

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

CROWN NORTHCORP INC  
Form 10KSB  
March 31, 2005

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

(Mark One)

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

For the fiscal year ended December 31, 2004

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

For the transition period from \_\_\_\_\_ to

Commission File No.: 0-22936

Crown NorthCorp, Inc.

-----  
(Name of small business issuer 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) (Zip Code)

(614) 488-1169

-----  
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:

-----  
NONE

Securities registered under Section 12(g) of the Exchange Act:

-----  
Common Stock, par value \$.01 per share

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

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Issuer's revenues for the fiscal year ended December 31, 2004 were \$10,375,516.

The aggregate market value of the voting and non-voting common equity held

# Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

by non-affiliates of the Registrant cannot be determined at this time as the company's common equity has not been quoted within the past sixty days on the OTC Bulletin Board pursuant to Rule 6530 of the National Association of Securities Dealers.

As of March 25, 2005 the issuer had 15,940,116 shares of its common stock outstanding.

Transitional Small Business Disclosure Format. Yes [ ] No [X]

CROWN NORTHCORP, INC.

FORM 10-KSB  
FOR THE YEAR ENDED DECEMBER 31, 2004  
INDEX

	PAGES
	-----
PART I.	
Item 1. Description of Business.....	1
Item 2. Description of Property.....	3
Item 3. Legal Proceedings.....	4
Item 4. Submission of Matters to a Vote of Security Holders.....	4
PART II.	
Item 5. Market for Common Equity and Related Stockholder Matters.....	4
Item 6. Management's Discussion and Analysis.....	5
Item 7. Financial Statements.....	F-1 thru F-2
Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	12
Item 8a. Procedures and Controls.....	12
Item 8b. Other Information.....	12
PART III.	
Item 9. Directors and Executive Officers of the Registrant.....	12
Item 10. Executive Compensation.....	15
Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	16
Item 12. Certain Relationships and Related Transactions.....	17
Item 13. Exhibits.....	19
Item 14. Principal Accountant Fees and Services.....	20

PART I

ITEM 1. - DESCRIPTION OF BUSINESS

BUSINESS OVERVIEW

Crown NorthCorp, Inc. provides an array of financial services to the real estate industry, including third-party asset management, mortgage banking and loan servicing. Crown conducts business in the United States through offices in Columbus, Ohio and Austin, Texas. In Europe, the company operates through offices in London, Ipswich and Farnham in the United Kingdom, Frankfurt, Germany and Stockholm, Sweden; an affiliated entity operates in Belgium. The company, formed in 1994, is a Delaware corporation. At December 31, 2004, Crown and its operating subsidiaries employed 58 people. Affiliates engaged in asset management overseen by Crown employed an additional 14 people.

At the end of 2003, the company acquired Crown NorthCorp Limited ("CNL"), a corporation under the laws of the United Kingdom, at its operating subsidiaries, including Crown Mortgage Management ("CMM"). See "Item 12 - Certain Relationships and Related Transactions" below. This acquisition of European operations allowed the company to significantly expand its business in 2004.

Also in 2004, Crown realized very significant value from its residual interest in a securitization of four tax-exempt bonds when the company, in its capacity as asset manager for the securitization, administered sales of the properties collateralizing the bonds. Crown is using the proceeds of these dispositions to fund operations and to make strategic investments to develop business.

Crown derives revenues from several sources: third-party asset management agreements covering 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; fees associated with the origination of sub-prime residential loans in the United Kingdom; risk management and financial advisory services; and the administration of the interests of various corporations, partnerships, trusts and special-purpose entities. In particular cases, these management and servicing contracts may provide for Crown to receive 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.

Third-Party Asset Management. The company offers to holders of real estate and financial assets comprehensive management services including fund or portfolio management, advice on asset acquisition or disposition, due diligence reviews and development of portfolio strategies. Third-party asset management clients include partnerships, investment consortiums, financial institutions and governmental entities. Asset management contracts are generally for indefinite terms. In certain cases, in addition to a management contract, Crown or one of its affiliates

1

may have a residual equity interest in a client's asset-holding entity, which interest may be realized upon resolution of managed assets within certain parameters. The company focuses on asset management opportunities in emerging or niche market sectors that offer opportunities for growth as well as recurring loan servicing revenues. Managed assets frequently present multifaceted

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

financing structures or other complex issues.

Crown's management activities in Europe encompass several portfolios of commercial and residential real estate assets. Assets under management are presently concentrated in the United Kingdom, Sweden and the United States.

Asset management activities in the U.S. have significantly contracted in recent years. This trend continued in 2004 with the successful disposition mentioned above of properties collateralizing tax-exempt bonds. Managed assets in the U.S. currently include multifamily housing projects impacted by U.S. government subsidies.

Loan Servicing and Mortgage Management. Crown provides comprehensive loan servicing and mortgage management. The company's services include primary servicing of loans performing according to their contractual terms, special servicing of distressed loans and standby servicing relationships calling for Crown to step in if a primary servicer fails. In Europe, Fortis Bank and Crown jointly own and operate a company that offers master servicing capability to supervise and administer the activities of multiple primary servicers involved in a common transaction.

Crown's services residential, commercial and consumer loan portfolios in Europe. Customers include individual clients, investors in securitized transactions and portfolio managers and advisors. Many of these client relationships directly relate to Crown's asset management and loan origination activities. U.S. servicing operations are concentrated on commercial loans.

The company's highly developed servicing systems and procedures are regularly reviewed by internationally recognized rating agencies. In Europe, Fitch Ratings, Standard & Poor's Corporation and Moody's Investors Service have rated CMM's commercial and residential servicing: Crown is the first entity operating in Europe to achieve these multiple ratings. Fitch has also rated Crown's commercial servicing operations in the U.S.

Loan Origination and Mortgage Banking. Rooftop Mortgage Limited, in which the company has a minority interest originates sub-prime residential loans in the United Kingdom. These loans are immediately sold into conduit or correspondent programs that accumulate loans for further disposition in capital markets transactions.

In 2004, the company began development of systems and procedures to originate commercial loans in European markets. Crown anticipates implementing this program in 2005.

Rooftop's loan origination programs generate loan fees as well as recurring loan servicing revenue for the company.

2

### COMPETITIVE ENVIRONMENT

In operating as an independent provider of asset management, mortgage management and mortgage banking services, Crown faces a large number of competing providers in each of these business lines. The great majority of these competitors operate as significant operating units of companies that are much larger and better capitalized than Crown. In pursuing opportunities in the financial markets, Crown typically attempts to maximize its relatively limited capital resources by developing business alliances or capital partnerships. At the same time, management believes that Crown's smaller size, independent status and comprehensive servicer ratings facilitate the prompt delivery of highly tailored financial services to many emerging or niche markets.

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

### ITEM 2. - DESCRIPTION OF PROPERTY

#### OFFICES

Crown leases office space in three locations in the United Kingdom and in additional locations in Germany and Sweden. In the U.S., the company leases offices space in Columbus, Ohio and Austin, Texas. See "Note 6 - Leases - to the Consolidated Financial Statements."

#### INVESTMENT POLICIES

Real Estate; Securities of or Interests Entities Primarily Engaged in Real Estate Activities. As a third-party asset manager, the company manages real estate and interests in real estate for the accounts of others. While the company is not investing in real estate for its own account, in certain circumstances Crown does make investments in entities engaged in real estate activities as part of an overall client relationship through which Crown secures or retains asset management, mortgage management or mortgage banking business. Investments typically take the form of equity or partnership positions or subordinate debt. Crown's relatively limited liquidity and capital resources affect its ability to make these types of investments at any particular time.

Real Estate Mortgages. Crown is not originating or investing in mortgage loans for its own account. Rooftop, in which Crown has a minority interest, originates sub-prime residential real estate loans for sale at closing and delivery into securitizations or whole loan sale programs. These mortgage banking activities complement and support the company's third-party asset management and loan servicing businesses.

The company from time to time has acquired the rights to service mortgage loan assets through the negotiated purchases of or successful bids for the servicing rights themselves. Here again, Crown's liquidity and capital resources may limit its ability to pursue purchases of servicing rights.

3

### ITEM 3. - LEGAL PROCEEDINGS

Crown is not a party to any legal proceedings involving itself or its property.

An arbitration proceeding involving the company was recently resolved. The company licenses from Midland Loan Services, Inc. software to operate its loan servicing system in the United States. As a result of Crown's contributions to the development of the software, the company has the use of the present system at no cost. In October 2003, Crown filed an arbitration demand against Midland to resolve a dispute over the terms and conditions of Crown's free use of future improvements to the system. Based upon the arbitration panel's ruling following a hearing, Crown will now install the latest version of the software. Thereafter, Midland and Crown would need to agree on the terms and conditions under which Crown would purchase any subsequent versions.

### ITEM 4. - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

## PART II

### ITEM 5. - MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### COMMON STOCK

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Records maintained by the National Quotation Bureau show that, for the quarter ended March 31, 2001, the high and low bid prices for the company's common stock were \$.02 and \$.005 respectively. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. In periods subsequent to March 31, 2001, there has generally been no active public trading market for the common stock.

At March 25, 2005, there were approximately 2,600 holders of record of shares of the common stock.

During its 2004 and 2003 fiscal years, the company neither declared nor paid cash dividends or returns of capital on common shares. The company may consider paying dividends in the future.

As of March 25, 2005, Crown had 30,000,000 authorized shares of common stock and 1,000,000 authorized shares of preferred stock.

