

ENTRUST FINANCIAL SERVICES INC  
Form 10QSB  
May 11, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the quarter ended ended March 31, 2005

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

*Commission File No. 0-23965*

**Entrust Financial Services, Inc.**

(Exact name of small business issuer in its charter)

Colorado  
(State of incorporation)

84-1374481  
(I.R.S. Employer File Number)

Fifth Floor, 6795 E. Tennessee Ave., Denver, Colorado 80224  
(Address of principal executive offices)

(303) 322-6999  
(Issuer's telephone number, including area code)

Securities Registered Under Section 12(b) of the Exchange Act: None

Securities Registered Under Section 12(g) of the Exchange Act:

Common Stock, \$.0000001 per share par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

State the number of shares outstanding of each of the issuer's common equity as of the last practicable date:

<u>Class</u>	<u>Outstanding at March 31, 2005</u>
Common Stock, \$.0000001 par value, net of Treasury Stock	2,612,295

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

References in this document to us, we, our, or the Company refer to Entrust Financial Services, Inc. its predecessors and its subsidiaries.

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## PART 1 - FINANCIAL INFORMATION

## ITEM 1. Financial Statements:

**ENTRUST FINANCIAL SERVICES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	<b>March 31, 2005 (unaudited)</b>	<b>December 31, 2004</b>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 812,052	\$ 1,101,155
Cash, restricted	2,805	2,805
Accounts receivable	86,188	54,796
Mortgage loans held for sale	13,965,161	42,618,137
Prepaid expenses and other current assets	16,669	76,995
	14,882,875	43,853,888
Total current assets		
Property and equipment, net	380,082	409,107
OTHER ASSETS		
Intangibles, net	1,248,217	1,279,883
Deposits	288,559	279,559
	1,536,776	1,559,442
Total other assets		
TOTAL ASSETS	\$ 16,799,733	\$ 45,822,437
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
CURRENT LIABILITIES		
Warehouse lines of credit	\$ 13,444,302	\$ 41,662,386
Accounts payable	136,922	120,242
Accrued other expenses	387,052	876,139
Loan indemnification reserve, current portion	515,188	530,804
Convertible Promissory Note, current portion	1,200,000	1,200,000
Capital lease obligations, current portion	70,622	70,622
	15,754,086	44,460,193
Total current liabilities		
Convertible Promissory Note, less current portion	200,000	500,000
Loan indemnification reserve, less current portion	920,693	889,335
Capital lease obligations, less current portion	46,914	63,918
	16,921,693	45,913,446
Total liabilities		
STOCKHOLDERS EQUITY		
Common stock, \$.0000001 par value, 50,000,000 shares authorized, 2,612,295 issued and outstanding for 2005 and 2,612,295 issued and outstanding for 2004	1	1
Paid-in capital	7,605,555	7,605,555
Retained earnings	(7,727,516)	(7,696,565)
	(121,960)	(91,009)
Total stockholders equity		

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	<b>March 31, 2005 (unaudited)</b>	<b>December 31, 2004</b>
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 16,799,733	\$ 45,822,437

See accompanying notes to the unaudited financial statements.

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ENTRUST FINANCIAL SERVICES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

	<b>Three Months Ended</b>	
	<b>March 31, 2005</b>	<b>March 31, 2004</b>
<b>REVENUE</b>		
Loan origination fees and gain on sale of loans	\$ 4,491,308	\$ 3,657,060
Direct costs of loan origination	(2,374,613)	(1,726,643)
Interest income	675,935	406,853
Interest expense, warehouse and other debt	(512,496)	(250,621)
<b>Total revenue</b>	<b>2,280,134</b>	<b>2,086,649</b>
<b>EXPENSES</b>		
Salaries, commissions, and benefits	1,316,953	1,173,962
Occupancy, equipment and communication	194,014	149,142
General and administrative	328,103	205,131
Provision for loan losses	346,532	317,908
Interest expense, convertible promissory note	62,964	241,234
Depreciation expense	30,853	35,101
Amortization expense	31,666	22,500
<b>Total expenses</b>	<b>2,311,085</b>	<b>2,144,978</b>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(30,951)</b>	<b>(58,329)</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>--</b>	<b>--</b>
<b>NET LOSS</b>	<b>\$ (30,951)</b>	<b>\$ (58,329)</b>
<b>Basic Earnings per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
<b>Diluted earnings per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>

	<b>Three Months Ended</b>	
	<u>                    </u>	<u>                    </u>
Basic Weighted Average Shares Outstanding	2,612,295	2,576,795
	<u>                    </u>	<u>                    </u>
Diluted Weighted Average Shares Outstanding	2,704,795	3,206,795
	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>

See accompanying notes to the unaudited financial statements.

