

ENTRUST FINANCIAL SERVICES INC  
Form 10KSB  
March 25, 2005

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**U.S. SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-KSB**

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

For the year ended December 31, 2004

**[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

*Commission File Number 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 [X] No [ ]

Indicate by check mark if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained herein, and will not be contained, to the best of the issuer'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. [X]

State issuer's revenues for its most recent year were \$9,604,830. The aggregate market value of the voting stock of the Registrant held by non-affiliates as of December 31, 2004 was approximately \$1,959,221. The number of shares outstanding of the Registrant's common stock, as of the latest practicable date, December 31, 2004, was 2,612,295.

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

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

**FORM 10-KSB**  
**Entrust Financial Services, Inc.**  
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**PART I**

**Item 1. Description of Business**

The following are definitions of terms used in this Form 10-KSB:

**Closed Loan:**

A mortgage loan, which has been funded.

**Conforming Mortgages:**

Mortgages, which meet the Federal National Mortgage Association ( FNMA ) or Freddie Mac underwriting guidelines.

**Federal National Mortgage Association (FNMA or Fannie Mae):**

A Congressionally chartered corporation, which buys conforming mortgages, combines them and sells them in a pool as mortgage-backed securities to investors in the open market. Monthly principal and interest payments are guaranteed by FNMA but not by the U.S. Government. This organization is sometimes called Fannie Mae.

**Freddie Mac:**

Freddie Mac is a stockholder-owned corporation chartered by Congress in 1970 to create a continuous flow of funds to mortgage lenders in support of homeownership and rental housing. Freddie Mac purchases mortgages from lenders, packages them and pools them into securities that are sold to investors.

**Limited Documentation Loans:**

Loans which do not require verification of certain, defined information on a borrower s loan application.

**Mortgage Bankers:**

Those who close and fund loans with their own funds or credit facilities.

**Mortgage Brokers:**

Those who originate loans directly with consumers but whose loans are funded by others.

**Non-Conforming Mortgage:**

Mortgages, which do not conform to FNMA or Freddie Mac underwriting guidelines.

**Prime Market:**

Those who buy FNMA or Freddie Mac quality loans.

**Secondary Markets:**

Those who buy closed loans.

**Service Release Premiums:**

Fees paid for selling closed loans with servicing rights attached.

**Cautionary Statement for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.**

The matters discussed in this report on Form 10-KSB, when not historical matters, are forward-looking statements that involve a number of risks and uncertainties that could cause actual results to differ materially from projected results. Factors that may affect such forward-looking statements include, without limitation: our ability to successfully develop new products for new markets; the impact of competition on our revenues, changes in laws or regulatory requirements that may adversely affect or preclude customers from using our products for certain applications; delays in the introduction of new products or services; failure by us to keep pace with emerging technologies and business practices, potential losses from increasing level of defaulted loans due to adverse national economic conditions, and potential losses from loan fraud, and other risk factors as described from time to time in our filings with the Securities and Exchange Commission. Most of these factors are beyond our ability to control or predict. We disclaim any intent or obligation to update our forward-looking statements, whether as a result of receiving new information, the occurrence of future events, or otherwise.

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## RISK FACTORS

**THE OWNERSHIP AND INVESTMENT IN OUR SECURITIES INVOLVES SUBSTANTIAL RISKS. ONLY PERSONS WHO CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT SHOULD PURCHASE OUR COMMON SHARES. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THESE RISKS RELATING TO OUR COMPANY.**

OUR ACCOUNTANTS HAVE EXPRESSED DOUBTS ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN. WE HAVE INCURRED SUBSTANTIAL OPERATING LOSSES OVER THE PAST SEVERAL YEARS. AS A RESULT WE HAVE A SUBSTANTIAL ACCUMULATED DEFICIT AND A NEGATIVE STOCKHOLDERS EQUITY POSITION ON DECEMBER 31, 2004. UNLESS WE CAN IMPROVE OUR FINANCIAL SITUATION, WE WILL BE UNABLE TO PAY OUR OBLIGATIONS AND MAY NOT SURVIVE AS AN ENTITY.

For the fiscal year ended December 31, 2004, our accountants have expressed doubts about our ability to continue as a going concern. We have incurred net losses of \$3.6 million and \$216,250 during the years ended December 31, 2003 and 2004, respectively. At December 31, 2004, we had a negative stockholders' equity of \$91,009 and an accumulated retained deficit of \$7.7 million, which includes losses from our prior operations. Our ability to survive as an entity depends upon our ability to develop profitable operations, of which there can be no assurance. While we believe we have taken actions to solidify our financial condition, we cannot give assurances that these actions will be successful and that we will be able to survive as an entity.

OUR FUTURE ORGANIZATION, OPERATIONS, VIABILITY, AND POTENTIAL PROFITABILITY CANNOT BE ASSESSED AT THIS TIME. WE HAVE ENTERED INTO A STOCK PURCHASE AGREEMENT FOR THE SALE OF ALL OUTSTANDING SHARES OF ENTRUST MORTGAGE, INC., IF THE STOCK PURCHASE AGREEMENT IS APPROVED BY OUR SHAREHOLDERS, WE WILL HAVE NO OPERATIONS UPON CLOSING, UNLESS WE CAN DEVELOP AN ALTERNATIVE.

On March 4, 2005, we entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") by and among us, Entrust Mortgage, Inc and BBSB, LLC ("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 of our obligations to BBSB and Entrust Mortgage and the assumption of certain of our obligations to third-parties (the "Entrust Mortgage Sale"). We will receive no profit from the sale.

We currently conduct all of our operations through Entrust Mortgage. Upon the closing of the Entrust Mortgage Sale, we will have no ongoing operations. Our shareholders will not receive any consideration in the Entrust Mortgage Sale. We are continuing to review our strategic alternatives following the closing of the Entrust Mortgage Sale, which may include an acquisition of new operations. However, there can be no guarantee we will acquire new operations or that Entrust Financial will not be dissolved after the Entrust Mortgage Sale.

The closing of the Entrust Mortgage Sale is subject to a number of conditions, including approval of the Entrust Mortgage Sale by the requisite vote of our shareholders, receipt of all material third party consents and other customary closing conditions. There is also no guarantee that the Entrust Mortgage Sale will occur, or if it occurs, that it will occur under the present terms and conditions of the Stock Purchase Agreement. The Stock Purchase Agreement is a definitive agreement but may be amended or altered by the parties prior to closing.

As a result, our organization, the operations, the viability and the potential profitability in the future cannot be assessed at this time.

WE CANNOT GUARANTEE THAT THE ENTRUST MORTGAGE SALE WILL BE APPROVED BY OUR SHAREHOLDERS. IF THE ENTRUST MORTGAGE SALE IS NOT APPROVED, WE MAY BE FORCED TO SUSPEND OPERATIONS IN ANY CASE.

The Entrust Mortgage Sale is subject to the approval by a majority of our shareholders. We cannot guarantee that we will obtain this approval. However, since we have been unable to secure sufficient funding to expand our operations and are unable to repay our loan to BBSB, we may be forced to cease operations in any case. If we suspend operations without finding a replacement for these operations in short period of time, we will probably not be viable as an entity in the future.

WE DO NOT HAVE A SUSTAINED HISTORY OF PROFITS IN OUR OPERATIONS AND THERE IS NO GUARANTEE THAT WE EVER WILL BE PROFITABLE AGAIN, PARTICULARLY IF THE ENTRUST MORTGAGE SALE OCCURS.

We were formed in 1996 and acquired the operations of a company in 1999. From the time we began operations we operated at a loss, with the exception of fiscal year 2001. Since we have no history of profitability over a sustained period of time, we have limited financial results upon which you may judge our potential. We have no idea as to whether we will ever be able to become a profitable operation. We have experienced in the past and may experience in the future under-capitalization, shortages, setbacks and many of the problems, delays and expenses encountered by any early stage business, many of which are beyond our control. These include:

- Lack of capital for our mortgage banking operations,
- Substantial delays and expenses related to testing and development of new products,
- Development and marketing problems encountered in connection with our new and existing products,
- Competition from larger and more established companies, and
- Lack of market acceptance of our products.

BECAUSE OUR HISTORY IS LIMITED, WE ARE SUBJECT TO INTENSE COMPETITION, AND WE PLAN TO SELL OUR SOLE OPERATIONS WITHOUT REALIZING ANY PROFIT FROM THE SALE, ANY INVESTMENT IN US WOULD BE INHERENTLY RISKY.

Because we are a company with a limited history of operations and profitability, our activity can be expected to be extremely competitive and subject to numerous risks. The mortgage banking and brokerage business has been highly competitive with many companies having access to the same market. Substantially all of them have greater financial resources and longer operating histories than we have and can be expected to compete within the business in which we engage and intend to engage. We are selling our sole operations without realizing any profit from the sale. Therefore, investors should consider an investment in us to be an extremely risky venture.