As part of a series of transactions to effect the merger of Royal into the company, Crown is proceeding with a 1:100 reverse and 10:1 forward stock split effective December 31, 2003 to

4

reduce the number of shareholders with extremely small holdings of the company's stock. Following the stock splits and the conversion of all outstanding preferred stock to common (but before giving effect to the merger transaction) Crown had approximately 3,250,116 shares of common stock outstanding. In exchange for all of the issued and outstanding stock of Royal, Mr. Roark, Crown's chairman and chief executive officer, received 12,000,000 shares of Crown common stock. The common stock of Crown held by Royal became treasury stock of Crown.

### ITEM 6. - MANAGEMENT'S DISCUSSION AND ANALYSIS

#### THE COMPANY'S BUSINESSES

Crown offers comprehensive financial services to the holders of real estate interests in Europe and the United States. The acquisition of the well-established operations of CNL and CMM effective December 31, 2003 (see Note 2 to the Consolidated Financial Statements) allowed the company to significantly expand its third-party asset management and loan servicing businesses to Europe. Rooftop originates sub-prime residential real estate loans in the United Kingdom. Crown's business lines in Europe and the United States generate revenues in several ways: agreements to manage commercial, multifamily and residential real estate and loan assets for the account of others; loan servicing and mortgage management on an active or standby basis of individual loans, loan portfolios and assets in securitized transactions; fees and other income associated with loan origination and the securitization of those loans; risk management, financial advisory and due diligence services; and administration of the interests of various corporations, partnerships, investments consortiums and special-purpose entities.

Crown generated net income in 2004 primarily from asset sales that resulted in very significant returns from the residual interest the company held in a securitization of tax-exempt bonds. The company continues to sustain losses from certain of its operations. Crown is actively deploying its resources primarily in Europe to replace expiring or terminating contracts, expand its businesses and attempt to return to operating profitability. These efforts may include the formation of partnerships, business combinations or other arrangements or transactions to leverage the company's liquidity and capital resources, maximize

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

the value of its core businesses and improve operating results. Additionally, the company projects that, in 2005, it may achieve significant financial benefits from the disposition or refinancing of certain assets managed under contracts.

### 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,"

5

"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:

- In 2004, Crown realized very substantial, one-time gains from its investment in the residual interest of a securitization of tax-exempt bonds. However, Crown sustained losses from operations for the year. The company continues to believe that its acquisition of established asset management and servicing operations in Europe provides the foundation for growth that will lead to operating profitability, but there can be no assurance of this result.
- Crown is attempting to utilize the proceeds of asset sales to maintain and expand business volumes, primarily in Europe. Business in the U.S. presently continues to decrease as assets subject to management or servicing contracts are resolved. There can be no assurance that the company will be able to successfully redeploy these sale 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 complete for many business opportunities, the company will need to form partnerships, alliances or other combinations if it cannot increase its capital through profitable operations or other means.
- Crown and certain of its subsidiaries operate as rated servicers. If these entities were to no longer be rated, or if those ratings were lowered, there would be an adverse effect on the company's operations. Crown's business volumes may affect its servicer ratings.

### OUTLOOK

The company seeks to build upon and expand European operations. With increasing frequency in recent years, holders of real estate interests in Europe have been utilizing asset securitizations and other complex capital markets transactions to realize value from their investments. Management believes this trend will continue and that Crown is well positioned to benefit from it. The company

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

provides comprehensive, integrated services addressing all phases of the life cycle of an asset from acquisition to disposition. The structuring of these transactions typically requires the involvement of a rated servicer; Crown is the first servicer in Europe to receive multiple ratings for both commercial and residential servicing from three

6

rating agencies. Additionally, the market knowledge Crown has obtained from operations in several countries is an aid in identifying and pursuing emerging opportunities.

Crown's European asset management activities cover a variety of real estate and loan interests including, by way of example, a golf course in the United Kingdom, a chain of grocery stores in Sweden and numerous parcels of residential real estate. Negotiations continue on possible transactions involving the managed asset portfolio in Sweden. While the resolution of this portfolio has been delayed, Crown anticipates that contracts will be entered into and that a transaction will occur in 2005 that will yield very substantial cash returns to Crown and may provide a platform for expanded management opportunities in Scandinavia.

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. Loan servicing volumes will decline in the near term as the result of the termination of one contract (see below Item 8B - Other Information). At the same time, the residential servicing portfolio continues to grow at a rapid rate as a result of loan origination activity. The company, in conjunction with its joint venture partner, is also implementing plans to expand its master servicing business.

Management has been pleased with the progress of its loan origination business and is seeking to expand origination activity. The company holds a minority interest in Rooftop Mortgages Limited, which is originating a steadily increasing volume of sub-prime residential loans in the United Kingdom. The company anticipates a continued strong volume of residential originations, although growth may be tempered by a moderation in the increase in housing prices in the United Kingdom. Crown is also actively developing the capability to begin originating commercial mortgage loans in the U.K. later this year. Similar to the residential activity, these commercial originations should also increase loan servicing and mortgage management portfolios.

Operations in the United States are in transition. During 2004, the company capitalized on prevailing economic and regulatory factors to realize very significant cash and non-recurring income from the sale of a substantial portion of assets under management in the U.S. The company is using the proceeds from these dispositions to meet operational needs, primarily in Europe. Efforts are under way to resolve the small number of assets remaining under management in the United States. The company is also in discussions with potential strategic partners regarding ongoing operations in the U.S.

Loan servicing volumes in the U.S. continue to decline as loans in the portfolio pay off in the normal course. Management is evaluating opportunities to possibly increase this servicing portfolio through participation in a loan origination program or other means. Crown continues to operate as a rated servicer in the U.S. but will relinquish that rating if additional U.S. business does not develop.

7



## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Going forward, Crown is primarily focused on realizing value from its existing business activities in Europe and in further expanding its presence in European markets. The company anticipates this expansion may include further development of business platforms in Germany, Scandinavia and the United Kingdom. The company is also exploring partnerships and other business structures with existing or new clients to develop business both in Europe and the United States. The company would be prepared to provide investment capital to such entities to advance growth opportunities that maximize the value of Crown's comprehensive financial services and provide recurring revenue to its business lines. Crown believes that proceeding in this manner is the most effective way of expanding the company's revenues and returning it to operating profitability.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004 COMPARED TO THE YEAR ENDED DECEMBER 31, 2003.

As set forth in Note 1 to the 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 2004 and 2003 are attributable to 2004 being the initial reporting period for the consolidated entity.

Total revenues from continuing operations increased \$9,360,076 to \$10,375,516 in 2004 from \$1,015,440 in 2003, with the largest increases being attributable to loan servicing fees and interest income.

Management fees are recorded as services required under a contract are performed and, as defined in the applicable contracts, are derived either from percentages of the aggregate value of assets under management or from original base monthly amounts. Management fees decreased \$77,656 to \$559,702 in 2004 from \$637,358 in 2003. The majority of this decrease is attributable to a fee of approximately \$172,500 collected in 2003 for the management and disposition of an asset in a securitization. Also, due to this and other dispositions, monthly fees collected in conjunction with management of assets declined by approximately \$161,000 for the twelve months ending December 31, 2004 compared to the same period in 2003. Offsetting these two reductions are fees earned from European operations of approximately \$263,000.

Loan servicing fees increased \$2,886,508 to \$2,997,764 in 2004 from \$111,256 in 2003. This increase is due almost entirely from servicing fees earned in Europe.

Interest income increased \$5,984,048 to \$6,239,933 in 2004 from \$255,885 in 2003. The majority of the increase is attributable to the receipt of cash from a residual interest in a securitization of tax-exempt housing bonds owned by one of Crown's subsidiaries. The receipt of cash came as the result of the sale of the remaining underlying collateral properties of the bonds during 2004.

8

Income from partnerships and joint ventures increased to \$131,282 for the year ended December 31, 2004 from \$6,222 for the year of 2003. This increase was primarily the result of income from a European partnership interest.

Other income increased \$442,116 to \$446,835 in 2004 from \$4,719 in 2003. The majority of the increase was attributable to an accrual of amounts due from the recapture of the prior year's income tax payments in Europe.

Operating and administrative expense changes were as follows:

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

	2004 -----	2003 -----	\$ Change -----
Personnel	\$4,591,726	\$ 607,170	\$3,984,556
Insurance, Professional and Other	\$2,851,931	\$ 424,262	\$2,427,669
Occupancy	\$1,040,128	\$ 119,072	\$ 921,056
Amortization and Depreciation	\$ 825,722	\$ 58,023	\$ 767,699
Total	\$9,309,507	\$1,208,527	\$8,100,980

Personnel expenses include salaries, related payroll taxes and benefits, travel and living expenses and professional development expenses. Personnel expenses increased \$3,984,556 to \$4,591,726 in 2004 from \$607,170 for the same period in 2003. The increase was due to European payroll costs of \$3,083,700 as well as travel expenditures of approximately \$459,000 associated with European operations. Also contributing to the increase were salary increases and staff additions in the U.S., which totaled approximately \$346,000 for the period, as well as an increase in contract labor of \$45,000 and travel of approximately \$47,000.

Insurance, professional and other costs increased by \$2,427,669 to \$2,851,931 in 2004 from \$424,262 in 2003. This increase is attributable in part to office overheads and professional services incurred in Europe of approximately \$1,495,000 and to the write-off of mortgage servicing rights in the U.S. of approximately \$300,000. This write-off was necessitated by the disposition of a servicing contract. The remainder of the increase is attributable to operations in the U.S. and is the result of an increase in legal expenses of approximately \$750,000, an increase in accounting fees of approximately \$70,000, an increase in professional services of some \$95,000 and an increase in advertising expense of approximately \$34,000. Offsetting these increases is the lowering of the loss reserve in one of the European subsidiaries of approximately \$315,000. The increase in legal expense is primarily attributable to arbitration proceedings involving the company's U.S. loan servicing system. The increase in accounting and professional services is related to the acquisitions of CNL and CMM.