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ENTRUST FINANCIAL SERVICES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

	<b>Three Months Ended March 31, 2005</b>	<b>Three Months Ended March 31, 2004</b>
	<u>                    </u>	<u>                    </u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (30,951)	\$ (58,328)
Non-cash items-		
Depreciation and amortization	62,519	57,601
Provision for loan losses	15,742	72,518
(Increase) decrease in-		
Accounts receivable	(31,392)	25,709
Mortgage loans held for sale	28,652,976	18,629,411
Prepaid expenses and other assets	51,326	145,866
Increase (decrease) in-		
Accounts payable	16,680	(5,201)
Accrued other expenses	(489,087)	(54,247)
	<u>28,247,813</u>	<u>18,813,329</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,829)	(45,250)
Decrease (Increase) in restricted cash	--	(301,012)
	<u>(1,829)</u>	<u>(346,262)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowings (repayments), warehouse lines of credit	(28,218,085)	(18,265,552)
Repayment of long-term debt	(300,000)	--
Repayments, capital lease obligations	(17,003)	(17,003)
	<u>(28,535,087)</u>	<u>(18,282,555)</u>
Net cash provided (used) by financing activities		
	<u>(28,535,087)</u>	<u>(18,282,555)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(289,103)</b>	<b>184,512</b>

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	<b>Three Months Ended March 31, 2005</b>	<b>Three Months Ended March 31, 2004</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,101,155	1,042,742
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 812,052	\$ 1,227,254
<b><u>SUPPLEMENTAL INFORMATION</u></b>		
Cash Paid For Income Taxes	\$ None	\$ None
Cash Paid For Interest	\$ 575,460	\$ 329,115

See accompanying notes to the unaudited financial statements.

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**ENTRUST FINANCIAL SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
 March 31, 2005  
 (unaudited)

**NOTE 1 - ORGANIZATION AND GOING CONCERN**

Entrust Financial Services, Inc. (the Company) was incorporated on November 8, 1996, under the laws of the State of Colorado as Centennial Banc Share Corporation. The name of the Company was changed to Entrust Financial Services, Inc. as of April 6, 2001. The Company was formed for the purpose of developing and maintaining the business associated with mortgage banking.

Entrust Mortgage, Inc. was incorporated in Colorado in 1999 and is a wholly owned subsidiary of the Company. Entrust Mortgage engages primarily in the origination and wholesale purchase of non-conforming residential mortgage loans in thirty-eight states. The Company's headquarters is located in Denver, Colorado.

The Company has experienced operating losses for the year ended December 31, 2004 and the period ended March 31, 2005 and has a stockholder deficit as of the same periods. The Company is in default under its current warehouse line of credit and needs to raise additional capital to correct the default. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**NOTE 2 - SALE OF ENTRUST MORTGAGE, INC.**

On March 4, 2005, the Company entered into a Stock Purchase Agreement (the Stock Purchase Agreement) by and among the Company, Entrust Mortgage and BBSB pursuant to which BBSB has agreed to purchase all of the issued and outstanding shares of Entrust Mortgage in exchange for the cancellation of any and all obligations of the Company to BBSB and Entrust Mortgage and the assumption of certain obligations of the Company to third-parties (the Entrust Mortgage Sale).

The Company currently conducts all of its operations through Entrust Mortgage, and upon the closing of the Entrust Mortgage Sale, the Company will have no operations. The shareholders of the Company will not receive any consideration in the Entrust Mortgage Sale. The

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Company is continuing to review its strategic alternatives following the closing of the Entrust Mortgage Sale including, but not limited to, the sale of control of the corporate holding company .

### NOTE 3 - BASIS OF PRESENTATION

The Company, through its subsidiary, Entrust Mortgage, Inc. is engaged in mortgage banking activities in 38 states. The Company's mortgage banking business is principally focused on wholesale and retail residential mortgage origination activities. The Company primarily originates non-conforming mortgage loans, which are loans that do not conform to FNMA, FHLMC, FHA and VA requirements. The principal deviation from such standards relate to the lower documentation standards where there is a lower loan-to-value ratio, although some do not conform because of the size of the mortgage loan. The Company's underwriting guidelines are based upon the underwriting standards established by investors to whom such loans are sold.

