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CROWN NORTHCORP INC
Form 10QSB
August 16, 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: June 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

22-3172740

(State or other jurisdiction of
incorporation or organization)

(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 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.

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As of August 4, 2004, the issuer had 14,056,106 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 JUNE 30, 2004

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CROWN NORTHCORP, INC. AND SUBSIDIARIES

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

	UNAUDITED 2004 ----	2003 ----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 785,120	\$ 2,052,065
Accounts receivable - net	1,593,131	2,405,456
Prepaid expenses and other assets	687,147	368,588
	-----	-----
Total current assets	3,065,398	4,826,109
PROPERTY AND EQUIPMENT - Net	232,576	111,747
RESTRICTED CASH	406,646	257,490
OTHER ASSETS		
Investment in partnerships and joint ventures	410,276	392,985
Other investments	2,130,097	1,939,589
Loan servicing rights- net	6,920,256	7,017,674
Capitalized software cost - net	857,746	1,026,196
Acquisition costs	2,091	2,091
Deposits	44,104	42,585
	-----	-----
Total other assets	10,364,570	10,421,120
	-----	-----
TOTAL	\$ 14,069,190 =====	\$ 15,616,466 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term obligation	1,278,105	1,294,202
Accounts payable	628,472	638,133
Accrued expenses:		
Interest	4,620	10,688
Other	662,111	884,875
	-----	-----
Total current liabilities	2,573,308	2,827,898
LONG-TERM OBLIGATIONS:		
Notes and bonds payable - less current portion	575,000	505,979
Allowance for loan losses & other	235,979	235,979
	-----	-----
Total long-term obligations	810,979	741,958
SHAREHOLDERS' EQUITY:		
Common stock	152,502	152,502

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Additional paid-in capital	20,046,425	20,058,116
Accumulated comprehensive income	359,444	114,231
Accumulated deficit	(9,588,044)	(8,101,180)
Treasury stock, at cost	(177,058)	(177,058)
	-----	-----
Total shareholders' equity	10,793,269	12,046,611
	-----	-----
TOTAL	\$ 14,069,190	\$ 15,616,467
	=====	=====

See notes to condensed consolidated financial statements.

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CROWN NORTHCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
FOR THE SECOND QUARTER AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003

	SECOND QUARTER		YEAR TO D
	2004	2003	2004
	----	----	----
REVENUES:			
Management fees	\$ 155,543	\$ 289,611	\$ 282,768
Servicing fees	701,040	27,733	1,347,229
Interest income	9,827	212,602	131,457
Other	1,103	1,093	1,103
	-----	-----	-----
Total revenues	867,513	531,039	1,762,557
	-----	-----	-----
EXPENSES:			
Personnel	1,078,461	142,072	2,098,713
Occupancy, insurance and other	611,972	150,427	1,246,663
Interest	53,899	4,395	56,235
Minority interest in earnings of subsidiary	-	24,369	-
Depreciation and amortization	193,943	15,499	341,164
	-----	-----	-----
Total expenses	1,938,275	336,762	3,742,775
	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(1,070,762)	194,277	(1,980,218)
INCOME TAX (BENEFIT)	185,786	-	387,345
	-----	-----	-----
NET INCOME (LOSS)	\$ (884,976)	\$ 194,277	\$ (1,592,873)
	-----	-----	-----
OTHER COMPREHENSIVE INCOME			
Unrealized gain/(loss)	22,307	(25,002)	25,515
	-----	-----	-----
COMPREHENSIVE INCOME (LOSS)	\$ (862,669)	\$ 169,275	\$ (1,567,358)
	-----	-----	-----

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	=====	=====	=====	=====
LOSS PER SHARE - BASIC AND DILUTED	\$ (0.06)	\$ 0.02	\$ (0.11)	\$
WEIGHTED AVERAGE SHARES OUTSTANDING	14,056,106	12,060,778	14,056,106	

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 SIX MONTHS ENDED JUNE 30, 2004 AND 2003

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)	\$ (1,
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation and amortization	
Equiy in income from investment in partnerships and joint ventures	
Minority interest in earnings	
Change in operating assets and liabilities:	
Accounts receivable	(
Prepaid expenses and other assets	(
Accounts payable and accrued expenses	
Net cash used in operating activities	(

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	(
Decrease (increase) in restricted cash	(
Increase in warehouse loans	
Distributions from D-Certificate	
Decrease (increase) in other investments	
Net cash provided (used) in investing activities	(

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from notes payable	
Principal payments on notes payable	
Net cash provided by financing activities	

NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	(1,
Effect of Exchange rate on cash	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	\$
------------------------	----

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See notes to condensed consolidated financial statements.

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

3. Loss Per Common Share

The losses per share for the six months ended June 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.

4. Property and Equipment

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

	2004 ----	2003 ----
Property and equipment	\$ 404,383	\$ 272,23
Less accumulated depreciation	(171,807)	(160,48
	-----	-----
Property and equipment - net	\$ 232,576 =====	\$ 111,74 =====

5. Preferred Stock

The company has 1,000,000 authorized shares of preferred stock. At June 30, 2004 and December 31, 2003, Crown had no outstanding shares of preferred stock.