WE ARE AT SIGNIFICANT RISK REGARDING OUR ABILITY TO CONTINUE AS AN ENTITY IN THE FUTURE.

Our future as a company will depend primarily upon our ability to successfully find a new acquisition and to develop and to market our new products and /or services. At the present time, we have no definitive acquisition candidates to consider. We cannot guarantee that we will be able to find an acquisition candidate to replace our current operations. Further, it is possible that any future operations will not generate income sufficient to meet operating expenses or will generate income and capital appreciation, if any, at rates lower than those anticipated or necessary to sustain ourselves. Even if we find an acquisition candidate, our operations will be affected by many factors, some known by us, some unknown, and some, which are beyond our control. Any of these problems, or a combination thereof, could have a materially adverse effect on our viability as an entity and might cause the investment of our shareholders to be impaired or lost.

#### THERE A SIGNIFICANT RISKS ASSOCIATED WITH NON CONFORMING LOANS

The market for non-conforming loans involves risks that are not present with conforming loans. Entrust Mortgage underwrites its loans on delegated authority from its lenders. Generally loans are underwritten to established criteria. The lender is bound to purchase loans written according to those criteria. On the other hand, if a loan is not written to the established criteria, the lender is not required to purchase the loan. Entrust Mortgage then sells the loan as non-conforming into an alternative market, usually at a discount. However, these non-conforming loans provide for limited recourse to Entrust Mortgage. Therefore, if the borrower defaults on a loan within three months of sale into the secondary market, Entrust Mortgage must repurchase the loan. For second mortgages, the repurchase obligation could be as long as twelve months. Entrust Mortgage is responsible for repurchase if a determination is made that fraud was involved in the transaction. Generally, Entrust Mortgage sells

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most of its loans prior to the due date of the first payment. In the event that a payment becomes due prior to Entrust Mortgage's sale of the loan into the secondary market, and that payment is not made, the lender to whom the loan was sold would not be required to buy the loan. Entrust Mortgage would then be required to find an alternative buyer, usually at a discount. The existence of a significant number of non-conforming loans with problems could have a significant negative effect on the operations of Entrust Mortgage and us. There can be no guarantee that we can continue to build a successful business marketing non-conforming loans.

### UNTIL WE SELL OUR OPERATIONS, WE ARE SUBJECT TO EXTENSIVE REGULATION

Our operations are subject to extensive regulation, supervision and licensing by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Our consumer lending activities are subject to the Federal Truth-in-Lending Act and Regulation Z (including the Home Ownership and Equity Protection Act of 1994), the Federal Equal Credit Opportunity Act, as amended, and Regulation B, the Fair Credit Reporting Act of 1970, as amended, the Federal Real Estate Settlement Procedures Act and Regulation X, the Home Mortgage Disclosure Act, the Federal Debt Collection Practices Act and the National Housing Act of 1934, as well as other federal and state statutes and regulations affecting our activities.

We are also subject to the rules and regulations of, and examinations by, state regulatory authorities with respect to originating and processing loans. These rules and regulations, among other things, impose licensing obligations on us, establish eligibility criteria for mortgage loans, prohibit discrimination, govern inspections and appraisals of properties and credit reports on loan applicants, collection, foreclosure and claims handling, investment and interest payments on escrow balances and payment features, mandate certain disclosures and notices to borrowers and, in some cases, fix maximum interest rates, fees and mortgage loan amounts. Failure to comply with these requirements can lead to loss of approved status, certain rights of rescission for mortgage loans, class action lawsuits and administrative enforcement action.

### UNTIL WE SELL OUR OPERATIONS, WE ARE SUBJECT TO INTENSE COMPETITION FROM COMPANIES, WHICH ARE LARGER AND HAVE GREATER RESOURCES THAN WE DO.

Competition from larger and more established companies is significant and expected to increase. There are many sources of mortgages available to potential borrowers today. These sources include consumer finance companies, mortgage banking companies, savings banks, commercial banks, credit unions, thrift institutions, credit card issuers and insurance companies. Many of these alternative sources are substantially larger and have considerably greater financial, technical and marketing resources than we do, as well as more experience. Additionally, many financial services organizations against whom we compete for business have formed national loan origination networks or have purchased home equity lenders. We compete for mortgage loan business in several ways, including convenience in obtaining a loan, customer service, marketing and distribution channels, amount and term of the loan, loan origination fees and interest rates. If any of these competitors significantly expand their activities in our market, our business could be materially adversely affected. Changes in interest rates and general economic conditions may also affect our business and our competitors. During periods of rising interest rates, competitors who have locked into lower rates with potential borrowers may have a competitive advantage. Our ability to compete effectively may be adversely affected by the ability of these competitors to devote greater resources to the sale and marketing of their mortgage products than we can. In addition, one or more of our competitors may succeed or may already have succeeded in developing technologies that are more effective than any we currently offer regarding our proprietary mortgage software. In addition, there can be no guarantee that we will be able to protect our proprietary software from being copied or infringed upon. Therefore, there are no assurances that we will ever be able to maintain our profitable position in the marketplace.

### UNTIL WE SELL OUR OPERATIONS, OUR SUCCESS WILL BE DEPENDENT UPON OUR CURRENT MANAGEMENT.

Until we sell our operations, our success will be dependent upon the decision making of our directors and executive officers. These individuals intend to commit as much time as necessary to our business. The loss of any or all of these individuals could have a materially adverse impact on our operations.

Our Chief Executive Officer resigned on February 11, 2005 and his duties and responsibilities were assigned to our Chief Financial Officer. We cannot guarantee the results of this change.

OUR STOCK PRICE MAY BE VOLATILE, AND YOU MAY NOT BE ABLE TO RESELL YOUR SHARES AT OR ABOVE YOUR INITIAL SALE PRICE.

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There has been, and continues to be, a limited public market for our common stock. Although our common stock trades on the NASD Bulletin Board, an active trading market for our shares has not, and may never develop or be sustained. If you purchase shares of common stock, you may not be able to resell those shares at or above the initial price you paid. The market price of our common stock may fluctuate significantly in response to numerous factors, some of which are beyond our control, including the following:

- o Actual or anticipated fluctuations in our operating results;
- o changes in financial estimates by securities analysts or our failure to perform in line with such estimates;
- o changes in market valuations of other mortgage brokerage companies, particularly those that sell products similar to as ours;
- o announcements by us or our competitors of significant innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- o introduction of technologies or product enhancements that reduce the need for our products; and
- o departures of key personnel.

Of our total outstanding 2,612,295 shares as of February 28, 2005, a total of 937,114 or 36%, will be restricted from immediate resale but may be sold into the market in the near future. The remaining 1,675,181 or approximately 64% is eligible for resale. This could cause the market price of our common stock to drop significantly, even if our business is doing well.

As restrictions on resale end, the market price of our stock could drop significantly if the holders of restricted shares sell them or are perceived by the market as intending to sell them.

### ISSUANCE OF ADDITIONAL SHARES COULD DEPRESS OUR STOCK PRICE.

As of February 28, 2005, under various arrangements, which we have, a total of 48,500 shares may be issued upon the exercise of various stock options and warrants. These shares of our common stock are at various exercise prices. We have registered these securities under a Form S-3. Any or all of these potential share issuances may have a negative effect on the share price of our common stock in the future.

### OUR STOCK HAS A LIMITED PUBLIC TRADING MARKET.

While our common stock currently trades, our market is limited and sporadic. We cannot assure that such a market will improve in the future. We cannot assure that an investor will be able to liquidate his investment without considerable delay, if at all. If a more active market does develop, the price may be highly volatile. The factors, which we have discussed in this document, may have a significant impact on the market price of the common stock. It is also possible that the relatively low price of our common stock may keep many brokerage firms from engaging in transactions in our common stock.

### THE OVER-THE-COUNTER MARKET FOR STOCK SUCH AS OURS HAS HAD EXTREME PRICE AND VOLUME FLUCTUATIONS.

The securities of companies such as ours have historically experienced extreme price and volume fluctuations during certain periods. These broad market fluctuations and other factors, such as new product developments and trends in the our industry and in the investment markets generally, as well as economic conditions and quarterly variations in our operational results, may have a negative effect on the market price of our common stock.