Occupancy costs increased \$921,056 to \$1,040,128 in 2004 from \$119,072 in 2003. The increase was attributable in part to European office rent and computer expense of \$262,138 and \$631,917 respectively. The remainder of the increase is attributable to increases in office rent and computer expense in the U.S. of \$13,000 and \$14,000, respectively.

9

Interest expense increased to \$90,635 in 2004 from \$20,042 in 2003. The increase is due primarily to the accrual of interest expense on borrowings for the European operations.

Depreciation and amortization increased to \$825,722 in 2004 from \$58,023 in 2003. The majority of the \$767,699 increase is the result of depreciation expense of \$310,073 attributable to European operations as well as amortization of capitalized servicing and software costs associated with European operations totaling approximately \$446,000.

Other comprehensive income increased from \$926 in 2003 to \$536,241 in 2004. The majority of the increase is the result of foreign currency translation adjustments.

LIQUIDITY AND CAPITAL RESOURCES

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Cash and cash equivalents increased by \$1,235,039 to \$3,287,104 in 2004 from \$2,052,065 in 2003. The majority of the cash increase came from the disposition of a residual interest in a tax-exempt bond securitization. The company believes it has opportunities to improve its liquidity and access to cash resources by completing the resolution of certain managed assets in accordance with contractual terms, generating new business revenues, raising additional capital and, in selected instances, entering into strategic alliances. The company presently has no bank credit facilities.

Crown anticipates continuing to fund operations for the foreseeable future with cash provided by operations and funds received from its 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 continues to seek new capital resources as additional means of funding operations.

### HISTORICAL CASH FLOWS

Cash flows from operating activities provided cash of \$3,223,792 in 2004. Operating activities used \$68,448 in 2003.

Investing activities used cash of \$16,823 in 2004. Similar activities provided \$1,801,663 in 2003. The 2003 increase was the result of the cash acquired in the corporate acquisition in December 2003 reduced by the purchase of new computer network as well as the purchase of a minority interest in a partnership associated with the tax-exempt bond securitization. The 2004 decrease was the result of increases in the purchases of office equipment and computer equipment offset by the disposition of a residual interest in the bond securitization.

Financing activities used \$1,929,767 in cash in 2004. In 2003, financing activities provided \$301,518 of cash. The use in 2004 was the result of repayment of debt to a related entity. The increase in 2003 was the result of a net increase in notes payable from a related entity.

10

### ITEM 7. - FINANCIAL STATEMENTS

#### INDEX TO FINANCIAL STATEMENTS

	Page
	----
Independent Auditors' Report.....	F-1
Consolidated Balance Sheets, December 31, 2004 and 2003.....	F-2
Consolidated Statements of Operations for the years ended December 31, 2004 and 2003.....	F-3
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2004 and 2003.....	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2004 and 2003.....	F-5
Notes to Consolidated Financial Statements for the years ended December 31, 2004 and 2003.....	F-6

INDEPENDENT AUDITORS' REPORT

To The Shareholders  
Crown NorthCorp, Inc. and Subsidiaries  
Cheyenne, Wyoming

We have audited the accompanying consolidated balance sheets of Crown NorthCorp, Inc. and subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of Crown NorthCorp, Inc. and subsidiaries' management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Crown NorthCorp Limited, a wholly owned subsidiary operating principally in the United Kingdom, which statements reflect total assets constituting 37% and 54% of consolidated assets as of December 31, 2004 and 2003 respectively, and revenues constituting 35% and 0%, respectively of consolidated revenues for the years then ended of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Crown NorthCorp Limited and subsidiaries, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our report and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Crown NorthCorp, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

SCHOONOVER BOYER + ASSOCIATES

/s/\_\_\_\_\_

Columbus, Ohio  
March 30, 2005

F-1

CROWN NORTHCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2004 AND 2003

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 3,287,104
Accounts receivable	1,756,639
Prepaid expenses and other assets	734,219
	-----

Total current assets 5,777,962

PROPERTY AND EQUIPMENT - Net 283,236

RESTRICTED CASH 351,131

OTHER ASSETS

Investment in partnerships and joint ventures	889,449
Other investments	
Mortgage loans, net of reserves	937,678
Other	36,974
Loan servicing rights-net of accumulated amortization of \$248,445 in 2004 and \$190,597 in 2003	6,548,653
Capitalized software cost - net of accumulated amortization of \$749,331 in 2004 and \$300,126 in 2003	775,974
Acquisition costs	2,091
Deposits	42,059
	-----

Total other assets 9,232,878

TOTAL \$ 15,645,207  
=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Current portion of long-term obligation	-
Accounts payable	993,236
Accrued expenses:	
Interest	-
Other	778,125
	-----

Total current liabilities 1,771,361

LONG-TERM OBLIGATIONS:

Notes and bonds payable - less current portion	-
Allowance for loan losses & other	235,979
	-----

Total long-term obligations 235,979

SHAREHOLDERS' EQUITY:

Common stock	159,401
Additional paid-in capital	20,117,522
Accumulated comprehensive income	536,241
Accumulated deficit	(6,998,239)
Treasury stock, at cost	(177,058)
	-----

Total shareholders' equity 13,637,867

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

TOTAL \$ 15,645,207  
=====

See notes to consolidated financial statements.

F-2

CROWN NORTHCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
	-----	-----
REVENUES:		
Management fees	\$ 559,702	\$ 637,358
Loan servicing fees, net	2,997,764	111,256
Interest income	6,239,933	255,885
Income from partnerships and joint ventures	131,282	6,222
Other	446,835	4,719
	-----	-----
Total revenues	10,375,516	1,015,440
	-----	-----
OPERATING AND ADMINISTRATIVE EXPENSES:		
Personnel	4,591,726	607,170
Insurance, professional and other	2,851,931	424,262
Occupancy	1,040,128	119,072
Depreciation and amortization	825,722	58,023
	-----	-----
Total operating and administrative expenses	9,309,507	1,208,527
	-----	-----
LOSS FROM CONTINUING OPERATIONS BEFORE INTEREST EXPENSE	1,066,009	(193,087)
INTEREST EXPENSE	90,635	20,042
	-----	-----
NET INCOME (LOSS) BEFORE TAX	975,374	(213,129)
INCOME TAX (BENEFIT)	0	-
	-----	-----
NET INCOME (LOSS)	975,374	(213,129)
OTHER COMPREHENSIVE INCOME		
Unrealized Gain (Loss)	-	926
Foreign currency translation adjustment	536,241	-
	-----	-----
COMPREHENSIVE INCOME (LOSS)	\$ 1,511,615	\$ (212,203)
	=====	=====
EARNINGS (LOSS) PER SHARE	\$ 0.04	\$ (0.02)
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	14,209,229	12,164,480

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

See notes to consolidated financial statements.

F-3

CROWN NORTHCORP, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	Common Stock		Convertible Preferred Stock		
			Series CC		
	Shares Issued	Amount	Shares Issued	Amount	Shares Issued
BALANCE, DECEMBER 31, 2002	12,742,851	40,948	1		
Net loss					
Purchase accounting and audit adjustments		(12,397)			
Purchase of Royal	12,000,000	120,000	-		
Dividends paid					
Accumulated comprehensive income					
Purchase of minority interest					
Issuance of common stock	395,000	3,950			
Net effect of reverse stock split/conversion	(9,887,735)		(1)		
BALANCE, DECEMBER 31, 2003	15,250,116	152,501	-	-	
Net income					
Audit adjustments		-			
Reclassification adjustment					
Comprehensive Income					
Issuance of common stock	690,000	6,900	-		
BALANCE, DECEMBER 31, 2004	15,940,116	159,401	-	-	

  

	Series FF		Series GG		Series HH	
	Shares Issued	Amount	Shares Issued	Amount	Shares Issued	Amount
BALANCE, DECEMBER 31, 2002	1		1		15	
Net loss						
Purchase accounting and audit adjustments						
Purchase of Royal	(1)				(15)	
Dividends paid						
Accumulated comprehensive income						

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Purchase of minority interest					
Issuance of common stock					
Net effect of reverse stock split/conversion			(1)		
	-----	-----	-----	-----	-----
BALANCE, DECEMBER 31, 2003	-	-	-	-	-
Net income					
Audit adjustments					
Reclassification adjustment					
Comprehensive Income					
Issuance of common stock			-		
	-----	-----	-----	-----	-----
BALANCE, DECEMBER 31, 2004	-	-	-	-	-
	=====	=====	=====	=====	=====

	Accumulated Deficit	Accumulated Comprehensive Income	Treasury Stock Shares
	-----	-----	-----
BALANCE, DECEMBER 31, 2002	(7,862,162)	113,305	(682,073)
Net loss	(213,129)		
Purchase accounting and audit adjustments	-		
Purchase of Royal	-		(1,125,803)
Dividends paid			
Accumulated comprehensive income	-	926	
Purchase of minority interest	(25,889)		
Issuance of common stock			-
Net effect of reverse stock split/conversion			613,866
	-----	-----	-----
BALANCE, DECEMBER 31, 2003	(8,101,180)	114,231	(1,194,010)
Net income	975,374		
Audit adjustments	13,336		
Reclassification adjustment	114,231	(114,231)	
Comprehensive Income	-	536,241	
Issuance of common stock			-
	-----	-----	-----
BALANCE, DECEMBER 31, 2004	(6,998,239)	536,241	(1,194,010)
	=====	=====	=====

F-4

CROWN NORTHCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

CASH FLOWS FROM OPERATING ACTIVITIES:



## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Net income (loss)	\$
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Depreciation and amortization	
Equity in income from investment in partnerships and joint ventures	
Write off unamortized cost of disposed asset	
Payment of board of directors' fees by the issuance of common stock	
Change in operating assets and liabilities: net of effects from purchase of subsidiary	
Accounts receivable	
Prepaid expenses and other assets	
Accounts payable and accrued expenses	
	---
Net cash provided by (used in) operating activities	---
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	
Purchase of minority interest	
Decrease (increase) in other investments	
Increase in additional paid in capital	
Net cash acquired in (paid for) corporate acquisition	
Distribution from D-Certificate	
Decrease (increase) in restricted cash	
Deposits	
	---
Net cash provided by (used in) investing activities	---
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from notes payable	
Principal payments on notes payable	(
Issuance of common stock	
	---
Net cash provided by (used in) financing activities	(
	---
NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	
EFFECT OF EXCHANGE RATE ON CASH	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	
	---
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$
	---
SUPPLEMENTAL CASH FLOW INFORMATION	
Cash paid for interest	\$
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES	
Corporate acquisition:	
Accounts receivable	\$
Prepaid expenses	
Property and equipment - net	
Investments	
Loan servicing rights capitalized	
Other Assets	
Accounts payable and accrued expenses	
Other long term debt	
	---
Net assets acquired net of cash acquired	

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Amount financed  
Common stock - net of treasury shares

Net cash (acquired in) paid for acquisition

See notes to consolidated financial statements.