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### ENTRUST FINANCIAL SERVICES, INC.

#### NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(unaudited)

Wholesale loan origination involves the funding by the Company of loans submitted by non-affiliated mortgage brokers. The Company has active contractual relationships with over 600 brokers firms and supports this clientele with traditional telemarketing and a web-based, proprietary automated underwriting system that supports the loan application process 24 hours a day, 7 days a week. The Company typically realizes revenue from the sale of such loans to investors for a price greater than the amount paid to the mortgage broker.

Retail loan origination involves the direct solicitation of realtors, builders and prospective borrowers for the origination of mortgage loans. The Company derives revenues from the loan origination fees and the loan premium fee that is received from the purchaser of the loan. Generally, the revenue is shared on a negotiated basis with loan officers and others who procure the loan and assist in the loan origination process. The financial benefits to the Company of the retail division is both as a source of loans for the wholesale division and as a source of loan fees to improve total profits.

Company's management monitors the revenue streams of the various products and services. Operations are managed and financial performance is evaluated on a company-wide basis. Accordingly, all of the Company's mortgage banking operation is considered by management to be aggregated in one reportable operating segment.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Regulation S-B. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations have been included. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that might be expected for the 12 months ending December 31, 2005.

#### Principles of Consolidation

The accompanying financial statements include the accounts of the Company and its wholly owned subsidiary, Entrust Mortgage, Inc. All intercompany balances and transactions have been eliminated.

#### Use of 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Mortgage Loans Held for Sale and Revenue Recognition

Mortgage loans held for sale are carried at the lower of cost or market determined on an aggregate loan basis. Market value for mortgage loans covered by investor commitments is based on commitment prices. Market value for uncommitted loans is based on current delivery prices.

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**ENTRUST FINANCIAL SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

March 31, 2005  
(unaudited)

Loan origination fees, net of direct costs, are deferred and recognized over the term of the loan or at the time the loan is sold. Gains or losses from the sale of mortgages are recognized based upon the difference between the selling price and carrying value of the related loans upon sale. Interest income is accrued to income based on the principal amount outstanding.

Loans are considered sold when the Company surrenders control over the financial assets. Control is considered to have been surrendered when the transferred assets have been isolated from the Company, beyond the reach of the Company and its creditors; the purchaser obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and the Company does not maintain effective control over the transferred assets through an agreement that both entitles and obligates the Company to repurchase or redeem the transferred assets before their maturity. The Company typically considers the above criteria to have been met upon acceptance and receipt of sales proceeds from the purchaser.

Loan Indemnification Reserve

Loans sold to investors by the Company and which met investor and agency underwriting guidelines at the time of sale may be subject to repurchase in the event of specific default by the borrower or subsequent discovery that underwriting standards were not met. The Company may, upon mutual agreement, indemnify the investor against future losses on such loans. The Company has established a reserve for losses related to these representations and warranties.

As of March 31, 2005, the Company has outstanding indemnification agreements with investors totaling \$515,188, requiring current aggregate monthly payments of \$56,316 and expiring May 2005 through July 2006. These liabilities are included as part of the loan indemnification reserve.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year financial statement presentation.

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued FASB Statement No. 123 (Revised), *Share-Based Payment*. SFAS No. 123R requires public entities to measure the cost of stock-based compensation based on the grant date fair value of the award, and is effective for interim periods beginning after June 15, 2005. The financial statement impact of adopting SFAS 123R is not expected to differ materially from historical proforma disclosures. Management is evaluating the transition alternatives, all of which require compensation expense to be included in net income in 2005, and valuation methodologies allowed under the new standard.

In December 2003, the SEC issued Staff Accounting Bulletin 104, *Revenue Recognition* (SAB 104), which revises or rescinds portions of related interpretive guidance in order to be consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The adoption of SAB 104 as of January 1, 2004 did not have a material financial statement impact on the Company.



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**ENTRUST FINANCIAL SERVICES, INC.**  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2005  
(unaudited)

In March 2004, the SEC issued Staff Accounting Bulletin 105, *Application of Accounting Principles to Loan Commitments* (SAB 105). SAB 105 requires that certain mortgage loan commitments issued after March 31, 2004 are accounted for as derivatives until the loan is made or they expire unexercised. The adoption of SAB 105 did not have a material financial statement impact.