### THE MARKET FOR OUR COMMON STOCK IS SUBJECT TO RULES RELATING TO LOW-PRICED STOCK

Our common stock is currently listed for trading in the NASD Over-The-Counter Bulletin Board Market and is subject to the penny stock rules adopted pursuant to Section 15 (g) of the Securities Exchange Act of 1934, as amended. In general, the penny stock rules apply to non-NASDAQ or non-national stock exchange companies whose common stock trades at less than \$5.00 per share or which have tangible net worth of less than \$5,000,000 (\$2,000,000 if the company has been operating for three or more years). Our tangible net worth was below the minimum requirement as of December 31, 2004. Such rules require, among other things, that brokers who trade penny stock to persons other than established customers complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document, quote information, broker's commission information and rights and remedies available to investors in penny stocks. Many brokers have decided not to trade penny stock because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. The penny stock

rules, therefore, may have an adverse impact on the market for our common stock.

#### WE DO NOT EXPECT TO PAY DIVIDENDS ON COMMON STOCK

We have not paid any cash dividends with respect to our common stock, and it is unlikely that we will pay any dividends on our common stock in the foreseeable future. Earnings, if any, that we may realize will be retained in the business for further development and expansion.

#### General Development of Business

Entrust Financial Services, Inc (the Company) was incorporated on November 8, 1996 under the laws of the State of Colorado as Centennial Banc Share Corp. The Company began operations in 1997 as a mortgage broker.

On April 30, 1999, the Company acquired Entrust Mortgage, Inc. (Entrust Mortgage), a private nationwide wholesale mortgage banking company. Entrust Mortgage, a Colorado corporation, is now a wholly owned subsidiary of the Company. The acquisition of Entrust Mortgage allowed the Company to expand its business operations into the wholesale mortgage banking industry.

In April 2001, the Company changed its name to Entrust Financial Services, Inc.

On December 31, 2002, the Company borrowed Two Million Dollars from BBSB, LLC, an unaffiliated private Colorado limited liability company. As of December 31, 2003, the Convertible Promissory Note (Note) had interest payable at 12% per annum, payable monthly, in arrears, and a 33% final interest payment only 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. The Note contains financial covenants, which as of the end of 2003 the Company was not in compliance with. In accordance with the Note, the Company had deposited \$500,000 into a restricted cash account as of December 31, 2003. As of December 31, 2004, the balance in the restricted cash account was \$2,805.

As of April 1, 2004, the Company and the Note Holder agreed to restructure the Note by amending and restating the Note. In exchange for the restructuring, the Holder agrees to waive the Company's uncured Events of Default existing under the Note. In addition, the outstanding Principal Amount will bear interest at a rate of 12% per annum, payable monthly in arrears. The Principal Amount will be paid in 20 installments and



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ending on May 1, 2006 (\$50,000 shall be paid on the first day of each month commencing on April 1, 2004 and ending on September 1, 2004; and \$100,000 shall be paid on the first day of each month commencing on January 1, 2005 and ending on May 1, 2006). The Final Interest Payment had accrued interest of \$822,000 as of the date of the restructure. The Company agreed to pay the Note Holder \$500,000 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 will have 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.

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 or a strategic partner. The Company has not been able to raise additional capital or secure a strategic partner 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").

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.

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The closing of the Entrust Mortgage Sale is subject to a number of conditions, including approval of the Entrust Mortgage Sale by the requisite vote of the Company's shareholders, receipt of all material third party consents and other customary closing conditions. In addition, BBSB may not be required to close the Entrust Mortgage Sale if it notifies the Company prior to April 3, 2005 that it is not satisfied with the results of its due diligence investigation of the Company or the contents of the Company's disclosure schedule to the Stock Purchase Agreement.

No independent market surveys have ever been conducted to determine demand for the Company's mortgage loan products and services. However, as explained below in the Operations section, the mortgage loan origination volume is estimated to be in excess of \$2.0 trillion annually.

The Company has not been subject to any bankruptcy, receivership or similar proceeding.

### Operations

The Company, through its wholly owned 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. Entrust Mortgage accepts non-conforming first and second mortgage loan submissions, for which yields are substantially higher than for conforming mortgage loans. The mortgages are funded using an approved revolving warehouse line of credit. Presently Entrust Mortgage has a \$14 million revolving warehouse line of credit.

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. These mortgage brokers have executed brokerage agreements with Entrust permitting them to submit loans for approval without having to go through the broker approval process necessary to become an Entrust approved mortgage broker. Entrust Mortgage agreements with these brokers do not prohibit them from doing business with other lenders. The Company believes that these brokers will use Entrust Mortgage over our competitors for our niche products and quality of service. The Company realizes revenue from the sale of such loans to investors for a price greater than the amount paid to the mortgage broker.

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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, the Company's entire mortgage banking operation is considered by management to be aggregated in one reportable operating segment.

The United States is one of the largest mortgage markets in the world with total outstanding mortgages exceeding \$9.4 trillion. The mortgage market growth has been driven by a loan origination volume that is estimated to have been in excess of \$3.0 trillion this past year. The mortgage banking business in the United States is highly fragmented with over 44,000 mortgage loan originators operating in the 50 states and its territories. In fact, the ten largest mortgage originators in the U.S. constitute less than 40% of the total mortgage loan market and no single mortgage originator holds a market share exceeding 8%. To capitalize on the opportunities available in the vast and potentially lucrative mortgage industry, The Company is utilizing its proprietary state-of-the-art technology and established contracts with 600 mortgage brokerage firms in 38 states as sources to gain an increasing share of the mortgage loan market.

Online mortgage loan applications have grown at a significant rate in recent years, and independent sources project this segment of the mortgage loan market to reach \$300 billion within the next five years in the U.S. The Company plans to focus its primary marketing efforts on this online segment of the mortgage loan market.

Entrust Mortgage has entered into seller's agreements with certain financial institutions, which management believes will provide outlets for its mortgage loan products. Entrust Mortgage offers limited documentation, unsecured personal lines of credit, no income verification loans with preferential interest rates, and high loan-to-value mortgages as its primary products. With these niche loan products, the Company is able to sell its non-conforming mortgages in the secondary markets at substantially higher prices than other mortgage lenders who market conforming mortgages.

The market for non-conforming loans involves risks that are not present with conforming loans. Entrust Mortgage underwrites its loans on delegated authority from its lenders. Generally loans are underwritten to established criteria. The lender is bound to purchase loans written according to those criteria. On the other hand, if a loan is not written to the established criteria, the lender is not required to purchase the loan. Entrust Mortgage then sells the loan as non-conforming into an alternative market, usually at a discount. However, these non-conforming loans provide for limited recourse to Entrust Mortgage. Therefore, if the borrower defaults on a loan within three months of sale into the secondary market, Entrust Mortgage must repurchase the loan. For second mortgages, the repurchase obligation could be as long as twelve months. Entrust Mortgage is responsible for repurchase if a determination is made that fraud was involved in the transaction. Generally, Entrust Mortgage sells most of its loans prior to the due date of the first payment. In the event that a payment becomes due prior to Entrust Mortgage's sale of the loan into the secondary market, and that payment is not made, the lender to whom the loan was sold would not be required to buy the loan. Entrust Mortgage would then be required to find an alternative buyer, usually at a discount.

A large segment of profitability in the mortgage loan business comes after the mortgage is completed and funded for the borrower. Once funded, the mortgages are sold into secondary markets on an individual loan basis or packaged into several loans on a bulk sale basis. Loan purchasers either hold the loans to earn interest from the coupon rate or securitize the loan portfolio to receive more immediate realization of profit. Entrust locks its loans with secondary markets prior to closing to avoid the risk in interest rate hedging. The loans are typically shipped to the investor within 10 days of funding and purchased by the secondary markets typically within two weeks of shipping. Entrust earns the interest on the loans until the sale of the loan. In most cases, the interest income exceeds the interest charged by the warehouse lender during the holding period.

The Company has implemented an automated underwriting and a computer based mortgage loan application process. Generally, the mortgage industry conducts its business through many manual steps, in a multi-forms, paper based system prone to errors. The Company's technology system is an electronic system set up to permit its mortgage broker customers to process an application very quickly. Typically an application with Entrust Mortgage can be processed in one to three minutes, thus saving processing time. Currently, the pre-approval and documentation process for a loan in the mortgage industry requires approximately one to two days to complete before submission for processing. The more loan programs offered by the mortgage company, the more complexity there is for completing the paper based forms, thus substantially increasing the time requirements to process these paper based applications. With the Company's technology based system, it has been experiencing closing ratios that are significantly improved over industry averages. Out of ten initial loan applications, the Company presently completes approximately four loans.

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With the Company's technology based system, initial data entry processing and human underwriting time necessary to evaluate a mortgage prospect's application under a manual system is eliminated. Back office data entry is also eliminated. There is limited human interface in the initial underwriting process and the Company's loan underwriters' time is reserved to review the authenticity of required documentation. With the Company's technology based system, management believes that the cost of back office personnel will continue to decrease, providing margins for employing higher quality personnel using systems that ensure an efficient document review process. Consequently, the loan approval process can be significantly enhanced to improve the quality of the loans.