F-5

### CROWN NORTHCORP, INC. AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

#### NOTE 1 - BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

##### Principles of Consolidation

The accompanying consolidated financial statements included the accounts of Crown NorthCorp and its majority-owned subsidiaries (collectively, the Company). 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 intercompany balances and transactions have been eliminated.

##### Business Description

The Company is a financial services company providing comprehensive asset management and risk management services to owners and operators of commercial real estate interests. Assets managed are located throughout the United States and Europe and include commercial and residential real estate, performing and non-performing real estate and commercial loans, partnership investments and other miscellaneous assets.

##### Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

##### Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a reserve for uncollectible accounts, based upon its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the reserve account. Changes in the reserve have not been material to the financial statements.

##### Property and Equipment

Property and equipment are recorded at cost. Repairs, maintenance and minor replacements are expensed as incurred. Depreciation is computed using the straight-line method over estimated useful lives of three to five years. Upon retirement, sale or disposition of property and equipment, the cost and accumulated depreciation are eliminated from the

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

accounts, and a gain or loss is included in operations.

F-6

### CROWN NORTHCORP, INC. AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

#### NOTE 1 - BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

##### 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.

##### Long-Lived Assets

The Company evaluates long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When discounted future cash flows will not be sufficient to recover an asset's carrying amount, the asset is written down to its fair value. The discount rate reflects the risk that is specific to that asset. Long-lived assets to be disposed of other than by sale are classified as held and used until they are disposed of. Long-lived assets to be disposed by sale are classified as held for sale and are reported at the lower of carrying amount or fair value less cost to sell, and depreciation is ceased.

##### Loan Servicing Rights

The Company records an asset upon the sale of a loan with servicing retained and allocates the cost of the loan to the servicing rights and to the loans based on their relative fair values. Fair values are estimated using discounted cash flows based on a current market interest rate. The resulting gain on sale of loans is included in mortgage origination. The Company also purchases mortgage servicing rights and records such rights at the cost to purchase.

The cost of loan servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of loan servicing rights is assessed based on the fair value of those rights. The carrying amount of loan servicing rights approximates the fair value.

##### Investments in Partnerships and Joint Ventures

Certain of the Company'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.

F-7

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

CROWN NORTHCORP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

NOTE 1 - BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Other Investments

In 2003, two wholly owned subsidiaries of the Company, CRS Bond Portfolio, L.P. ("CRS I") and CRS Bond Portfolio II, L.P. ("CRS II"), had as their sole asset a residual interest in a securitization of tax-exempt bonds collateralized by multifamily projects. During 2004, all remaining projects were sold, thus disposing of the residual interest. The sale of the collateral generated approximately \$6.1 million in interest income. The remainder of Other Investments in 2003, as well as 2004, were mortgage contracts held by one of the Company's European subsidiaries.

Reserve for Loan Losses

The Company established an allowance for loan losses to provide for estimated losses in acquired mortgage portfolios serviced. The Company sold the mortgage portfolio in December 1999 (See Note 4). At the time, a reserve balance was established to offset losses incurred or sustained by the purchaser by reason of or associated with the mortgage loans. There were no charges against the reserve in 2004 or 2003.

Income Taxes

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in the tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Loan Servicing Fees

Loan servicing fees are recognized as earned under the terms of the related servicing contract.

Management Fees

Management fees are recorded as services required under the contracts are performed, and are based on a percentage applied to the aggregate value of assets managed, as assigned in the contracts, or on original base monthly amounts, as defined in the contracts. Upon each disposition, withdrawal or addition of an asset or asset group, the management fee is adjusted to reflect the change in aggregate value of the assets. Management fees are calculated on a daily basis as set forth in the contracts.

F-8

CROWN NORTHCORP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

### NOTE 1 - BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Disposition Fees

Disposition and bonus fees, less retainages, are recorded as revenue when the disposition of an asset has been consummated and the gross proceeds from the disposition have been received by the asset owner. Disposition fees are generally based on a percentage of the proceeds of an asset disposition, as defined by the contracts, or a fixed amount per disposition.

#### Incentive Fees

Certain contracts provide for incentive fees if the Company achieves net cash collections in excess of thresholds established in the contracts. Upon substantial achievement of related thresholds, long-term contract revenues are recognized on the percentage-of-completion method based on assets realized relative to total contract assets, net of any anticipated losses. Billings for long-term contracts are rendered periodically, as permitted by contract terms.

#### Foreign Currency Translation

Results of operations for the Company's non-U.S. subsidiaries and affiliates are translated from the designated functional currency to the U.S. dollar using average exchange rates during the period, while assets and liabilities are translated at the average monthly exchange rate in effect at the reporting date. Resulting gains or losses from translating foreign currency financial statements are reported as other comprehensive income (loss). The effect of changes in exchanges rates between the designated functional currency and the currency in which a transaction is denominated are recorded as foreign currency transaction gains (losses).

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F-9

CROWN NORTHCORP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

### NOTE 1 - BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Credit Risk

The Company maintains several cash accounts in the United States. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2004 and 2003, the Company's uninsured cash balances total \$2,458,611 and \$157,490, respectively. Management believes that the risk is limited because the institutions are large national institutions with strong financial positions.

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

The Company also maintains several cash accounts in the United Kingdom. The balances are insured by the Financial Services Compensation Scheme established under the Financial Services and Markets Act of 2000 up to approximately \$61,000. At December 31, 2004 and 2003, the Company's uninsured cash balances total approximately \$465,000 and \$1,818,356, respectively. Management believes that the risk is limited because the institution is a large national institution with a strong financial position.

### Recently Issued Accounting Standards

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

SFAS No. 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.

SFAS No. 123 (revised 2004) "Share-Based Payment" (SFAS No 123R), was issued December 2004. SFAS No 123R 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.

F-10

### CROWN NORTHCORP, INC. AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

#### NOTE 1 - BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

##### Recently Issued Accounting Standards - Continued

SFAS No. 123R 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. That cost is 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

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

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" SFAS No. 153 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.

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.

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 to recognize, at the inception of new guarantees or modified after December 31,

F-11

### CROWN NORTHCORP, INC. AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

#### NOTE 1 - BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

##### Recently Issued Accounting Standards - Continued

2002, 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"), which was issued in January 2003. FIN 46R clarifies the application of ARB No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

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 (a) clarified some requirements of the original FIN 46, which had been issued in January 2003, (b) eased some implementation problems, and (c) 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. (See Note 13).

### Reclassifications

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

### Acquisitions

Effective December 31, 2003, the Company acquired 100% of the issued and outstanding stock of Royal Investments Corp ("Royal") for 12,000,000 shares of common stock of the Company. Through this acquisition the Company acquired Crown NorthCorp LTD, ("CNL") and Crown Mortgage Management, ("CMM"). The acquisition was accounted for using the purchase method of accounting, and accordingly, the results of operations are reflected in the

F-12

## CROWN NORTHCORP, INC. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

#### NOTE 1 - BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

financial statements beginning January 1, 2004. Royal was a Delaware corporation whose sole shareholder was the Company's chairman and chief executive officer.

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition had occurred at the beginning of 2003.

	2003
Revenue	\$ 11,875,202
Expenses	8,885,669
Net income	\$ 2,989,533



Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Earnings per share       \$           0.21  
   =====

The pro forma consolidated results do not purport to be indicative of results that would have occurred had the transactions been in effect for the periods presented, nor do they purport to be indicative of the results that will be obtained in the future.

NOTE 2 - PROPERTY AND EQUIPMENT AND CAPITALIZED SOFTWARE COSTS

Property and equipment consists of the following at December 31:

	2004 -----	2003 -----
Furniture and equipment	\$ 1,365,133	\$ 1,142,689
Less accumulated depreciation	(1,081,897)	(1,030,942)
	-----	-----
Property and equipment - net	\$ 283,236	\$ 111,747
	=====	=====

F-13

CROWN NORTHCORP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

NOTE 2 - PROPERTY AND EQUIPMENT AND CAPITALIZED SOFTWARE COSTS - Continued

During 2003, the Company acquired \$38,362 of furniture and equipment due to the merger with Royal. The book value assigned to the furniture and equipment approximated the net carrying value of the fixed assets at the date of the acquisition. Accordingly, these costs have been included in Property and Equipment - net on the balance sheet.

Capitalized software amortization expense was \$388,095 and \$165,033 for 2004 and 2003, respectively. Capitalized software costs of \$883,560 were acquired in the merger of Royal. The book value assigned to the capitalized software costs approximated the net carrying value of the capitalized software costs at the date of the acquisition. Accordingly, these costs have been included in Capitalized Software Costs on the balance sheet.