**NOTE 4- WAREHOUSE LINES OF CREDIT**

The Company has a \$14,000,000 warehouse line of credit agreement dated September 7, 2004, expiring September 30, 2005, which provides financing for the Company's origination of mortgage loans. The line of credit bears interest at LIBOR plus 2.50% to 3.75% depending on the underlying collateral. Purchase proceeds are withdrawn from the Company's bank account as funding proceeds from investors are deposited. The underlying mortgages and related documents and instruments collateralize the line of credit. At March 31, 2005, the outstanding principal balance of the warehouse line of credit amounted to \$13,444,302.

The agreement contains certain financial covenants, including maintenance of minimum tangible net worth and equity base, maximum debt to tangible net worth and equity base ratios, minimum current ratio, and limitations on transactions with affiliates and stockholder distributions, as defined in the agreement. As of March 31, 2005, the Company was in default under certain financial covenants. The Company is currently having discussions with then lender to resolve all outstanding issues.

**NOTE 5 - CONVERTIBLE PROMISSORY NOTE**

As of December 31, 2003, the Convertible Promissory Note (Note ) had interest payable monthly in arrears at 12% per annum, and additional interest at 33% per annum payable upon maturity or prepayment of the Note. The Note is secured by all the assets (e.g. accounts, contracts, intangible assets, furniture & fixtures) of Entrust Mortgage, Inc.. In addition, the Company entered into a Pledge Agreement, whereby all the shares of the common stock of Entrust Mortgage, Inc. are held by the lender to ensure timely payment and performance of the obligation.

As of April 1, 2004, the Company and the Note Holder agreed to amend and restate the Note. In exchange for the restructuring, the Holder agreed to waive the Company's uncured Events of Default existing under the Note. Effective with the amendment, the outstanding principal balance will bear interest at 12% per annum, payable monthly in arrears. The principal balance is payable in 20 installments ending on May 1, 2006 (\$50,000 is payable on the first day of each month commencing on April 1, 2004 and ending on September 1, 2004; and \$100,000 is payable on the first day of each month commencing on January 1, 2005 and ending on May 1, 2006). The promissory note had accrued interest of \$822,000 as of the date of the restructure. The Company agreed to pay \$500,000 of the interest upon execution of the agreement, \$22,000 before July 1, 2004 and \$100,000 on the first day of each month commencing on October 1, 2004 and ending on December 1, 2004. The Note Holder has the right to convert the principal amount to common stock at \$.50 per share in lieu of payment of principal amount. The Company has the right to prepay the Note at any time.

**NOTE 6 - INTANGIBLE ASSETS**

Intangible assets represent the excess of acquisition costs over the fair value of the net assets of acquired businesses, which have been allocated to identifiable intangible assets as follows at March 31, 2005:

## ENTRUST FINANCIAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(unaudited)

Description	Estimated Life	Acquisition Cost	Accumulated Amortization	Net Carrying Value
Client contracts	15 Years	\$1,200,000	\$(360,000)	\$ 860,000
Technology rights	10 Years	200,000	(112,000)	93,000
State licenses	15 Years	400,000	(79,783)	326,883
		<u>\$1,800,000</u>	<u>\$(551,783)</u>	<u>\$1,248,217</u>

Effective October 1, 2004 the estimated life of the client contracts and state licenses were changed from 20 years and 40 years, respectively, to 15 years to reflect the current economic life of these intangibles. Amortization expense will amount to \$147,250 for each of the next five years.

## NOTE 7 - INCOME TAXES

The Company has net operating losses of approximately \$4,473,000 available to offset future consolidated federal and state taxable income through 2023. Based upon the Company's current operating losses and the uncertainty as to future taxable income, a full valuation allowance has been provided for the Company's net deferred tax asset as of March 31, 2005.

## NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments to Originate Loans

The Company regularly enters into commitments to originate loans at a future date subject to compliance with stated conditions. These commitments have off-balance sheet risk to the extent the Company does not have matching commitments to sell the loans, which expose the Company to market risk if interest rates change. The Company is also exposed to credit loss if the loan is originated and the mortgagor does not perform. The collateral upon extension of credit typically consists of a deed of trust in the mortgagor's residential property.