The Company's technology based system turns an inexperienced loan officer into a seemingly experienced loan officer, able to provide definite answers to the borrower's questions instantaneously, without the customary mistakes. With every requirement of the loan process scripted, the customer gets accurate information from the broker who no longer has to constantly call the home office for answers.

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With the Company's technology based application processing system, a loan officer's time is released to sell rather than study dozens of alternative loan programs offered by the firm. The Company's system also removes the insecurity that currently prevails when an inexperienced sales person attempts to describe complex loan options. Additionally, the current limits on the number of mortgage loans a producer can manage are dramatically expanded. The confidence that the lender has for the integrity of the underwriting and loan process may be enhanced as well.

Automated mortgage loan underwriting can be found currently in limited pockets of the industry. For the prime market, which are loans offering standard, government backed mortgage programs to the creditworthy customer; automated underwriting is now available on a widespread basis. The prime market, however, represents less than half of the total mortgage loan business. For the non-conforming loan market, involving more complexity, including credit issues and the need for individual loan tailoring, the manual mortgage system prevails throughout the industry.

The non-conforming market represents more than half of the total U.S. mortgage origination business, but provides three to four times the profit margins of the conforming loan market. It is in the non-conforming loan market where the Company is seeking to create a new standard and, by this standard, to establish itself as the new industry leader.

The Company focuses on niche loan products. The Company's underwriting criteria consists of loans of up to 100% of the property value with programs ranging from fully documented loans to loans, which require no income or asset verification. The Company generally writes loans with borrowers with 620 or higher credit scores, which is industry standard for this type of product. Loan to value availability lowers with lesser documentation or lower borrower credit scores.

On December 31, 2002, the Company borrowed Two Million Dollars from BBSB, LLC, an unaffiliated private Colorado limited liability company. As of December 31, 2003, the Convertible Promissory Note ( Note ) had interest payable at 12% per annum, payable monthly, in arrears, and a 33% final interest payment only 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. The Note contains financial covenants, which as of the end of 2003 the Company was not in compliance with. In accordance with the Note, the Company had deposited \$500,000 into a restricted cash account as of December 31, 2003. As of December 31, 2004, the balance in the restricted cash account was \$2,805.

As of April 1, 2004, the Company and the Note Holder agreed to restructure the Note by amending and restating the Note. In exchange for the restructuring, the Holder agreed to waive the Company's uncured Events of Default existing under the Note. In addition, the outstanding Principal Amount will bear interest at a rate of 12% per annum, payable monthly in arrears. The Principal Amount will be paid in 20 installments and ending on May 1, 2006 (\$50,000 shall be paid on the first day of each month commencing on April 1, 2004 and ending on September 1, 2004; and \$100,000 shall be paid on the first day of each month commencing on January 1, 2005 and ending on May 1, 2006). The Final Interest Payment had accrued interest of \$822,000 as of the date of the restructure. The Company agreed to pay the Note Holder \$500,000 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 will have 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.

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.

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### Markets

Until the sale of its mortgage company, the Company plans to continue to market residential mortgages through its network of 600 mortgage brokerage firms in 38 states, using traditional methods. Currently, the Company has a marketing strategy, which uses regional sales representatives, along with an in-house sales team to market its mortgage loan products nationwide. While the Company has an established base of mortgage brokerage firms, it continues to add new accounts through direct solicitation, fax blast marketing, mass e-mail marketing, and participation in mortgage industry trade shows.

### Raw Materials

The use of raw materials is not now a material factor in the Company's operations.

### Customers and Competition

The mortgage banking business is a highly competitive and fragmented industry with over 44,000 licensed mortgage loan originators. The United States is one of the largest mortgage markets in the world with total outstanding mortgages exceeding \$9.4 trillion. The mortgage market is driven by a loan origination volume in excess of \$3 trillion per year and continues to grow as inflation and other factors increase the average price of a house. The ten largest mortgage originators in the U.S. constitute less than 40% of the total mortgage origination market with no single originator holding a market share greater than 8%.

The Company's operational activities focus primarily on the mortgage loan origination business, in which there is a great deal of competition. The Company anticipates that competition will come from a number of sources, many of which will have greater resources than the Company. All lenders in the United States are potential competitors. There can be no guarantee that the Company will be able to compete successfully over the short term or long term.

### Employees

Currently, the Company employs ninety-five full-time people. These employees consist of four management staff and ninety-one loan origination staff and clerical support. The Company plans to hire additional employees in the future to facilitate anticipated growth projections. None of the Company's employees are subject to a collective bargaining agreement.

### Backlog

At December 31, 2004, the Company had approximately \$75 million of mortgage loans to be processed for which it anticipates approximately a 42% closure rate.

### Proprietary Information

The Company owns the trade name "Mortgage 2000" and owns proprietary computer software, which it uses as the base of the Company's technology based system in its operations. The Company has a proprietary database of over 5,000 mortgage brokerage firms as potential customers.

### Government Regulation

The Company is, and expects to continue to be, subject to material governmental regulation and approvals customarily incident to the operation of a mortgage banking business. Applicable Federal and state laws and rules regulate the Company. It is the Company's policy to fully comply with all governmental regulations and regulatory authorities.

### Research and Development

During the fiscal year, the Company did not spend any money on research and development.

Environmental Compliance

The Company is not subject to any material environmental compliance.

**Item 2. Description of Properties.**

The Company's executive offices are located at 6795 E. Tennessee Ave., Fifth Floor, Denver, Colorado 80224. These are also the offices of Entrust Mortgage. The Company rents this office space on a five-year lease at a cost of \$14,972.50 per month from an unaffiliated third party. The lease terminates in 2005. The Company owns office equipment to furnish all of its offices. All of the management activities of the Company are performed in Colorado.

**Item 3. Legal Proceedings**

There are no legal proceedings of a material nature to which the Company is a party were pending during the reporting period. The Company knows of no legal proceedings of a material nature pending or threatened or judgments entered against any of the Company's directors or officers in his capacity as such.

**Item 4. Submission of Matters to a Vote of Security Holders.**

The Company did not submit any matter to a vote of security holders through solicitation of proxies or otherwise during the fourth quarter of the year covered by this report.

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**PART II**
**Item 5. Market for Common Equity and Related Stockholder Matters.**Principal Market or Markets

The common stock of the Company has traded on the NASD Over-the-Counter Bulletin Board since May 2000. Currently, the common stock of the Company trades under the symbol ENFN. The following table sets forth the high and low bid quotation for the Company's common stock for each quarterly period in 2004 and 2003.

	<b>Bid Price</b>	
	<b>High</b>	<b>Low</b>
	<b>2004</b>	
First Quarter	\$ 0.32	\$ 0.13
Second Quarter	\$ 0.65	\$ 0.15
Third Quarter	\$ 1.05	\$ 0.40
Fourth Quarter	\$ 1.01	\$ 0.54
	<b>2003</b>	
First Quarter	\$ 1.20	\$ 0.56
Second Quarter	\$ 1.00	\$ 0.56
Third Quarter	\$ 0.89	\$ 0.22
Fourth Quarter	\$ 0.44	\$ 0.12

Approximate Number of Holders of Common Stock

As of the December 31, 2004, the Company had a total of 2,612,295 shares of common stock issued and outstanding. The number of holders of record of the Company's common stock at that date was approximately 250 shareholders.

Dividends

Holders of common stock are entitled to receive such dividends as may be declared by the Company's Board of Directors. No dividends on the common stock were declared or paid by the Company during the periods reported herein nor does the Company anticipate paying dividends in the foreseeable future.

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**Item 6. Management's Discussion and Analysis or Plan of Operation.**

**General**

Entrust Financial Services, Inc., is a publicly traded (OTCBB:ENFN) holding company with a core focus on wholesale mortgage banking, through its wholly owned subsidiary, Entrust Mortgage Inc. Entrust Mortgage markets consumer financial products, including first and second mortgages, and home equity loans. Entrust Mortgage specializes in limited documentation loans for good credit quality borrowers. Entrust Mortgage is licensed as a mortgage banker in 38 states and provides loan services to more than 600 contracted mortgage brokers.

The company was founded in 1996, under the laws of Colorado, as Centennial Banc Share Corp., for the purpose of operating as a mortgage broker. In April 1999 the Company acquired Entrust Mortgage Inc. and expanded its business into the wholesale mortgage banking area.

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 or a strategic partner. The Company has not been able to raise additional capital or secure a strategic partner 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").

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.