NOTE 3 - INVESTMENTS IN AFFILIATES AND JOINT VENTURES

The Company has investments in affiliates that are accounted for using the equity method of accounting. The investments were acquired in the merger with Royal, effective December 31, 2003.

TITRISATION BELGE-BELGISCHE EFFECTISERING SA/NV

In October 2003, CMM acquired 75% of the shares in Titrisation Belge-Belgische Effectisering SA/NV "TBE" for 110% of the net asset value at September 30, 2003, approximately \$532,300. Fortis Bank owned the other

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

25% share. CMM and Fortis agreed to jointly own TBE with a view of developing its master servicing business. Within a few days of the original transaction, CMM sold 25% of its share to Fortis for \$177,434 thereby creating a 50/50 joint venture.

Summarized condensed financial information of TBE, a 50% owned corporate joint venture accounted for by the equity method follows:

	2004	2003
Balance sheet at December 31,		
Assets:		
Current assets	\$767,820	\$845,165
Fixed Assets	\$119,010	-
Liabilities:		
Current liabilities	\$127,828	\$170,757
Income statement		
Revenue	\$638,566	\$674,565
Expense	607,602	524,340
	-----	-----
Net income before tax	30,964	25,966
Tax	10,543	10,750
	-----	-----
Net income	\$ 20,421	\$ 21,079

F-14

CROWN NORTHCORP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

NOTE 4 - DISCOUNTED OPERATIONS AND DISPOSITIONS

In December 1999, the Company sold its portfolio of loans serviced under the Fannie Mae Delegated Underwriting and Servicing Program. Pursuant to the sale agreement, \$500,000 was retained as a cash reserve, to offset losses incurred or sustained by the purchaser by reason of or associated with the mortgage loans. These funds are to be held in an escrow account until all of the mortgage loans have been paid off or refinanced by third parties. During 2004 and 2003, the purchaser incurred no losses in the portfolio. Cumulative charges to date Against the reserve are \$264,021.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following at December 31:

	2004
	-----
U.S. Promissory Note to majority shareholder, interest at 6% payable quarterly, principal and accrued interest payable December 31, 2004. Paid in full July 2004.	\$ - \$

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

U.K. Promissory Note to majority shareholder, interest at 6% principal and accrued interest payable December 31, 2004, if funds available. Paid in full November 2004. -

U.S. Promissory Note, 6% interest, payable in monthly installments of \$1,514 including interest until April 1, 2005. Paid in full July 2004. -

U.S. Promissory Note, 6% interest, payable in quarterly installments of \$5,000 including interest until September 30, 2003. Paid in full April 2004. -

Less: current maturities -

-----  
\$ - \$  
=====

F-15

CROWN NORTHCORP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

NOTE 6 - LEASES

The Company, in its operations, leases office facilities located in Columbus, Ohio; Austin, Texas; and London, Ipswich and Farnham, England. All leases in effect at December 31, 2004, which expire on various dates through February 2010, have been classified as operating leases. Rent expense for the years ending December 31, 2004 and 2003 was approximately \$ 224,000 and \$57,000 respectively.

Minimum future rentals under these non-cancelable lease agreements are as follows:

	Commitments	Sublease	Net
	-----	-----	-----
2005	\$ 217,553	\$ (65,188)	\$ 152,365
2006	216,965	(65,188)	151,777
2007	103,905	(16,297)	87,608
2008	71,360	-	71,360
Thereafter	71,360	-	71,360
	-----	-----	-----
	\$ 681,143	\$ (146,673)	\$ 533,470
	=====	=====	=====

The Company has entered into agreements to sublease office spaces that are included above. These sublease agreements were acquired as part of the merger with Royal and accordingly no rental income was recognized in the income statements during 2003.

NOTE 7 - RELATED PARTY TRANSACTIONS

MERGER TRANSACTION WITH ROYAL AND RELATED TRANSACTIONS

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Effective December 31, 2003, the Company acquired all of the issued and outstanding stock of Royal, of which Mr. Roark was the sole shareholder. Mr. Roark recused himself from all deliberations and votes of the Company's board of directors on the merger transaction. Royal operated through subsidiaries and affiliates, including but not limited to CNL and CMM, providing loan servicing and third-party asset management services for real estate-related assets in Europe. Through the merger transaction, the Company acquired these European operations.

In conjunction with the merger transaction, the Company's board of directors has also authorized a 1:100 reverse and 10:1 forward stock split effective December 31, 2003 to reduce the number of shareholders with extremely small holdings.

In exchange for all of the issued and outstanding stock of Royal, Mr. Roark received 12,000,000 shares of the Company's common stock. The principle followed in determining the

F-16

### CROWN NORTHCORP, INC. AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

#### NOTE 7 - RELATED PARTY TRANSACTIONS - Continued

amount of consideration was arm's length negotiation. The approximately 1,125,803 shares of the Company's common stock held by Royal became treasury stock of the Company.

Prior to the merger transaction, Royal distributed to Mr. Roark, as its sole shareholder, all of Royal's assets other than the Company's common stock held by Royal and Royal's ownership of all of the stock of CNL, which subsidiary conducts the European operations acquired by the company. Simultaneously, Mr. Roark assumed all of Royal's liabilities and indemnified the Company from any losses arising from Royal's operations.

At the time of the merger transaction, the Company owed Royal \$500,000 plus interest under an unsecured promissory note, representing operating funds Royal has advanced to the Company from time to time. Royal distributed this promissory note to Mr. Roark as described above so that the Company owed this indebtedness to Mr. Roark personally. The indebtedness was repaid during 2004.

Also at the time of the merger transaction, CMM owed Royal \$1,271,964. Royal distributed this promissory note to Mr. Roark so that CMM now owed this indebtedness to Mr. Roark personally. (See Note 5). This indebtedness was also repaid during 2004.

Royal owned one "B" preference share in Crown Properties Holding AB ("CPH"), entitling it to approximately 27% of the profit distribution from CPH. This preference share was another one of the assets distributed from Royal to Mr. Roark at the time of the merger. CMM has an asset management contract to manage the assets held by CPH. The incentive fee attainable under this contract may not exceed profits distributed to holders of preference shares, including Mr. Roark. (See Note 13).

Mr. Roark and the Company, following arm's length negotiations, entered

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

into an employment contract calling for Mr. Roark to continue to serve as Crown's chairman and chief executive officer. The agreement, which was for a term expiring December 31, 2004, provides for a base salary of \$100,000 plus incentive compensation.

### 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; 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.

F-17

### CROWN NORTHCORP, INC. AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

#### NOTE 7 - RELATED PARTY TRANSACTIONS - Continued

(See Note 8). Each of these issuances has been converted to common stock in accordance with the terms of the respective issuances.

#### OTHER TRANSACTIONS AND RELATIONSHIPS

In conjunction with his election as Chairman of the Company's Board of Directors effective January 1, 2005, the company and Mr. Lennhammer have entered into a retainer agreement calling for him to receive quarterly compensation of 2,500 Euros (approximately \$3,200) during 2005 for his service as Chairman. Effective September 1, 2004, the company entered into an advisory services agreement with REEDA Management AB, of which Mr. Lennhammer is Managing Director, for a term expiring December 31, 2005. Under this agreement REEDA received a monthly fee of 17,500 Euros through December 31, 2004 and will receive a quarterly fee of 50,000 Euros (approximately \$65,000) through the expiration of the agreement.

In 2003, the Company's management asked Grace Jenkins, a member of the Company's board of directors, to perform certain tasks, including overseeing of an upgrade of the company's computer system and assisting in dealings with Midland Loan Services. During 2004 and 2003, the Company paid Ms. Jenkins \$120,000 and \$70,000, respectively.

Since January 2001, the Company has performed asset management activities for parties holding ownership interests in several multifamily projects that receive subsidies from the U.S. Department of Housing and Urban Development. Mr. Roark, or an affiliate of his, has partnership interests in substantially all of the projects for which Crown presently performs services. The rates and fees the company charges for its services are in accordance with HUD's guidelines and regulations where applicable. Unregulated rates and fees are at market levels.

The Company conducts some of its operations through joint ventures and

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

partnerships and provides certain services to those entities.

### NOTE 8 - SHAREHOLDERS' EQUITY

At December 31, 2004 and 2003, the Company has 30,000,000 authorized shares of its \$.01 par value common stock ("Common Stock") and 1,000,000 authorized share of its preferred stock.

On December 31, 2003, the holders of all seven outstanding issuances of the Company's preferred stock (Series CC, DD, EE, FF, GG, HH and II Convertible Preferred Stock) converted those issuances to Common Stock. The company has no preferred stock outstanding.

F-18

### CROWN NORTHCORP, INC. AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

### NOTE 8 - SHAREHOLDERS' EQUITY-Continued

During 2000 the Company entered into an employee termination agreement with various executive employees. As a result of that agreement the Company issued warrants entitling the holders to purchase, after accounting for the splits of the Company's Common Stock effective December 31, 2003, up to 49,000 shares of common stock at \$.70 per share. All of these warrants are exercisable through 2010 and are anti-dilutive.

A stock option plan for the outside directors of the Company was approved by the Company's shareholders in 1995. Under the plan, each outside director may be granted options for 10,000 shares of the Company's common stock at an option price equal to the common stock's market value on the date of the grant. The options vest over a four-year period if the Company achieves certain stock price thresholds. No options have been granted as of December 31, 2004.

The Company applies Accounting Principles Board ("APB") Opinion No. 25 and related interpretations in accounting for its stock options. Application of this accounting policy would have had a negligible effect on the accompanying financial statements for 2004 and 2003.

