Company on October 26, 2006) expertise and experience to capitalize on emerging opportunities in the German and European mortgage markets.

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Westfalenbank is providing Crown a platform to support and expand all of the Company's management, servicing and loan origination businesses.

Crown receives revenues from: third-party asset management agreements through which the Company administers commercial, multifamily and residential real estate and loan assets for the accounts of others; contracts to service on an active or standby basis individual loans, loan portfolios and assets in securitized transactions; mortgage banking activity; asset evaluations; transaction support; risk management and financial advisory services; and the administration of the interests of various corporations, partnerships, trusts and special-purpose entities. Compensation arrangements are wide-ranging and may include recurring management, loan origination or servicing fees; disposition fees associated with transactions; and incentive fees or profit-participations based on the overall performance of particular portfolios.

Revenues for the first quarter of 2007 increased over the comparable period in 2006 primarily as a result of new business in Europe and specifically as the result of the Westfalenbank acquisition. However, operating expenses have increased as well and consequently, the Company presently continues to sustain operating losses.

The acquisition of Westfalenbank provides Crown a platform to seek to maximize the value of Crown's comprehensive financial services, provide recurring revenue and expand the Company's core businesses in European markets as well as the United States and will be the most appropriate way to make effective use of Crown's liquidity and capital resources to further expand Crown's revenue base and sustain operating profitability.

**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" and comparable language. Such forward-looking statements reflect the current views of the Company and are based on information currently available to the management of the Company and its industry, management's belief with respect thereto, and certain assumptions made by management. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Potential risks and uncertainties include, without limitation: (i) significant increases in competitive pressure in the financial services and banking industries; (ii) changes in the interest rate environment which could reduce anticipated or actual margins; (iii) changes in political conditions or the legislative or regulatory environment in the United States or Europe; (iv) general economic conditions, whether internationally, nationally or regionally, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality of assets; (v) changes occurring in business conditions and inflation; (vi) changes in technology; (vii) changes in monetary and tax policies; (viii)

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changes in the securities markets; and (ix) other risks and uncertainties detailed from time to time in the filings of the Company with the Commission, which include without limitation, the following:

The Company has completed the majority of the reorganization of a substantial portion of its operations as a result of the Westfalenbank AG acquisition. The intent of this reorganization is for Crown to operate its loan servicing, mortgage management, asset management and loan origination activities through the bank. Completion of these reorganization activities is ongoing and it is anticipated that completion will occur during the second half of 2007. There can be no assurances at this time as to the timing or the results of this reorganization or its affect on the operating performance of the Company.

Management believes that the Westfalenbank AG acquisition will be a catalyst to further growth in the asset management and servicing businesses, primarily in Europe and that resultant increases in recurring revenue will help the Company achieve operating profitability. However, there can be no assurance of these results.

Crown's liquidity and capital resources remain very limited when compared to virtually all of its competitors. While the Company believes that the acquisition of Westfalenbank AG will significantly improve its competitive position and expand its resources available to realize upon new business opportunities, there can be no assurance of any particular results.

Crown and certain of its subsidiaries operate as rated servicers. If these entities are no longer 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 has significantly expanded its business operations through the acquisition of Westfalenbank AG, a banking and credit institution chartered under the laws of Germany. The Company has taken steps in 2007 that, except for operations in the U.S., resulted in substantially all of the Company's asset management, loan servicing and mortgage origination businesses being operated through the bank. Management believes that the combined market knowledge and expertise of Crown and Westfalenbank will not only enhance Crown's existing business operations but will also facilitate growth in niche mortgage and servicing businesses throughout Germany and Europe. An important part of business growth will continue to be the multiple servicer ratings the Company holds, which are necessary for participation in many transactions. Additionally, Crown, through one of the wholly owned affiliates of the bank services and manages a substantial portfolio of non-performing loans.