The Company is registered under the United States Securities and Exchange Act and its stock trades principally on the Over-the-counter Bulletin Board in the United States under the symbol ENFN. The Company maintains several WEB sites under the following names; [www.entrustmtg.com](http://www.entrustmtg.com) [www.entrustfs.com](http://www.entrustfs.com) [www.easyqual.com](http://www.easyqual.com)

**Forward-Looking Statements**

The following discussion contains forward-looking statements regarding the Company, its business, prospects and results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause the actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that may affect such forward-looking statements include, without limitation: risks with respect to our ability to complete the Entrust Mortgage Sale; recent changes in the economy and its effect on our business; uncertainty of interest in the Company by potential acquirers, merger partners or other strategic partners, if any, following completion of the Entrust Mortgage Sale the ability of the Company to successfully develop new products for new markets; the impact of competition on the revenues of the Company, changes in laws or regulatory requirements that may adversely affect or preclude customers from using the Company's products for certain applications; delays in the introduction of new products or services; failure by the Company to keep pace with emerging technologies, potential losses from increasing level of defaulted loans due to adverse national economic conditions, and potential losses from loan fraud.

When used in this discussion, words such as believes, anticipates, expects, intends, may and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company undertakes no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made by us in this report and other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect the Company's business.

### **The Business**

Entrust Financial Services, Inc. is a holding company with its wholly owned subsidiary Entrust Mortgage, Inc. engaged in mortgage banking activities in 38 states. The Company's 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.

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 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.

### **Results of 2004 compared to 2003**

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.

Loan origination fees and gain on sale of loans increased from \$12.2 million for 2003 to \$18.3 million in 2004. The increase is attributable to the wholesale Division increased funding from \$217 million in 2003 to \$340 million in 2004. In addition, the Company's retail division increased funding to \$118 million for 2004 compared to \$92.4 million in 2003. Revenue realized on each loan sold in 2004 increased compared to loans sold in the same period of 2003 primarily because of the premium income realized on each loan. Direct cost increased from \$4.2 million in 2003 to \$7.4 million in 2004. The increase was attributed to the increase in loan origination volume and fees paid to brokers.

Interest income increased from \$1.9 million for 2003 to \$2.4 million 2004. This increase was attributable to an increase in overall loan originations and an increase in the average balance of loans held for sale. Warehouse line of credit interest expense increased from \$1.4 million in 2003 to \$1.8 million in 2004 because of the increased loan volume from period to period.

Salaries, commissions and benefits increased from \$5.9 million in 2003 to \$7.7 million in 2004. This 30% increase is consistent with the increase in the numbers of employees and the continued investment in the expansion of the Company's wholesale organization.



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The loan loss provision decreased to \$1.6 million in 2004 from \$2.9 million in 2003. The Company's loan loss reserve can fluctuate from time to time based on management's most current estimate of risk exposure, using past experience and the most available economic circumstances. During 2003, management increased the loan loss reserve to 1/2% of 1% for wholesale loan funding and provided an additional amount based on the loan default experience. The effect of the change in estimate was a one-time non-cash reduction to the Company's earnings of \$1.4 million. In addition, during 2003 the Company determined that a \$500,000 note receivable was uncollectible and was written off to the loan loss provision.

Interest expense related to corporate borrowings decreased from \$1 million in 2003 to \$460,000 in 2004 because the Company restructured the convertible promissory note from an effective annual rate of 45% to 12% in April 2004.

General and administrative expenses decreased from \$1.2 million in 2003 compared to \$1.0 million in 2004.

During the fiscal year ended December 31, 2003, the Company changed its method of accounting for loan revenue and related direct costs, to recognize these amounts upon the transfer and receipt of proceeds from the purchaser of the loans. Previously, the Company had recognized the revenue and related costs upon the closing of the loan. The implementation of the change in revenue recognition has been accounted for as a change in accounting principle and applies cumulatively as if the change occurred at April 1, 2003. The effect of the change was a one-time non-cash reduction to the Corporations Earnings of \$400,656 or approximately \$0.16 per share.

The Company reported a net loss in 2004 of \$216,250 (approximately \$0.08 per share) compared to a net loss of \$3.6 million (approximately \$1.43 per share) in 2003.

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.

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### Results of 2003 compared to 2002

Loan origination fees and gain on sale of loans increased from \$10.6 million for 2002 to \$12.2 million in 2003. The increase is attributable to the wholesale Division increased funding from \$185 million in 2002 to \$217 million in 2003. In addition, the Company's retail division increased funding to \$92.4 million for 2003 compared to \$55.7 million in 2002. The loan volume increased substantially from period to period because of the interest rate environment as individuals continue to refinance their mortgage loans. Revenue realized on each loan sold in 2003 remained the same compared to loans sold in the same period of 2002. Direct cost increased from \$3.6 million in 2002 to \$4.2 million in 2003. The increase was attributed to the increase in loan origination volume.

Interest income increased from \$1.6 million for 2002 to \$1.9 million 2003. This increase was attributable to an increase in overall loan originations and an increase in the average balance of loans held for sale. Warehouse line of credit interest expense increased from \$1.2 million in 2002 to \$1.4 million in 2003 because of the increase loan volume from period to period.

Salaries, commissions and benefits increased from \$4.2 million in 2002 to \$5.9 million in 2003. This 40% increase is consistent with the increase in the numbers of employees and the continued investment in the expansion of the Company's wholesale organization.

The loan loss provision increased to \$2.9 million in 2003 from \$1.0 million in 2002. The Company's loan loss reserve can fluctuate from time to time based on management's most current estimate of risk exposure, using past experience and the most available economic circumstances. During 2003, management increased the loan loss reserve to 1/2% of 1% for wholesale loan funding and provided an additional amount based on the loan default experience. The effect of the change in estimate was a one-time non-cash reduction to the Company's earnings of \$1.4

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million. In addition, during 2003 the Company determined that a \$500,000 note receivable was uncollectible and was written off to the loan loss provision.

Interest expense related to corporate borrowings increased from \$47,000 to \$1million in 2003 was the result of the interest paid and accrued on the \$2,000,000 Convertible Promissory Note.

General and administrative expenses decreased from \$1.7 million in 2002 compared to \$1.2 million in 2003. This decrease was primarily attributable to the Company spending less on third party services such as consultants.

During the fiscal year ended December 31, 2003, the Company changed its method of accounting for loan revenue and related direct costs, to recognize these amounts upon the transfer and receipt of proceeds from the purchaser of the loans. Previously, the Company had recognized the revenue and related costs upon the closing of the loan. The implementation of the change in revenue recognition has been accounted for as a change in accounting principle and applies cumulatively as if the change occurred at April 1, 2003. The effect of the change was a one-time non-cash reduction to the Corporations Earnings of \$400,656 or approximately \$0.16 per share.

The Company reported a net loss in 2003 of \$3.6 million (approximately \$1.43 per share) compared to net loss of \$345,610(approximately \$0.14 per share) in 2002.

### **Liquidity and Capital Resources**

Loan origination increased substantially in 2004 compared to 2003. The increase is attributable to the wholesale Division increased funding from \$217 million in 2003 to \$340 million in 2004. In addition, the Company's retail division increased funding to \$118 million for 2004 compared to \$92.4 million in 2003.

During 2004, net cash used by operating activities was \$16.9 million compared to net cash provided by operating activities of \$1.4 million in 2003. Net cash provided and used in operating activities is impacted primarily by the origination of and proceeds from the sale of mortgage loans held for sale.

Net cash used in investing activities was approximately \$900,000 in 2003 compared to net cash provided by investing activities of approximately \$360,000 in 2004. During 2003, the Company deposited \$500,000 into a sinking fund in connection with the convertible promissory note. In 2004, those funds were released from restricted cash in connection with restructuring the convertible promissory note.

Net cash used for financing activities in 2003 was \$2.0 million and in 2004 net cash provided from financing activities was \$16.6 million. This change resulted largely from the fluctuation in warehouse lines of credit.

The decrease in net cash flow from operating, financing, and investing activities was \$1.4 million in 2003 compared to a minimal increase in cash during 2004.

### **Item 8. Disagreements With Accountants on Accounting and Financial Disclosure.**

None

### **Item 8a. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this annual report on Form 10-KSB, 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.

#### **Changes in Internal Control over Financial Reporting**

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

**Item 8b. Other Information**

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.