### NOTE 9 - BENEFIT PLANS

The Company sponsors a defined contribution retirement plan for certain of its U.S. employees who had attained the age of 21 and had provided six months of service. The Company matches 25% of the first 4% of the employees' contributions and employer contributions were \$1,490 and \$2,425 in 2004 and 2003, respectively.

The Company subsidiary in the United Kingdom sponsors a defined contribution retirement plan for its employees. The Company will match the employee's contributions to the plan up to a maximum of 5% per year. The plan is available to all full time employees. The Company contributed \$78,648 and \$53,253 during 2004 and 2003, respectively.

### NOTE 10 - INCOME TAXES

For the years ended December 31, 2004 and 2003, the components of income tax expense consisted of the following:

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

	2004 ----	2003 ----
Current	\$ -	\$ -
Deferred	\$ -	\$ -

The income tax (benefit) expense differs from the amount computed by applying the statutory federal income tax rate of 34% to pretax earnings (loss) from continuing operations as follows:

F-19

CROWN NORTHCORP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

NOTE 10 - INCOME TAXES-Continued

	2004 -----	2003 -----
Income tax benefit at statutory rate	\$ 331,628	\$ (72,149)
Amortization of loan servicing rights	84,447	(9,757)
Amortization of software	0	(8,891)
Foreign losses	808,836	0
Tax-exempt income	(2,046,834)	(74,955)
Other, net	205,431	48
Comprehensive income	0	(315)
Increase in valuation allowance	616,492	166,021
	-----	-----
Total income tax benefit	\$ -	\$ -
	=====	=====

At December 31, 2003 and 2002, the Company had recorded a net deferred tax asset as follows:

	2004 -----	2003 -----
<b>Assets</b>		
Operating loss carry-forward	\$ 3,143,090	\$ 2,800,398
Valuation allowance	(3,361,394)	(2,739,042)
	-----	-----
Total assets	51,696	61,534
	-----	-----
<b>Liabilities:</b>		
Deferred loan servicing	(35,706)	(55,405)
Software amortization	(15,990)	(5,949)
	-----	-----

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Total liabilities	(51,696)	(61,354)
	-----	-----
Net deferred tax asset	\$ -	\$ -
	=====	=====

NOTE 11 - CONTINGENCIES

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 affect the consolidated financial statements of the Company.

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 total payout is capped at a maximum two years of pay. At December 31, 2004, this liability is approximately \$647,000.

F-20

CROWN NORTHCORP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

NOTE 12 - MORTGAGE SERVICING FOR OTHERS

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were approximately \$5.0 billion and \$3.9 billion at December 31, 2004 and 2003, respectively. As of December 31, 2004 the Company was also the standby servicer for loans with an aggregate unpaid principal balance of \$6.4 billion.

Custodial escrow balances maintained in connection with the foregoing loan servicing, excluded from the accompanying consolidated balance sheet, were approximately \$2 million and \$2 million at December 31, 2004 and 2003, respectively.

Mortgage servicing rights of \$6.5 million and \$7.0 million were capitalized as of December 31, 2004 and 2003, respectively. Mortgage servicing rights are recorded at fair value. Such value is determined by the discounted cash flow method using a 22% discount rate over the average remaining contractual life of the mortgages adjusted for estimated delinquencies and estimated prepayments.

The servicing assets are grouped by servicing type when evaluating such assets for impairment. During 2004, adjustments to the value of the servicing rights totaling \$83,404 were charged to expense due to deemed impairment.

One of the company's European subsidiaries, Crown Mortgage Management Inc. "CMM" has been notified by Morgan Stanley Mortgage Servicing ("MSMS") that it is terminating the sub-servicing agreement it has with CMM effective March 31, 2005. This agreement currently represents approximately 30% of CMM's commercial servicing portfolio. (See Note 15)



## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

### NOTE 13 - VARIABLE INTEREST ENTITIES

As of December 31, 2003, the Company has relationships with two variable interest entities where the Company is deemed not to be the primary beneficiary. During 2004, the Company transferred its interest in one of these entities, Rooftop Mortgage Limited, and as a result, the Company, as of December 31, 2004, has a relationship with only one variable interest entity. In accordance with FIN 46, the remaining entity is not included in the consolidated financial statements.

#### CROWN EUROPEAN HOLDINGS LIMITED

In May 2003, Crown Properties Holding AB ("CPH"), Crown Fastigheter AB, HVB Real Estate Investment Banking Limited, Bayerische Hypo-und Vereinsbank Aktiengesellschaft, Real Estate Scandinavia, Stockholm Branch, and certain other parties entered into a \$79,000,000 facilities agreement.

F-21

### CROWN NORTHCORP, INC. AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

### NOTE 13 - VARIABLE INTEREST ENTITIES - Continued

Royal and CNL used the above funds to purchase the entire issued share capital of Axfood Fastigheter AB from Axfood AB, a Swedish company that operates supermarket properties throughout Sweden. CNL contributed an additional \$5,834,000 by way of \$3,500,000 in equity in CPH and a subordinated loan of \$2,300,000, originally advanced by Royal to CNL.

In September 2003, CNL refinanced the majority of their investment in CPH by using \$4,200,000 advanced from Kenmore Scandinavian, a Kenmore Properties Group company (a third party Scottish based property investment company). Crown European Holdings Limited ("CEH") used the funds to purchase the entire issued share capital of CPH and to acquire the subordinated loan by CNL to CPH. Kenmore's loan was secured by a debenture and they received 3 "A" preference shares carrying rights to the profit distribution from CPH in the proportion of their loans, approximately 73%. Royal received one "B" preference share with carrying rights to the profit distribution from CPH, approximately 27%. This share was transferred to Ronald E. Roark, the Company's Chairman, as part of the merger of Royal.

In addition, CNL pledged its ordinary stock in CEH as additional security. Thus, Kenmore has the voting control of the ordinary share of CEH via the security agreement.

The Crown group can earn income under an Asset Manager agreement in four ways:

1. Annual management fee based as a percentage of the asset value
2. Approximately \$13,600 per month to cover management costs
3. Subject to board approval, 1% of the gross sales price of any assets sold
4. Promote fee as a percentage of net distributions if Return on

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Capital Employed (ROCE) exceeds 20% per annum. However, the promote fee will not exceed the amounts paid out in distributions to Kenmore and Mr. Roark.

The Asset Manager Agreement is deemed to be a variable interest. The Crown group has only its equity investment at risk in the CEH venture. The equity investment is one Pound Sterling. CMM is not deemed to be the primary beneficiary because of the significant rights and risks assumed by Kenmore pursuant to the transaction documents. Due to Kenmore's voting rights via the security agreement, Kenmore can terminate the Asset Manager agreement at any time. In addition, Kenmore must approve the operating budget, any capital expenditure, any disposals of assets, any borrowings, and any factoring or discounting of debt. Also, there is no financial recourse to CNL. And Kenmore, through the 73% preferred share dividend would absorb a majority of CEH's expected losses/residual returns.

F-22

### CROWN NORTHCORP, INC. AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

#### NOTE 13 - VARIABLE INTEREST ENTITIES - Continued

##### ROOFTOP MORTGAGES LIMITED

In September 2003, Crown Asset Management Limited ("CAM") formed a 100% owned corporation known as Rooftop Mortgages Limited ("Rooftop"). Rooftop had 1,000 ordinary shares authorized at one Pound Sterling per share. At December 31, 2003 there was 1 share issued and outstanding.

Rooftop operated as a sub-prime residential lender in England, Wales, Scotland and Northern Ireland and as such was a party to agreements for the origination and sale of loans. Pursuant to the terms of a Mortgage Sale Agreement and related transaction documents Rooftop agreed to forgo certain rights and transfer certain risks normally belonging to a stockholder to its funder, such that it would not be appropriate to fully consolidate Rooftop into the Crown group. CAM was not deemed to be the primary beneficiary because of the significant rights and risks transferred pursuant to the transaction documents.

In September 2004, CAM transferred its ownership in Rooftop to Rooftop Holdings LTD in exchange for 20 Ordinary Shares of Rooftop Holdings LTD. Each share is valued a 1 Pound Sterling. CAM's ownership interest in Rooftop holdings is effectively 20%. CAM uses the equity method to account for this investment.

#### NOTE 14 - FAIR VALUE

The Company is required to disclose the estimated fair value of its financial instruments in accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." These disclosures do not attempt to estimate or represent the Company's fair value as a whole. The disclosure excludes assets and liabilities that are not financial instruments. The fair value amounts disclosed represent point-in-time estimates that may change in subsequent reporting periods due to market conditions and other factors. Estimated fair value amounts in theory represent the amounts for which financial instruments could be exchanged in transactions between willing parties.

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

F-23

CROWN NORTHCORP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004 and 2003

NOTE 14 - FAIR VALUE-Continued

Estimated Fair values:

	2004		2003	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial assets:</b>				
Cash and other short term financial instruments	\$ 3,638,235	\$ 3,638,235	\$ 2,309,554	\$ 2,309,54
Investments	-	-	693,899	693,89
Loans	2,728,187	2,728,187	3,650,851	3,650,85
Allowance for losses	(1,790,509)	(1,790,509)	(2,405,160)	(2,405,16
Servicing Rights	6,548,653	6,548,653	7,017,674	7,017,67
<b>Financial liabilities:</b>				
Short term financial instruments			1,294,202	1,294,20
Long term debt			505,977	505,97

NOTE 15 - SUBSEQUENT EVENTS

Morgan Stanley Mortgage Servicing ("MSMS") has advised CMM that it is terminating the subservicing agreement it has with CMM effective March 31, 2005. This agreement currently represents approximately 30% of CMM's commercial servicing portfolio. The remaining balances in this portfolio are approximately \$747 million. MSMS advises that the termination is without cause and represents MSMS' business decision to perform this servicing itself.