In the United Kingdom, Crown is realizing revenues and experiencing growth both through a new servicing contract and existing contracts. The Company continues its efforts to

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develop similar business lines elsewhere in Europe. The Company's plans to increase its assets under management via the origination of commercial mortgages with financial partners are progressing. The Company is also engaged in discussions with other parties about new servicing contracts in both the commercial and residential mortgage sectors. The Company and a third party bank, operating through a joint venture based in Belgium, market master servicing and reporting services for securitized portfolios throughout Europe. Growth in this business line is anticipated as more assets are securitized in Europe.

In the United States, the Company continues to devote resources to originate new servicing opportunities and increase servicing volumes. In 2006, the Company became the special servicer for two securitizations of small-balance commercial real estate loans. The volume of assets received by Crown from these two securitizations, have surpassed managements original expectations. Management anticipates receiving additional, similar assignments. Crown continues to examine means of expanding its servicing portfolio of smaller-balance commercial mortgage loans and of developing other specialized servicing opportunities. Asset management activities in the U.S. continue at presently modest levels as an extension of the ongoing process of resolving assets under management.

The acquisition of Westfalenbank AG provides Crown a platform to seek to maximize the value of Crown's comprehensive financial services, provide recurring revenue and expand the Company's core businesses in European markets as well as the United States. The Company believes that the reorganization, which is now near completion, will be the most appropriate way to make effective use of Crown's liquidity and capital resources, to further expand Crown's revenue base and sustain operating profitability.

**Results of Operations for the First Quarter Ended March 31, 2007 Compared to the First Quarter Ended March 31, 2006**

As discussed earlier, the acquisition of Westfalenbank AG effective July 3, 2006 was accounted for using the purchase method of accounting. The results of operations for the period ending March 31, 2007 reflect the results of operations of the combined entities. Therefore, most of the large variances in operating results between the reporting periods are attributable to this acquisition.

Total revenues increased \$3,346,443 to \$5,502,749 for the first quarter of 2007 from \$2,156,306 during the same period in 2006. The majority of the increase is attributable to increases in management fees, servicing fees and interest from the European operations.

Management fees increased \$1,879,813 to \$2,908,067 for the quarter ended March 31, 2007 from \$1,028,254 for the corresponding period in 2005. Approximately \$564,000 of this increase is due to increased special servicing fees relating to the management of sub-performing loans in the United Kingdom. Also, new management contracts in the United Kingdom contributed approximately \$365,000 to the increase. Management fees earned by Westfalenbank provided approximately \$725,000 of the increased fees and the Company's Scandinavian office contributed an additional \$174,000 through its commercial real estate asset management services.

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Servicing fees increased to \$1,567,361 for the quarter ending March 31, 2007 from \$1,117,430 for the quarter ended March 31, 2006. This \$449,931 increase is the result of increased fees earned from the United Kingdom operations increasing some \$347,000 as the result of new contracts and increased volumes in existing contracts and servicing fees in the United States declining some \$2,000 due to reductions in the servicing portfolio. Also contributing approximately \$105,000 to the increase was the activity in Westfalenbank.

Interest income increased to \$565,182 for the quarter ended March 31, 2007 from \$10,509 for the corresponding period in 2006. This increase is due almost entirely to interest earned on investments held by Westfalenbank.

Other income increased from \$113 for the quarter ended March 31, 2006 to \$372,803 for the same period in 2006. Activity from Westfalenbank of approximately \$237,000 relating to adjustments to reserves against assets due to increases in actual collections combined with some \$96,000 of other fees make up the majority of this categories increase.

Personnel expenses include salaries, related payroll taxes and benefits, travel and living expenses and professional development expenses. Personnel expenses increased \$2,149,015 to \$3,826,302 for the first quarter of 2007 from \$1,677,287 for the first quarter of 2006. Approximately \$1,560,000 of the increase is related to the newly acquired entity, Westfalenbank. In addition, general payroll increases and increased staffing in the servicing and information technology areas in the United Kingdom created an increase of some \$350,000. Operations in the U.S. contributed another \$240,000 as the result of an increase in management personnel relating to the Company's European operations. Legal, accounting and professional services increased \$241,311 to \$765,754 for the quarter ending March 31, 2007 from \$524,443 for the comparable period in 2006. Operations in the U.S. were responsible for approximately \$261,000 of the increase as the Company experienced increases in legal fees, accounting fees and professional fees. The majority of these increases relate to temporarily outsourcing its corporate counsel function and matters relating to Westfalenbank. Operations in the United Kingdom experienced a decline in these expenses of some \$210,000 while Westfalenbank operations contributed \$179,000 to the increase.