PART III

**ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS, COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT**

**Directors and Executive Officers**

As of the date of this Form 10-KSB, the Company's executive officers and directors, their respective ages, positions and biographical information are presented below. The Directors of the Company will serve in such capacity until the next annual meeting of the Company's shareholders and until their successors have been elected and qualified. The Company's executive officers are chosen by its board of directors and serve at its discretion. There are no existing family relationships, between or among any of the Company's officers or directors. There are not any arrangements or understandings between any of the Company's directors or officers or any other person pursuant to which any officer or director was or is to be selected as an officer or director.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Since</u>
Jeffrey D. Rudolph	43	President & Chief Executive Officer	February 2005

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Name	Age	Position	Since
		Chief Financial Officer	June 2003
Linda Elliot	54	Director	August 26, 2003
Kate Longenecker	50	Director	August 26, 2003
Steve Johnson	57	Director	August 26, 2003
Krista Sweat	37	Secretary	July 2003

### Jeffrey D. Rudolph

Jeffrey D. Rudolph joined Entrust Financial Services, Inc. in June 2003 and currently serves as President, Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. Mr. Rudolph started his career in 1983 with Coopers & Lybrand as a staff accountant and was promoted to audit manager and was one of the original members of the Corporate Finance Group in Denver. Mr. Rudolph joined Intelligent Electronics, a Fortune 500 company, in 1994 as Director of Financial Services. Mr. Rudolph joined SSDS/Knowledge Workers in 1997 as Chief Financial Officer during a period of financial distress and in need of discipline and strategic planning. He participated in the development the strategic plan, achieved positive cash flow and led the M&A effort in selling a division of the company. Based upon his performance in that role, he was promoted to Chief Operating Officer and lead Knowledge Workers through aggressive revenue and operational growth while also raising capital. Mr. Rudolph continues to serve as a member of the Board of Directors of Knowledge Workers as Chairman of the Audit Committee and Corporate Secretary & Treasurer of the Company. Mr. Rudolph earned a B.A. in Business Administration-Accounting from Wittenberg University and an M.B.A. in Finance, from the University of Denver. Mr. Rudolph's license as Certified Public Accountant, in the State of Colorado, is inactive.

### Linda Elliot

Linda Elliott is a management consultant, specializing in strategy and technology. She consults to major financial services firms, works in the digital identity marketplace, and serves on Corporate Advisory Boards. Ms. Elliott's background includes work in the oil exploration industry and the bankcard industry, with emphasis on harnessing the power of processing to advance business strategies. Ms. Elliott held executive positions in Visa's IT organization for 12 years before being promoted to Executive Vice President of Inovant, Visa International's wholly owned processing arm. Ms. Elliott also served as Executive Vice President of Visa International's Year 2000 Global Program Office. Prior to joining Visa, Ms. Elliott worked for fifteen years in the oil industry in Houston, Texas. She managed worldwide development and implementation of geophysical and exploratory software for Western Geophysical, an international company providing services to the oil industry. Ms. Elliott, a native of Texas, graduated Phi Beta Kappa and magna cum laude from the University of Oklahoma with a bachelor's degree in mathematics.

### Kate Longenecker

Kate Longenecker is the President of Corporate Solutions, Inc., an executive consulting company she founded in 1996. Corporate Solutions specializes in new business ventures, organizational strategies/solutions and executive leadership in the technology and communication industries. Most recently, Ms. Longenecker was a Principal in the Denver Office of Heidrick & Struggles. She was a member of the firm's International Technology Practice, which included the Software & Services and Semi-Conductor/Hardware/Systems Specialty Practices. Ms. Longenecker has also served as the Senior Vice-President HR, MediaOne Broadband; Global HR Vice President for Apple Computer. Kate is also a Colorado attorney, having practiced law for a period of time in Vail, Colorado. Kate earned a Bachelor of Science degree in Political Science and a Juris Doctor from the University of Wyoming. She holds a Master of Science degree in Industrial and Labor Relations from the University of Oregon. Ms. Longenecker continues to maintain a license to practice law in Colorado.

### Steve Johnson

Steve Johnson founded The S.E. Johnson Company (SEJCO), an organization that offers Strategic People Development Planning(TM) to organizations. SEJCO is the culmination of nearly 20 years of experience in working with organizations. Mr. Johnson created the Life & Career Center with a view toward servicing individuals with their career and relationship needs. Mr. Johnson founded The Profile Group in 1984 with a vision and mission of creating and developing new technologies through a portfolio of assessments to help corporate and individual clients discover their passion, mission and vision. Mr. Johnson originally served as an officer for the Valley National Corporation in Phoenix, Arizona, and led in the conversion of Valley National Bank to the Personal Banking System. Mr. Johnson received his B.S. in Educational Psychology and Special Education, Mankato State University, Mankato, MN. And his M.A. in Organizational and Educational Leadership, Denver Seminary, Denver, CO. Mr. Johnson is also a current professor: Denver Seminary Graduate School; School of Leadership.

Krista Sweat

Krista Sweat has over 17 years of extensive experience in all areas of Executive Secretarial, Real Estate Legal, and Management experience. Ms. Sweat started her career with the subsidiary of the Woolworth Corporation, Kinney Shoes as the Executive Assistant to the District Manager of Atlanta, Georgia in their Regional office. Among her duties was the training of all new secretaries in the Southeast United States, thus winning her the title of Corporate Secretary of the Year. Ms. Sweat earned her Real Estate Legal experience with a Closing Attorney Firm in Atlanta, Georgia. Moving to Denver, Colorado, Ms. Sweat has been with Entrust since August of 1996 and became the Corporate Secretary of Entrust Financial Services in July 2003.

**Audit Committee Financial Expert**

The Company does not have an audit committee and as a result its entire board of directors performs the duties of an audit committee. Accordingly, the Company does not have an audit committee financial expert serving on an audit committee.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 (the '34 Act') requires the Company's officers and directors and persons owning more than ten percent of the Common Stock, to file initial reports of ownership and changes in ownership with the Securities and Exchange Commission (SEC). Additionally, Item 405 of Regulation S-B under the '34 Act requires the Company to identify in its Form 10-KSB and proxy statement those individuals for whom one of the above referenced reports was not filed on a timely basis during the most recent year or prior years. The Company has no disclosures to make regarding such filings.

**Code of Ethics**

The Company has not adopted a code of ethics for its principal executive and financial officers. The Company's board of directors will revisit this issue in the future to determine if adoption of a code of ethics is appropriate. In the meantime, the Company's management intends to promote honest and ethical conduct, full and fair disclosure in its reports to the SEC, and compliance with applicable governmental laws and regulations.

**ITEM 10. EXECUTIVE COMPENSATION**

The following table discloses, for the years indicated, the compensation for the Company's Chief Executive Officer and each executive officer that earned over \$100,000 during the year ended December 31, 2004 (the 'Named Executives').

Name and Principal Position	Year	Annual Compensation			Long Term Compensation		
		Salary Compensation (\$)	Awards		Payouts		
			Bonus	Other Stock Compensation	Restricted LTIP Award	Securities Underlying Options (#s)	All other Options
Scott J Sax, Former President(3)	2004	404,488	-0-	-0-	--	--	--
	2003	355,586	-0-	1,600(2)	--	--	--
	2002	300,223	-0-	11,550(1)	--	--	--
Jeffrey D Rudolph (4)(5)	2004	187,500	23,306	-0-	--	--	--
	2003	88,260	-0-	-0-	--	--	--

(1) Mr. Sax received 3,000 shares at \$2.50 per share and 3,000 shares at \$1.35 per share under our Equity Stock Option Plan during fiscal year ended December 31, 2002.

(2) Mr. Sax received 3,000 shares at \$0.53 per share under our Equity Stock Option Plan during fiscal year ended December 31, 2003.

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- (3) Mr. Sax resigned from the Company on February 11, 2005. Mr. Sax entered into a written employment agreement with Entrust Mortgage, which was guaranteed by the Company, on July 1, 2002 with an expiration on July 1, 2006. The Employment Agreement included an annual salary of \$200,000 and additional compensation equivalent to five basis points on all monthly funding on wholesale and retail loans funded by the Company or its lenders on behalf of the Company. The Company was released from its obligations to make payments under the employment agreement on February 11, 2005.
- (4) Mr. Rudolph joined the Company on June 16, 2003 as Executive Vice President and Chief Financial Officer.
- (5) Mr. Rudolph assumed the role of President and Chief Executive Officer on February 11, 2005.

### **DIRECTOR COMPENSATION**

Each Board member receives \$900 per quarter for their service on our Board of Directors. In July 2004, each Board member received a stock option to purchase 15,000 shares of common stock at \$0.80 per share and was granted 8,500 shares of common stock.

The Company has hired one of its directors, Mr. Steve Johnson, in a consulting capacity at \$3,000 per month. This arrangement began in May 2003 and is terminable at will.

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### **2002 STOCK COMPENSATION PLAN**

The Company has a current registration statement on Form S-8 for its 2002 Stock Compensation Plan I. A total of 150,000 shares have been registered under the plan. The Company has not issued any shares under this plan as of December 31, 2004.

### **EQUITY INCENTIVE PLAN**

The Equity Incentive Plan was developed in 2001, and a total of 250,000 shares of common stock are reserved under this Plan. The Company has issued options to acquire 150,000 shares under this plan as of December 31, 2004.