The company is due fees under the MSMS subservicing contract through September 2005. MSMS and Crown are currently in negotiations on the financial settlement Crown will receive by reason of the contract termination. The amount of this settlement cannot be predicted until these negotiations conclude.

Crown, in accordance with SFAS No.5 "Accounting for Contingencies", as of March 31, 2005 will make a charge to earnings of approximately \$1.1 million, representing a downward adjustment in the value of the company's servicing rights as a result of this contract termination.

F-24

ITEM 8. - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. - CONTROLS AND PROCEDURES

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Crown's principal executive and financial officers have evaluated the company's disclosure controls and procedures in place on December 31, 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.

ITEM 8B. - OTHER INFORMATION

Morgan Stanley Mortgage Servicing ("MSMS") has advised CMM that it is terminating the subservicing agreement it has with CMM effective March 31, 2005. This agreement currently represents approximately 30% of CMM's commercial servicing portfolio and approximately 7% of the overall servicing portfolio. MSMS advises that the termination is without cause and represents MSMS' business decision to perform this servicing itself.

The company is due fees under the MSMS subservicing contract through September 2005. MSMS and Crown are currently in negotiations on the financial settlement Crown will receive by reason of the contract termination. The amount of this settlement cannot be predicted until these negotiations conclude.

Crown, as of March 31, 2005, will make a charge to earnings of approximately \$1.1 million, representing a downward adjustment in the value of the company's servicing rights as a result of this contract termination. See "Note 15 - Subsequent Events - to the Consolidated Financial Statements."

PART III

ITEM 9. - DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

The company currently has seven directors. All directors of the company hold office until the next annual meeting of the stockholders and until their successors have been duly elected and qualified. All officers of Crown do not serve a term of years but serve at the pleasure of the Board of Directors. The chairman serves under a one-year retainer agreement. The company and the vice chairman and chief executive officer have an agreement to pay him base plus incentive compensation in 2005.

The directors and executive officers of the company as of March 25, 2005 are as follows:

12

NAME	AGE	POSITION WITH COMPANY
----	---	-----
Stefan Lennhammer	42	Chairman
Ronald E. Roark	54	Vice Chairman, Chief Executive Officer and Director
Gordon V. Smith	72	Director
David K. Conrad	49	Director
Grace Jenkins	53	Director
John S. Koczela	53	Director
Peter Walker	41	Director and Managing Director, United Kingdom
Clarence Dixon	44	Managing Director, Continental Europe
David Scrivener	43	Assistant Secretary and Controller
Rick Lewis	51	Vice President, Treasurer and Chief Financial Officer of Crown
Stephen W. Brown	54	Secretary and Corporate Counsel

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Set forth below are the principal occupations and affiliations during at least the last five years of the directors and executive officers. All information is as of March 25, 2005.

STEFAN LENNHAMMER became Chairman of the Board of Directors of the company January 1, 2005. Since April 2004, he has served as Managing Director of REEDA Management AB. From 1997 to 2004, he served as Group Chief Executive Officer of Catella Property AB and as a director of that firm.

RONALD E. ROARK has served as Vice Chairman and Chief Executive Officer of the company since January 1, 2005. He served as Chairman from August 4, 1994 through December 31, 2004 and has served as Chief Executive Officer since September 1, 2000. He served as President of Royal Investments Corp. prior to its merger into Crown and as Managing Member of Tucker Holding Company, Ltd. from 1995 to December 31, 2003. Since 1979, he has been President of Brookville Associates, Inc.

GORDON V. SMITH has served as a director of Crown since October 1, 1996. He has been Chairman of the Board of Miller and Smith Holding, Inc. since 1964. From 1996 to 2000, he served as Chairman of Bank Plus. He has been a director of OMB Bank of the Philippines since 2001.

DAVID K. CONRAD has served as a director of Crown since January 5, 2000. Mr. Conrad is a partner in the law firm of Bricker & Eckler LLP and has been affiliated with that firm since 1980. The firm provides some legal services to the company.

GRACE JENKINS has served as a director of Crown since October 30, 2000. From February 2001 to April 2003, she served as IT Process Group Leader and Senior IT Leader of American Electric Power. From March 6, 1997 until September 1, 2000, she served as Executive Vice President of Crown. She served as a Vice President of the company from September 13, 1994 to that date.

13

JOHN S. KOCZELA has served as a director of Crown since January 1, 2005 and as a director of its European subsidiaries since 2000. From 1996 through 2001, he served as Executive Vice President and Managing Director of European operations for Crown. He has also served as President of Falcon Management Group, Inc. since 1989.

PETER WALKER has served as a director of Crown since January 1, 2005. He became Finance Director of CNL in March 1999 and Managing Director, United Kingdom in November 2004. Prior to his service with the company, he served in the Corporate Recovery Department of Ernst & Young.

CLARENCE DIXON has served as Managing Director, Continental Europe, since August 2004. Prior to joining Crown, he served as Executive Vice-President of Aareal Bank.

DAVID SCRIVENER has managed corporate and client reporting functions for CNL for approximately twenty years and, since September 1999, has served as finance manager. He became Crown's Assistant Secretary and Controller in November 2004.

RICK LEWIS has served as the company's Treasurer and Chief Financial Officer since September 1, 2000 and as Vice President since February 22, 2000. Since 1994, he has administered the company's U.S. loan servicing operations.

STEPHEN W. BROWN has served as Secretary of Crown since September 13, 1994 and as Corporate Counsel since August 1996. Since March 1992, he has served Crown in various asset management capacities and as a legal counsel.

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

### Audit Committee Financial Expert

The company's Board of Directors has determined that Mr. Smith, an independent director, serves as the Audit Committee financial expert.

### Code of Ethics

Crown has adopted a code of ethics applicable to its principal executive, financial and accounting officers. A copy of the code is available without charge, upon request, by writing to Secretary, Crown NorthCorp, Inc., 1251 Dublin Road, Columbus, Ohio 43215.

14

### ITEM 10. - EXECUTIVE COMPENSATION

The following table sets forth information for the year ended December 31, 2004 with respect to Crown's Chief Executive Officer and the next four most highly compensated executive officers other than the Chief Executive Officer.

NAME ----	YEAR ENDED DECEMBER 31 -----	SALARY -----	BONUS -----	ALL OTHER COMPENSATION -----
Ronald E. Roark, Vice Chairman and CEO (1)	2004	\$100,000	\$ 0	\$ 0
	2003	\$ 0	\$ 0	\$ 10,000
	2002	\$ 0	\$ 0	\$ 10,000
Peter Walker, Finance Managing Director, United Kingdom	2004	\$149,281	\$ 40,219	\$ 0
	2003	\$125,867	\$ 49,039	\$ 0
	2002	\$114,002	\$ 75,125	\$ 0
Rick Lewis, Vice President, Treasurer and Chief Financial Officer	2004	\$ 85,500	\$ 25,000	\$ 0
	2003	\$ 85,500	\$ 0	\$ 0
	2002	\$ 85,500	\$ 0	\$ 0
Stephen W. Brown, Secretary and Corporate Counsel	2004	\$ 80,000	\$ 25,000	\$ 0
	2003	\$ 80,000	\$ 0	\$ 0
	2002	\$ 80,000	\$ 0	\$ 0
David Scrivener, Assistant Secretary and Controller	2004	\$ 74,002	\$ 13,406	\$ 0
	2003	\$ 83,366	\$ 20,433	\$ 0
	2002	\$ 68,364	\$ 30,050	\$ 0

- (1) Mr. Roark served as Chairman of the company from August 4, 1994 through December 31, 2004 and as Vice Chairman since January 1, 2005. He has served as Chief Executive Officer from September 13, 1994 through March 28, 2000 and again since September 1, 2000. The company pays family medical coverage premiums and disability insurance premiums on his behalf. In conjunction with the Royal merger transaction, Mr. Roark entered into a one-year employment agreement with the company that provided for an annual salary in 2004 of \$100,000 plus incentive compensation based on Crown's earnings, with total compensation not to exceed \$1 million. Mr. Roark elected not to receive incentive compensation in 2004. During 2005, Mr. Roark will also receive base compensation of \$100,000 with the opportunity for incentive compensation based on Crown's earnings, with total compensation not to exceed \$1 million.

Each non-management director is paid an annual retainer of \$12,000, payable quarterly, \$500 for each meeting of the Board of Directors and \$500 for each committee meeting attended except the Audit Committee, where the fee is \$1,000 per meeting, plus expenses. The company makes retainer and attendance payments to directors quarterly. In 2004, compensation was paid in stock of the company. Beginning January 1, 2005, compensation is paid half in cash and half in stock of the company, with the stock issued at the higher of book value or market price.

ITEM 11. - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth security ownership information regarding the common stock as of March 25, 2005 by: (i) each person known by the company to own beneficially more than 5% of the shares of the common stock; (ii) each director of the company; (iii) each of the executive officers of the company named in Item 10 above and (iv) all directors and executive officers of the company as a group. Except as otherwise noted below, each of the shareholders identified in the table has sole voting and investment power over the shares beneficially owned by each such shareholder. Also, unless otherwise indicated, the address of each beneficial owner is in care of the company, 1251 Dublin Road, Columbus, Ohio 43215.

NAME -----	NUMBER OF SHARES OF COMMON STOCK -----	APPROXIMATE PERCENT OF CLASS -----
Stefan Lennhammer (1)	0	n/a
Ronald E. Roark	10,931,157	77.1%
Gordon V. Smith(2)	430,606	3.0%
Grace Jenkins(3)	84,000	(7)
David K. Conrad (4)	69,700	(7)
Peter Walker (5)	350,000	2.5%
John S. Koczela	0	n/a
David Scrivener (5)	0	n/a
Rick Lewis	70,000	(7)
Stephen W. Brown (6)	78,500	(7)
All directors and executive officers as a group (10 persons)	12,013,963	84.8%

(1) The mailing address for Mr. Lennhammer is c/o REEDA Management AB, Skeppargatan 7, SE-114 52, Stockholm, Sweden.