Separation Agreements

On July 5, 2002, the Company's Chairman of the Board resigned. Beginning in July 2002 and continuing for a period of forty-eight months through July 2006, he shall be entitled to an amount equivalent to 15 basis points on the first \$12,500,000 in monthly funding and 5 basis points on the remaining monthly funding on wholesale and retail loans funded by the Company or the Company's lenders on behalf of the Company. The Company and/or Entrust Mortgage shall make payments on the 15th day of each month thereafter for forty-eight consecutive months. For the period ending March 31, 2005 and 2004, the Company paid \$90,372 and \$75,652, respectively, under the terms of this agreement.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Use of Forward-Looking Statements**

Some of the statements in this Form 10-QSB, including some statements in Management's Discussion and Analysis of Financial Condition and Results of Operations and Business, are forward-looking statements about what may happen in the future. They include statements regarding our current beliefs, goals, and expectations about matters such as our expected financial position and operating results, our business strategy, and our financing plans. These statements can sometimes be identified by our use of forward-looking words such as

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anticipate, estimate, expect, intend, may, will, and similar expressions. We cannot guarantee that our forward-looking statements will turn out to be correct or that our beliefs and goals will not change. Our actual results could be very different from and worse than our expectations for various reasons. You are urged to carefully consider these factors, as well as other information contained in this Form 10-QSB and in our other periodic reports and documents filed with the Securities and Exchange Commission.

In our Form 10KSB filed with the Securities and Exchange Commission for the year ended December 31, 2004 and in the Footnotes to the unaudited Financial Statements for this report, we have identified critical accounting policies and estimates for our business.

### Results of Operations

#### Three Months Ended March 31, 2005

The Company entered into a \$30,000,000 Loan Purchase Agreement dated January 9, 2004, which provided 100% funding of the Company's mortgage loans originated. This helped the Company increase its wholesale loan production during the year without having to increase its capital ratios. The Agreement was unexpectedly terminated as of October 23, 2004 and since that time the Company has been actively looking for additional capital to maintain its wholesale production levels. The Company has not been able to raise additional capital and is currently operating the business with a \$14 million warehouse line of credit, which has been in place during 2004. The Company is in default under certain financial covenants under this warehouse line of credit, including maintaining a minimum tangible net worth. The Company can only cure this default by raising additional capital or decreasing the maximum line amount. In addition, the Company has not been able to acquire a new warehouse line of credit of any amount to replace its current credit facility.

On March 4, 2005, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") by and among the Company, Entrust Mortgage and BBSB pursuant to which BBSB has agreed to purchase all of the issued and outstanding shares of Entrust Mortgage in exchange for the cancellation of any and all obligations of the Company to BBSB and Entrust Mortgage and the assumption of certain obligations of the Company to third-parties (the "Entrust Mortgage Sale").

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The Company currently conducts all of its operations through Entrust Mortgage, and upon the closing of the Entrust Mortgage Sale, the Company will have no operations. The shareholders of the Company will not receive any consideration in the Entrust Mortgage Sale. The Company is continuing to review its strategic alternatives following the closing of the Entrust Mortgage Sale, including, but not limited to, the sale of control of the corporate holding company.

Loan origination fees and gain on sale of loans increased from \$3.7 million for 2004 to \$4.5 million in 2005. The increase is attributable to the wholesale Division increased funding from \$63.6 million in 2004 to \$69.3 million in 2005. In addition, the Company's retail division increased funding to \$27.8 million for 2005 compared to \$24.1 million in 2004. Direct cost increased from \$1.7 million in 2004 to \$2.4 million in 2005. Revenue realized on each wholesale loan sold during this period increased by \$325 per unit compared to loans sold in the same period of 2004. Direct cost on each wholesale loan increased \$355 per unit compared to the same period of 2004, primarily because of the increase fees and commissions paid to brokers.

Interest income increased from \$406,853 for 2004 to \$675,935 for 2005. Warehouse line of credit interest expense increased from \$250,621 in 2004 to \$512,496 in 2005.

Salaries, commissions and benefits increased from \$1.2 million in 2004 to \$1.3 million in 2004.

The loan loss provision increased to \$346,532 in 2005 from \$317,908 in 2004. The Company's loan loss reserve increased because the wholesale loan volume increased during the period. The Company's loan loss reserve is based on management's most current estimate of risk exposure, using past experience and the most available economic circumstances.

Interest expense related to corporate borrowings decreased from \$241,234 in 2004 to \$62,964 in 2005. The decrease is the result of restructuring the \$2 million convertible promissory note from an effective annual interest rate of 45% to 12% in April 2004.