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

The following sets forth the number of shares of the Company's \$.0000001 par value common stock beneficially owned by (i) each person who, as of December 31, 2004, was known by us to own beneficially more than five percent (5%) of its common stock; (ii) the individual Officers and Directors; and (iii) the Officers and Directors as a group. As of February 28, 2005, there were 2,612,295 common shares issued.

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership (1) (2)</b>	<b>Percent of Class</b>
Scott J. Sax 6795 E. Tennessee Ave Fifth Floor Denver, Colorado 80224	639,000	24.5%
Linda Elliot 6795 E. Tennessee Ave Fifth Floor Denver, Colorado 80224	8,500	00.3%
Kate Longenecker 6795 E. Tennessee Ave Fifth Floor Denver, Colorado 80224	8,500	00.3%
Steve Johnson	8,500	00.3%

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Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1) (2)	Percent of Class
6795 E. Tennessee Ave Fifth Floor Denver, Colorado 80224		
Krista Sweat 6795 E. Tennessee Ave Fifth Floor Denver, Colorado 80224	7,500	00.3%
Jeffrey D. Rudolph (3) 6795 E. Tennessee Ave Fifth Floor Denver, Colorado 80224	--	--
Officers and Directors as a Group (6 Person)	672,000	25.7%

- (1) All ownership is beneficial and of record, unless indicated otherwise
- (2) Beneficial owner listed above has sole voting and investment power with respect to the shares shown, unless otherwise indicated
- (3) Mr. Rudolph has been granted stock options under the Equity Incentive Plan which amount to 55,000 shares at prices ranging from \$0.51 to \$0.57.

**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The Company has hired one of its directors, Mr. Steve Johnson, in a consulting capacity at \$3,000 per month. This arrangement began in May 2003 and is terminable at will.

Otherwise, the Company has not engaged in any transactions in excess of \$50,000 during the past two years, nor does it propose to engage in any such transactions, involving its executive officers, directors, more than 5% stockholders or immediate family members of such persons.

**ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K**

(a) The following financial information is filed as part of this report:

- (1) Financial Statements
- (2) Schedules
- (3) Exhibits. The following exhibits required by Item 601 to be filed herewith are incorporated by reference to previously filed documents:

<u>Exhibit No.</u>	<u>Description</u>
3.1*	Articles of Incorporation, filed with Form 10SB, March 27, 1999.
3.2*	Bylaws, filed with Form 10-SB, March 27, 1999.
3.3*	Articles of Amendment to change name to easy Qual.com, Inc., filed with Form 10-KSB, March 29, 2001

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- 3.4\* Articles of Amendment to change name to Entrust Financial Services, Inc. , filed with Form 10-KSB, March 29, 2001.
- 4.1\* Equity Incentive Plan, filed with definitive proxy, July 17, 2001.
- 4.2\* 2002 Stock Compensation Plan I , filed with Form S-8, February 14, 2002.
- 4.3\* Form of Bayview Debenture, filed with Form 10-KSB, March 12, 2002. as Exhibit 10C
- 4.4\* Form of Bayview Warrant, filed with Form S-3, May 15, 2002.
- 4.4a\* Bayview Warrant.
- 4.5\* Form of Hite Warrant , filed with Form S-3, May 15, 2002.
- 4.5a\* Hite Warrant.
- 4.6\* Form of Catalyst Warrant, filed with Form S-3, May 15, 2002.
- 4.6a\* Catalyst Warrant.
- 4.7\* Form of Barrett Warrant, filed with Form S-3, May 15, 2002.
- 4.7a\* Barrett Warrant.
- 4.8\* Form of King Debenture, filed with Form S-3, May 15, 2002.

- 10.53\* Consultant Agreement with Catalyst Group, LLC, filed with Form S-3, May 15, 2002.
- 10.64\* Consultant Agreement with William Barrett , filed with Form S-3, May 15, 2002.
- 10.5\* Consultant Agreement with David A.Hite, filed with Form 10-KSB, March 12, 2002.
- 10.6\* Convertible Promissory Note, filed with Form 8-K, January 14, 2003.
- 10.7\* Pledge Agreement, filed with Form 8-K, January 14, 2003.
- 10.8\* Guaranty Agreement, filed with Form 8-K, January 14, 2003.
- 10.9\* Registration Rights Agreement, filed with Form 8-K, January 14, 2003.
- 10.10\* Escrow Agreement, filed with Form 8-K, January 14, 2003.
- 10.11\* Security Agreement, filed with Form 8-K, January 14, 2003.
- 10.12\* Employment Agreement of Scott Sax.
- 10.13\* Stock Purchase Agreement, filed with Form 8-K, March 4, 2005
- 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

\*Previously filed

(b) Reports on Form 8-K. The Company filed one report, dated October 4, 2004, on Form 8-K during the fourth quarter of the fiscal year ended December 31, 2004.

#### **ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The Company's independent auditor, Richey May & Co., LLP, Certified Public Accountants, billed an aggregate of \$4,391 for the year ended December 31, 2003 and \$24,850 for the year ended December 31, 2004 for professional services rendered for the audit of the Company's annual financial statements and review of the financial statements included in its quarterly reports. In addition, Richey May & Co. billed an aggregate of \$49,606 for the year ending December 31, 2004 for professional services rendered for tax compliance and filings.

The Company does not have an audit committee and as a result its entire board of directors performs the duties of an audit committee. The Company's board of directors evaluates the scope and cost of the engagement of an auditor before the auditor renders audit and non-audit services.

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### **ENTRUST FINANCIAL SERVICES, INC.**

#### **FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2004 AND 2003**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
 Entrust Financial Services, Inc.  
 Denver, Colorado

We have audited the consolidated balance sheets of Entrust Financial Services, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Entrust Financial Services, Inc. as of December 31, 2004 and 2003, and the consolidated 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.

As discussed in Note B, the Company changed its method of accounting for loan revenue and related direct costs during 2003.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the financial statements, the Company's significant operating losses and stockholders' deficit raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Richey May & Co., LLP  
 Englewood, Colorado

March 4, 2005

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ENTRUST FINANCIAL SERVICES, INC.  
 CONSOLIDATED BALANCE SHEETS  
 DECEMBER 31,

ASSETS

	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,101,155	\$ 1,042,742
Cash, restricted	2,805	500,050
Accounts receivable	54,796	94,773
Mortgage loans held for sale	42,618,137	25,506,524
Prepaid expenses and other current assets	76,995	141,511
	<u>43,853,888</u>	<u>27,285,600</u>
Total current assets		

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	<u>2004</u>	<u>2003</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and equipment	216,237	178,700
Computer hardware and software	436,972	547,244
	<hr/>	<hr/>
Total property and equipment	653,209	725,944
Less accumulated depreciation	(244,102)	(327,111)
	<hr/>	<hr/>
Property and equipment, net	409,107	398,833
	<hr/>	<hr/>
<b>OTHER ASSETS</b>		
Intangibles, net of accumulated amortization of \$520,117 and \$420,000, respectively	1,279,883	1,380,000
Deposits and other assets	279,559	389,278
	<hr/>	<hr/>
Total other assets	1,559,442	1,769,278
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 45,822,437</b>	<b>\$ 29,453,711</b>
	<hr/>	<hr/>
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

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LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2004</u>	<u>2003</u>
<b>CURRENT LIABILITIES</b>		
Warehouse lines of credit	\$ 41,662,386	\$ 24,670,295
Accounts payable	120,242	105,270
Accrued other expenses	876,139	1,247,091
Loan indemnification reserve, current portion	530,804	159,359
Convertible promissory note, current portion	1,200,000	2,000,000
Capital lease obligations, current portion	70,622	70,622
	<hr/>	<hr/>
Total current liabilities	44,460,193	28,252,637
Loan indemnification reserve, less current portion	889,335	962,707
Convertible promissory note, less current portion	500,000	--
Capital lease obligations, less current portion	63,918	135,026
	<hr/>	<hr/>
Total liabilities	45,913,446	29,350,370
	<hr/>	<hr/>

COMMITMENTS AND CONTINGENCIES (Note I)

STOCKHOLDERS' EQUITY

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	<u>2004</u>	<u>2003</u>
Common stock, \$0.000001 par value, 50,000,000 shares authorized, 2,612,295 issued and outstanding for 2004 and 2,576,795 issued and outstanding for 2003	1	1
Paid-in capital	7,605,555	7,583,655
Retained earnings (deficit)	(7,696,565)	(7,480,315)
	<u>          </u>	<u>          </u>
Total stockholders' equity (deficit)	(91,009)	103,341
	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 45,822,437</u>	<u>\$ 29,453,711</u>
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these financial statements.