(2) Represents 376,739 shares held by Mr. Smith and 53,867 shares held by The Gordon V. and Helen C. Smith Foundation. The mailing address for both Mr. Smith and the Smith Foundation is c/o Miller and Smith Holding, Inc., 1568 Springhill Road,

McLean, Virginia 22102. Mr. Smith, as president of the Smith Foundation, may be deemed the beneficial owner of such shares. Mr. Smith disclaims such beneficial ownership.

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

- (3) Represents ownership of 57,500 shares of common stock and warrants to acquire 26,500 shares of common stock at \$.70 per share.
- (4) The mailing address for Mr. Conrad is c/o Bricker & Eckler LLP, 100 South Third Street, Columbus, Ohio 43215. The shares are owned by Bricker & Eckler.
- (5) The mailing address for Messrs. Walker and Scrivener is c/o CNL, Crown House, Crown Street, Ipswich, IP1, 3HS UK.
- (6) Represents ownership of 70,000 shares of common stock and warrants to acquire 8,500 shares at \$.70 per share.
- (7) Less than 1%.

### ITEM 12. - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

#### MERGER TRANSACTION WITH ROYAL AND RELATED TRANSACTIONS

Effective December 31, 2003, Crown acquired all of the issued and outstanding stock of Royal Investments Corp, a Delaware corporation of which Mr. Roark was the sole shareholder. Mr. Roark recused himself from all deliberations and votes of Crown's board of directors on the merger transaction. Royal operated through subsidiaries and affiliates, including but not limited to CNL and CMM, providing loan servicing and third-party asset management services for real estate-related assets in Europe. Through the merger transaction, Crown acquired these European operations.

In conjunction with the merger transaction, Crown's board of directors authorized stock split transactions. See Item "Item 5 - Market for Common Equity and Related Stockholder Matters" above.

In exchange for all of the issued and outstanding stock of Royal, Mr. Roark received 12,000,000 shares of Crown's common stock. The principle followed in determining the amount of consideration was arm's length negotiation. The approximately 1,125,803 shares of Crown common stock held by Royal became treasury stock of Crown.

Prior to the merger transaction, Royal distributed to Mr. Roark, as its sole shareholder, all of Royal's assets other than the Crown common stock held by Royal and Royal's ownership of all of the stock of CNL, which subsidiary conducts the European operations acquired by the company. Simultaneously, Mr. Roark assumed all of Royal's liabilities and indemnified Crown from any losses arising from Royal's operations.

17

At the time of the merger transaction, Crown owed Royal \$500,000 plus interest under an unsecured promissory note, representing operating funds Royal has advanced to Crown from time to time. Royal distributed this promissory note to Mr. Roark as described above so that Crown owed this indebtedness to Mr. Roark personally. Crown and Mr. Roark, through arm's length negotiations, revised the repayment terms. The indebtedness was repaid during 2004.

Also at the time of the merger transaction, CMM owned Royal \$1,271,964. Royal distributed this promissory note to Mr. Roark so that CMM owed this indebtedness to Mr. Roark personally. See "Note 5 - Long-Term Debt - to the Consolidated Financial Statements." This indebtedness was also repaid during 2004.

Royal owned one "B" preference share in Crown Properties Holding AB ("CPH"),



## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

entitling it to approximately 27% of the profit distribution from CPH. This preference share was another one of the assets distributed from Royal to Mr. Roark at the time of the merger. CMM has an asset management contract to manage the assets held by CPH. See "Note 13 - Variable Interest Entities - to the Consolidated Financial Statements."

### 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; 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. See "Note 8 - Shareholders' Equity - to the Consolidated Financial Statements." Each of these issuances has been converted to common stock in accordance with the terms of the respective issuances.

### CHAIRMAN AND VICE CHAIRMAN

In conjunction with his election as Chairman of Crown's Board of Directors effective January 1, 2005, the company and Mr. Lennhammer have entered into a retainer agreement calling for him to receive compensation of 90,000 Swedish Kronor (approximately \$12,800) during 2005 for his service as Chairman. Effective September 1, 2004, the company entered into an advisory services agreement with REEDA Management AB, of which Mr. Lennhammer is Managing Director, for a term expiring December 31, 2005. REEDA receives a quarterly fee of 50,000 Euros (approximately \$65,000) under this agreement.

18

During 2004, Mr. Roark received \$100,000 under his employment agreement while serving as the company's Chairman and Chief Executive Officer. During 2005, Mr. Roark will receive a salary of \$100,000 for his service as Vice Chairman and Chief Executive Officer and will have the opportunity to receive certain incentive compensation.

### OTHER TRANSACTIONS AND RELATIONSHIPS

In 2003 and 2004, Crown's management asked Ms. Jenkins to perform certain tasks, including overseeing of an upgrade of the company's computer system and assisting in dealings with Midland Loan Services. See Item "Item 3 - Legal Proceedings" above. Crown paid Ms. Jenkins \$120,000 for services rendered during 2004 and \$70,000 for services in 2003.

Since January 2001, Crown has performed asset management activities for parties holding ownership interests in several multifamily projects that receive subsidies from the U.S. Department of Housing and Urban Development. Mr. Roark, or an affiliate of his, has partnership interests in substantially all of the projects for which Crown presently performs services. The rates and fees the company charges for its services are in accordance with HUD's guidelines and regulations where applicable. Unregulated rates and fees are at market levels.

The company conducts some of its operations through joint ventures and partnerships and provides certain services to those entities.

### ITEM 13. - EXHIBITS

## Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

The following exhibits are filed as part of this report:

Exhibit Number	Exhibit	Method of Filing
3.3	Restated Certificate of Incorporation	Incorporated by reference to Crown NorthCorp, Inc.'s Form 10-KSB filed March 31, 2000.
3.4	Bylaws	Incorporated by reference to Crown NorthCorp, Inc.'s Form 10-KSB filed March 31, 2000.
14.1	Code of Ethics	Incorporated by reference to Crown NorthCorp, Inc.'s Form 10-KSB filed April 14, 2004.
20.2	Audited consolidated financial statements of Crown NorthCorp Limited and subsidiaries as of December 31, 2004 and 2003	Filed herewith.

19

21.9	Subsidiaries of Crown NorthCorp, Inc.	Filed herewith.
31.7	Certification of officers of Crown	Filed herewith.
32.6	Certification of officers of Crown	Filed herewith.

#### ITEM 14. - PRINCIPAL ACCOUNTANT FEES AND SERVICES

The firm of Schoonover Boyer + Associates has served as Crown's principal accountant for each of the past two fiscal years. The Audit Committee of Crown's Board of Directors approved the engagement of the firm prior to the commencement of work. Fees billed by the firm for those periods are as follows:

	AUDIT FEES	AUDIT-RELATED FEES	TAX FEES	ALL OTHER FEES
2003	\$ 62,113	0	\$ 3,964	0
2004	\$ 83,251	0	\$ 8,965	0

Additionally, CNL has engaged Deloitte & Touche LLP during each of the past two fiscal years. Fees billed by the firm to CNL for those periods are as follows:

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

	AUDIT FEES -----	AUDIT-RELATED FEES -----	TAX FEES -----	ALL OTHER FEES -----
2003	\$ 46,303	0	\$ 73,777	0
2004	\$101,105	0	\$ 42,343	0

20

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 30, 2005 Crown NorthCorp, Inc.

By: /s/ Ronald E. Roark

-----  
Ronald E. Roark, Vice Chairman  
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 30, 2005 By: /s/ Stefan Lennhammer

-----  
Stefan Lennhammer, Chairman

Date: March 30, 2005 By: /s/ Ronald E. Roark

-----  
Ronald E. Roark, Vice Chairman and  
Chief Executive Officer  
(Principal Executive Officer)

Date: March 30, 2005 By: /s/ Rick L. Lewis

-----  
Rick L. Lewis, Vice President,  
Treasurer and Chief Financial  
Officer  
(Principal Accounting Officer)

Date: March 30, 2005 By: /s/ Stephen W. Brown

-----  
Stephen W. Brown, Secretary

Date: March 30, 2005 By: /s/ David K. Conrad

-----  
David K. Conrad, Director

21

Date: March 30, 2005 By: /s/ Gordon V. Smith

-----  
Gordon V. Smith, Director

Date: March 30, 2005 By: /s/ Grace Jenkins

-----

Edgar Filing: CROWN NORTHCORP INC - Form 10KSB

Grace Jenkins, Director

Date: March 30, 2005

By: /s/ John S. Koczela

-----  
John S. Koczela, Director

Date: March 30, 2005

By: /s/ Peter Walker

-----  
Peter Walker, Director

22

INDEX TO EXHIBITS

- 3.3 Restated Certificate of Incorporation.(1)
- 3.4 Bylaws.(1)
- 14.1 Code of Ethics(2)
- 20.2 Audited, consolidated financial statements of Crown NorthCorp Limited and subsidiaries as of December 31, 2004 and 2003.(3)
- 21.9 Subsidiaries of Crown NorthCorp, Inc.(3)
- 31.7 Certification of officers of Crown(3)
- 32.6 Certification of officers of Crown(3)

- 
- (1) Incorporated by reference to Crown NorthCorp, Inc.'s Form 10-KSB filed March 31, 2000.
  - (2) Incorporated by reference to Crown NorthCorp, Inc.'s Form 10-KSB filed April 14, 2004.
  - (3) Filed herewith.