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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.

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

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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.

8. Subsequent Events

Two wholly owned subsidiaries of the company, CRS Bond Portfolio, L.P. and CRS Bond Portfolio II, L.P., 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 one of these projects on July 8, 2004, the company received a return of \$2,218,456 cash on this investment. Crown has used a portion of the cash received to reduce current liabilities and long-term obligations.

The three remaining multifamily projects collateralizing tax-exempt bonds in the securitization are all subject to contracts for sale. The company anticipates that sales of all three projects will close in the third quarter of 2004. If these sales

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close under their present terms, Crown projects that it will receive additional cash totaling approximately \$4.75 million from the investment in the residual interest of the securitization. There can be no assurance either that any or all of these sales will close or, if they close, under what terms.

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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 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

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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 quarter of 2004, the company is also deriving 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:

- Crown continues to sustain operating losses following the acquisition of European operations. These European operations have historically been profitable and management anticipates that the assimilation of domestic and overseas operations

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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. While the asset sales completed to date have significantly increased liquidity and non-operating income, the company 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.
- 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

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ability to obtain new business in certain commercial real estate markets would be impaired.

OUTLOOK

In the U.S., Crown offers third-party asset management and loan servicing that meets 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 are 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 a sale that closed in July 2004; pending transactions would yield additional cash and non-recurring income (see 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. There can be no assurances when further dispositions may occur. 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. 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

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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. 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 company receives fees to serve as a standby servicer in several transactions and is developing 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 two 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.

Crown's mortgage banking business in Europe is in its early stages. In 2003, the company commenced origination of non-conforming residential loans for loan conduit and correspondent programs. The company seeks to expand this activity and to also commence the origination of commercial loans.

The acquisition of CNL and CMM has significantly expanded the company's financial services business. Crown'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

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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. If these strategies are successful, the company would realize significant amounts of cash and income. At the same time, the company is actively looking to expand its established asset management, loan servicing and loan origination businesses in Europe.

While the company's business volumes have expanded, its capital resources remain limited. Management believes that the pending initiatives to dispose of interests in multifamily projects in the U.S. could significantly increase liquidity and improve the company's ability to operate. Continued expansion of European operations should also improve operating performance. 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.

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RESULTS OF OPERATIONS FOR THE SECOND QUARTER ENDED JUNE 30, 2004 COMPARED TO THE SECOND QUARTER ENDED JUNE 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 second quarter of 2004 and the second quarter of 2003 as well as the six month periods ending June 30, 2004 and 2003 are attributable to 2004 being the initial reporting period for the consolidated entity.

Total revenues increased \$336,474 to \$867,513 for the second quarter of 2004 from \$531,039 during the same period in 2003. The majority of the increase is attributable to servicing fees generated from European operations.

Management fees decreased \$134,068 from \$289,611 for the second quarter ended June 30, 2003 to \$155,543 for the corresponding period in 2004. The majority of this decrease can be attributed to a fee collected in 2003 for the management and disposition of an asset in a securitization. This fee was approximately \$172,500. Also, due to this and another disposition, monthly fees collected in conjunction with management of assets declined by approximately \$21,700 for the quarter ending June 30, 2004 compared to the quarter ending June 30, 2003. Offsetting these two reductions are approximately \$62,100 in fees earned from European operations.

Servicing fees increased from \$27,733 for the quarter ending June 30, 2003 to \$701,040 for the quarter ending June 30, 2004. This \$673,307 increase is the result of service fees earned from European operations of approximately \$674,500 and a decline in U.S. service fees of some \$1,000 due to a reduction of the servicing portfolio.

Interest income declined from \$212,602 for the quarter ended June 30, 2003 to \$9,827 for the corresponding period in 2004. This decrease is due almost entirely to the receipt of cash, in 2003, 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.

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

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increased \$936,389 to \$1,078,461 for the second quarter of 2004 from \$142,072 for the same period in 2003. The increase was due to European payroll costs of \$635,125 as well as travel expenditures of approximately \$198,206 associated with European operations. Also contributing to the increase were staff additions in the U.S., which totaled \$68,750 for the period, as well as increase in contract labor of \$30,500.

Occupancy, insurance and other operating expenses increased to \$611,972 for the second

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quarter of 2004 from \$150,427 for the comparable period in 2003. The increase of \$461,545 was primarily attributable to rent and office overhead in Europe of approximately \$398,000. The remainder of the increase is attributable to operations in the U.S. and is the result of an increase in legal expenses of \$29,000, an increase in office rent of some \$7,500 and an increase in accounting fees of approximately \$20,200. The increase in accounting fees is related to the acquisition of Royal at December 31, 2003.

Interest expense increased to \$53,899 for the second quarter of 2004 from \$4,395 for the second 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 \$193,943 for the second quarter of 2004 from \$15,499 for the corresponding period in 2003. The majority of the \$178,444 increase is the result of depreciation expense of \$22,452 attributable to European operations and the amortization of capitalized servicing and software costs associated with European operations totaling \$61,864 and \$92,019 respectively.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2003

Total revenues increased \$1,065,963 to \$1,762,557 in the first six months of 2004 from \$696,594 during the same period in 2003. This increase was primarily due to an increase in servicing fees.