Insurance and other administrative expenses increased by \$559,980 to \$750,841 in 2007 from \$190,861 in 2006. The increase in these expenses was divided among the Company's German, United Kingdom and Scandinavian offices. The newly acquired Westfalenbank incurred approximately \$221,000 in operating expenses; the UK offices experienced an increase of some \$110,000 as the result of increased staff along with the attendant cost therewith and the Scandinavian office incurred increases of some \$242,000 due to expenses incurred in relation to revenue generation.

Occupancy costs increased \$704,168 to \$1,052,649 in 2007 from \$348,481 in 2006. The increase was attributable in large to Westfalenbank's occupancy costs of some \$582,000 and

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increases in office rent in the UK and U.S. of approximately \$9,500 and \$1,000 respectively. In addition, the Company's UK offices incurred increased computer related expenses of some \$105,000.

The write-down of capitalized mortgage servicing rights decreased by approximately \$165,000 for the quarter ending March 31, 2007 from the corresponding period in 2006. A write-down of approximately \$165,000 in the first quarter of 2006 was necessitated primarily as the result of payoff of one large loan.

Interest expense increased from \$4,542 for the three months ending March 31, 2006 to \$1,435,739 for the comparable period in 2007. The increase is due almost entirely to interest expense incurred in connection with the acquisition of Westfalenbank.

Depreciation and amortization increased to \$890,604 in 2007 from \$215,733 in 2006. The majority of the approximately \$675,000 increase is the result of amortization of financing costs associated with the acquisition of Westfalenbank as well as the amortization/depreciation recognized by the Westfalenbank itself.

**Liquidity and Capital Resources**

**General**

Cash and cash equivalents decreased by \$23,022,910 to \$33,475,608 for the three month period ending March 31, 2007 from \$56,498,076 at December 31, 2006. The majority of the decrease in cash is the result of the scheduled debt service associated with the financing acquisition of Westfalenbank. Crown seeks to improve liquidity and access to cash resources by generating new business revenues, raising additional capital and, in selected instances, entering into strategic alliances.

For the foreseeable future, the Company expects to continue to fund operations from cash generated by its own operations and from management fee income received from its operating subsidiaries. Crown will continue to attempt to develop new sources of revenue, to expand revenues from its existing client base and to reduce operating expenses. The Company will continue to seek new capital resources as a means of funding its operations.

**Historical Cash Flows**

Cash flows from operating activities used cash of \$1,387,330 during the first quarter of 2007 compared to a use of \$296,256 during the first quarter of 2006. Operations from new acquisitions were responsible for the majority of increased use of cash.

Investing activities used cash of \$713,268 during the first quarter of 2007. Similar activities used \$374,707 in 2006. The increase in cash provided is predominately the result of an increase in equipment and software purchases during the first quarter of 2007 purchase.

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Financing activities used \$20,922,312 during the first quarter of 2007. There was no comparable financing activity in 2006. The majority of the increase in cash is attributable to a scheduled payment against the credit facility used to purchase Westfalenbank.

**Item 3. Controls and Procedures**

Crown's principal executive and financial officers have evaluated the Company's disclosure controls and procedures in place on March 31, 2007 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. 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**

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|------|------------------------------------|-----------------|
| 31.1 | Certification of officers of Crown | Filed herewith. |
| 31.2 | 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: May 25, 2007

By: /s/ Ronald E. Roark

Ronald E. Roark, Vice Chairman  
and Chief Executive Officer

By: /s/ Rick L. Lewis

Rick L. Lewis, Vice President,  
Treasurer, and Chief Financial Officer

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**INDEX TO EXHIBITS**

- 31.1 Certification of officers of Crown (1)
- 31.2 Certification of officers of Crown (1)
- 32.1 Certification of officers of Crown (1)

(1) Filed herewith.