General and administrative expenses increased from \$205,131 in 2004 compared to \$328,260 in 2005.

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The Company reported net loss for the three months ending March 31, 2005 of \$30,951 (approximately \$0.01 per share on a fully diluted basis) compared to a net loss of \$58,329 (approximately \$0.02 per share on a fully diluted basis) for this same period in 2004.

### Liquidity and Capital Resources

Loan origination increased substantially for the quarter ending in 2005 compared to 2004. The increase is attributable to the Wholesale Division increased funding from \$63.6 million in 2004 to \$69.3 million in 2005. In addition, the Company's retail division increased funding to \$27.8 million for 2005 compared to \$24.1 million in 2004.

During the first quarter of 2005, net cash provided by operating activities was \$28.2 million compared to \$18.8 million in 2004. Net cash provided in operating activities is impacted primarily by the origination of and proceeds from the sale of mortgage loans held for sale.

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Net cash used in investing activities was minimal in 2005 and approximately \$350,000 in 2004 because the Company deposited \$300,000 into a sinking fund in connection with the requirement of the Convertible Promissory Note.

Net cash used for financing activities in 2005 was \$28.5 million and in 2004 was \$18.3 million primarily because of the net payments on the warehouse line of credit. The Company also repaid long-term debt and capital lease obligations of \$317,000.

The decrease in net cash flow from operating, financing, and investing activities was \$0.3 million in 2005 compared to an increase in cash of \$0.2 million for the same period in 2004.

Because the Company has not been able to acquire a new warehouse line of credit of any amount to replace its current credit facility, the Company has had to pursue alternatives. On March 4, 2005, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") by and among the Company, Entrust Mortgage and BBSB pursuant to which BBSB has agreed to purchase all of the issued and outstanding shares of Entrust Mortgage in exchange for the cancellation of any and all obligations of the Company to BBSB and Entrust Mortgage and the assumption of certain obligations of the Company to third-parties (the "Entrust Mortgage Sale").

The Company currently conducts all of its operations through Entrust Mortgage, and upon the closing of the Entrust Mortgage Sale, the Company will have no operations. The shareholders of the Company will not receive any consideration in the Entrust Mortgage Sale. The Company is continuing to review its strategic alternatives following the closing of the Entrust Mortgage Sale. One of the alternatives involves acquiring existing operations of another company. The Company has developed a process to solicit proposals from third parties for potential acquisition candidates. The Company has had discussions with interested parties. At the present time, the Company has no definitive candidates and does not know if it ever will develop any such candidates. The Company considers this process to be in line with its plan to examine its strategic alternatives.

### ITEM 3. CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-QSB, we evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)). That evaluation was performed under the supervision and with the participation of its management, including its Chief Executive Officer and its Chief Financial Officer. Based on that evaluation, our Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting him to material information relating to Entrust Financial Services required to be included in its periodic SEC filings.

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#### (b) Changes in Internal Control over Financial Reporting

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The Company has made no significant change in its internal control over financial reporting during the most recent fiscal quarter covered by this report on Form 10-QSB that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

### **PART II OTHER INFORMATION**

#### **ITEM 1. Legal Proceedings**

There are no material pending legal proceedings, which the Company is a party other than ordinary routine litigation incidental to its business.

#### **ITEM 2. Changes in Securities and Use of Proceeds**

None

#### **ITEM 3. Defaults Upon Senior Securities**

None

#### **ITEM 4. Submission of Matters to a Vote of Security Holders**

None

#### **ITEM 5. Other Information**

None

#### **ITEM 6. Exhibits and Reports on Form 8-K**

(a) Exhibits: see the attached Exhibit Index following the signature page.

(b) Reports on Form 8-K: We filed one Form 8-K on March 4, 2005, which discussed the Stock Purchase Agreement by and among the Company, Entrust Mortgage, Inc. and BBSB, LLC..

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### **SIGNATURES**

Pursuant to the requirements 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: May 11, 2005

**Entrust Financial Services Inc.**

By: /s/ Jeffrey D. Rudolph  
Jeffrey D. Rudolph  
Chief Executive Officer &  
Chief Financial Officer

SIGNATURES

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EXHIBIT INDEX  
Form 10-QSB  
Quarter Ended March 31, 2005

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of CEO pursuant to Sec. 302
31.2	Certification of CFO pursuant to Sec. 302
32.1	Certification of CEO pursuant to Sec. 906
32.2	Certification of CFO pursuant to Sec. 906