Management fees decreased \$127,818 from \$410,586 for the six months ended June 30, 2003 to \$282,768 for the corresponding period in 2004. The majority of this decrease can be attributed to a fee collected in 2003 for the management and disposition of an asset in a securitization. This fee was approximately \$172,500. Also, due to this and another disposition, monthly fees collected in conjunction with management of assets declined by approximately \$74,934 for the six months ending June 30, 2004 compared to the six months ending June 30, 2003. Offsetting these two reductions are fees earned from European operations of approximately \$97,000 as well as a fee totaling \$30,740 earned in conjunction with the disposition of a managed asset.

Servicing fees increased \$1,291,306 from \$55,923 for the six months ending June 30, 2003 to \$1,347,229 for the comparable period in 2004. This increase is attributable almost entirely to servicing fees earned in Europe.

Interest income decreased \$94,585 from \$226,042 for the six months ended June 30, 2003 to \$131,457 for the comparable period in 2004. The majority of the increase is attributable to the receipt in 2003 of cash from a residual interest in a securitization of tax-exempt housing bonds owned by one of Crown's subsidiaries resulting from the sale of property collateralizing one of the bonds. This approximately \$210,000 decline is offset by interest earned in Europe of some \$114,000.

Personnel expenses increased \$1,813,942 to \$2,098,713 for the first six months of 2004 from \$284,711 for the same period in 2003. The increase was due to European payroll costs of \$1,357,304 as well as travel expenditures of approximately \$256,640 associated with European operations. Also contributing to the increase were staff additions in the U.S., which totaled \$137,500 for the period, as well as increase in contract labor of \$44,630.

Occupancy, insurance and other operating expenses increased to \$1,246,663 for the six months ended June 30, 2004 from \$262,461 for the comparable period in 2003. The increase of \$984,202 was attributable in part to rent and office overhead in Europe of approximately \$849,000. The remainder of the increase is attributable to operations in the U.S. and is the result of an increase in legal expenses of \$80,720, an increase in computer expense of some \$16,000 and an increase in accounting fees of approximately \$20,400. The increase in accounting fees is related to the acquisition of Royal at December 31, 2003.

Interest expense increased to \$56,235 for the six months ended June 30, 2004 from \$8,470 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 six months ended June 30, 2004. This decrease is the result of the purchase in 2003 of the minority interest by a subsidiary of the company.

Depreciation and amortization increased to \$341,164 for the six months ended June 30, 2004 from \$30,999 for the corresponding period in 2003. The majority of the \$310,165 increase is the result of depreciation expense of \$40,603 attributable to European operations as well as amortization of capitalized servicing and software costs associated with European operations totaling \$80,464 and \$184,881 respectively.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

Cash and cash equivalents decreased by \$1,266,945 to \$785,120 at June 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 coming 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 \$943,890 during the first six months of 2004. Operating activities provided \$116,697 in the corresponding period of 2003.

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Investing activities used \$405,208 during the first six months of 2004. For the comparable period in 2003, \$43,630 was used for investing activities. The increase in use of funds over 2003 is attributable to an increase in warehouse loan fundings in Europe as well as the purchase of furniture, fixtures and equipment in Europe.

Financing activities used cash flows of \$3,459 during the first six months of 2004. Such activities provided cash flows of \$68,203 during the comparable period in 2003. During the first six months of 2003, the company borrowed \$86,200 from an affiliate and repaid \$17,997 on existing debt. During the first six months of 2004, the company borrowed \$75,000 from an affiliate and repaid \$78,459.

Item 3. - Controls and Procedures

Crown's principal executive and financial officers have evaluated the company's disclosure controls and procedures in place on June 30, 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 significantly affect these controls.

Part II - OTHER INFORMATION

Item 1. - Legal Proceedings

None

Item 2. - Changes in Securities

None

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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 Bond Portfolio, L.P. and CRS Bond Portfolio II, L.P., 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 one of these projects on July 8, 2004, the company received a return of \$2,218,456 cash on this investment. Crown has used a portion of the cash received to reduce current liabilities and long-term obligations.

The three remaining multifamily projects collateralizing tax-exempt bonds in the securitization are all subject to contracts for sale. The company anticipates that sales of all three projects will close in the third quarter of 2004. If these sales close under their present terms, Crown projects that it will receive additional cash totaling approximately \$4.75 million from the investment in the residual interest of the securitization. There can be no assurance either that any or all of these sales will close or, if they close, under what terms.

Item 6. - Exhibits and Reports on Form 8-K

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(a) Exhibits

31.5 Certification of officers of Crown Filed herewith.
32.4 Certification of officers of Crown Filed herewith.

(b) Reports on Form 8-K

None

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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: August 6, 2004

By: /s/ Rick Lewis

Rick Lewis, Vice President,
Treasurer and Chief Financial
Officer

By: /s/ Stephen W. Brown

Stephen W. Brown, Secretary

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INDEX TO EXHIBITS

31.5 Certification of officers of Crown (1)
32.4 Certification of officers of Crown (1)

(1) Filed herewith.

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