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ENTRUST FINANCIAL SERVICES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31,

	<u>2004</u>	<u>2003</u>
<b>REVENUE</b>		
Loan origination fees and gain on sale of loans, net of direct costs of \$7,441,533 and \$4,163,725, respectively	\$ 10,938,600	\$ 8,055,063
Interest income	2,389,643	1,888,615
Interest expense, warehouse and other debt	(1,830,181)	(1,373,749)
	<u>          </u>	<u>          </u>
Total revenue	11,498,062	8,569,929
	<u>          </u>	<u>          </u>
<b>EXPENSES</b>		
Salaries, commissions, and benefits	7,689,321	5,899,483
Occupancy, equipment and communication	735,200	622,503
General and administrative	1,000,067	1,167,420
Provision for loan losses	1,605,633	2,927,002
Interest expense, convertible promissory note	460,405	1,003,713
Depreciation expense	123,569	99,370
Amortization expense	100,117	90,000
	<u>          </u>	<u>          </u>
Total expenses	11,714,312	11,809,491
	<u>          </u>	<u>          </u>
<b>LOSS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE</b>	(216,250)	(3,239,562)
<b>PROVISION FOR INCOME TAXES</b>	--	--
	<u>          </u>	<u>          </u>
<b>LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE</b>	(216,250)	(3,239,562)
<b>CUMULATIVE EFFECT ON PRIOR YEARS</b>		

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	<u>2004</u>	<u>2003</u>
OF ACCOUNTING CHANGE, NET OF TAX	--	(400,656)
NET LOSS	\$ (216,250)	\$(3,640,218)
Basic earnings per common share before cumulative effect of accounting change	\$ (0.08)	\$ (1.27)
Per share cumulative effect of change in accounting principle	(0.00)	(0.16)
Basic earnings per share	\$ (0.08)	\$ (1.43)
Diluted earnings per share	\$ (0.08)	\$ (1.43)
Basic weighted average shares outstanding	2,594,545	2,594,545
Diluted weighted average shares outstanding	2,643,045	3,178,590

The accompanying notes are an integral part of these financial statements.

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ENTRUST FINANCIAL SERVICES, INC. CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>Deferred Compensation</u>	<u>Retained Earnings (Deficit)</u>	<u>Total Stockholders Equity (Deficit)</u>
	<u>Shares</u>	<u>Amount</u>				
Balance, December 31, 2002	2,520,385	\$1	\$7,550,504	\$(81,050)	\$(3,840,097)	\$ 3,629,358
Stock issued for services	56,410	-	33,151	--	--	33,151
Warrant expired	--	-	--	81,050	--	81,050
Net loss	--	-	--	--	(3,640,218)	(3,640,218)
Balance, December 31, 2003	2,576,795	1	7,583,655	--	(7,480,315)	103,341
Stock issued for services	35,500	-	21,900	--	--	21,900
Net loss	--	-	--	--	(216,250)	(216,250)
Balance, December 31, 2004	2,612,295	\$1	\$7,605,555	\$ --	\$(7,696,565)	\$ (91,009)

The accompanying notes are an integral part of these financial statements.

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ENTRUST FINANCIAL SERVICES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (216,250)	\$(3,640,218)
Non-cash items-		
Depreciation and amortization	223,686	189,370
Provision for loan losses	298,073	1,516,376
Other	21,888	114,201
(Increase) decrease in-		
Accounts receivable	39,977	769,020
Mortgage loans held for sale	(17,111,613)	1,859,841
Prepaid expenses and other assets	174,245	(247,196)
Increase (decrease) in-		
Accounts payable	14,972	(52,314)
Accrued other expenses	(370,952)	929,897
	<u>(16,925,974)</u>	<u>1,438,977</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(133,841)	(393,528)
Decrease (Increase) in restricted cash	497,245	(500,050)
	<u>363,404</u>	<u>(893,578)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowings (repayments), warehouse lines of credit	16,992,091	(1,761,019)
Repayment of debt	(300,000)	(406,711)
Borrowings, capital lease obligations	--	235,416
Repayments, capital lease obligations	(71,108)	(29,768)
	<u>16,620,983</u>	<u>(1,962,082)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>58,413</b>	<b>(1,416,683)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>1,042,742</b>	<b>2,459,425</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 1,101,155</b>	<b>\$ 1,042,742</b>

	<u>2004</u>	<u>2003</u>
<u>SUPPLEMENTAL INFORMATION</u>		
Cash Paid For Income Taxes	\$ None	\$ None
Cash Paid For Interest	\$ 2,290,586	\$ 1,638,526

The accompanying notes are an integral part of these financial statements.

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ENTRUST FINANCIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 an operating loss of \$216,250 for the year ended December 31, 2004 and has stockholder deficit of \$91,009 for the same period. 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.

Stockholders' Equity

The authorized capital stock of the corporation is 50,000,000 shares of common stock at \$.0000001 and 1,000,000 shares of preferred stock at \$.0000001 par value. No preferred stock has been issued.

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Loans Held for Sale and Revenue Recognition (Continued)

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.

Property and Equipment

Computer hardware and software is depreciated and amortized using the straight-line method over five years. Furniture and equipment is depreciated using the straight-line method over seven years.

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. In assessing the adequacy of the reserve, management evaluates various factors including actual write-offs during the period, historical loss experience, known delinquent and other problem loans, and economic trends and conditions in the industry. The Company writes off amounts when they are deemed uncollectible by management.

As of December 31, 2004, the Company has outstanding indemnification agreements with investors totaling \$686,026, 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.

Intangible Assets



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Intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, evaluates the remaining useful lives of the assets each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. In addition, the Company evaluates impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* when circumstances indicate the carrying amount of the assets may not be recoverable based upon the undiscounted future cash flows of the asset. If the carrying amount is determined not to be recoverable, a write-down to fair value is recorded.

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

#### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Income Taxes

The Company files consolidated income tax returns with its subsidiary Entrust Mortgage and tax is computed and allocated to the Companies on a separate return basis. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of certain assets and liabilities for financial and tax reporting. The deferred taxes represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are limited to amounts considered to be realizable in future periods.

##### Advertising

Marketing costs are expensed as incurred and amounted to \$197,974 and \$172,976 for the years ended December 31, 2004 and 2003, respectively.

##### Cash and Cash Equivalents

For cash flow purposes, the Company considers cash and temporary investments with original maturities of three months or less, to be cash and cash equivalents. The Company typically maintains cash in financial institutions in excess of FDIC limits. The Company evaluates the creditworthiness of these financial institutions in determining the risk associated with these cash balances.

##### Reclassifications

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

##### Stock Options

The Company accounts for stock options under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. However, we do disclose the pro-forma effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation in footnote L.

##### Earnings Per Share of Common Stock

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Basic earnings per share is determined using net income divided by the weighted average shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average shares outstanding, assuming all dilutive potential common shares were issued. The effect of outstanding stock options was antidilutive in 2004 and 2003.

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

#### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 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.

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.

#### B. ACCOUNTING CHANGE

During 2003, management changed its method of accounting for loan revenue and related direct costs, to recognize these amounts upon the transfer and receipt of proceeds from the purchaser of the loans. Previously the Company had recognized the revenue and related costs upon closing of the loan. Had this accounting change been applied retroactively, revenue and net income for 2003 would have been reduced by \$42,440.

#### C. MORTGAGE LOANS HELD FOR SALE

The following summarizes mortgage loans held for sale at December 31,:

	<u>2004</u>	<u>2003</u>
Mortgage loans held for sale	\$42,098,351	\$25,206,018
Deferred direct costs, net of fees	519,786	300,506
	<u>\$42,618,137</u>	<u>\$25,506,524</u>

ENTRUST FINANCIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS

D. 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 December 31, 2004:

Description	Estimated Life	Acquisition Cost	Accumulated Amortization	Net Carrying Value
Client contracts	15 Years	\$1,200,000	\$(340,000)	\$ 860,000
Technology rights	10 Years	200,000	(107,000)	93,000
State licenses	15 Years	400,000	(73,117)	326,883
		\$1,800,000	\$(520,117)	\$1,279,883
		\$1,800,000	\$(520,117)	\$1,279,883

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.

E. WAREHOUSE LINES OF CREDIT AND LOAN PURCHASE AGREEMENT

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 December 31, 2004, the outstanding principal balance of the warehouse line of credit amounted to \$24,329,286.

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 December 31, 2004 the Company was in default under certain financial covenants. The Company is currently having discussions with the lender to resolve all outstanding issues.

The Company entered into a \$30,000,000 Loan Purchase Agreement dated January 9, 2004, expiring on December 31, 2004, which provides 100% funding of the Company's mortgage loans originated. Entrust receives a fee for providing interim servicing functions until the ultimate sale of such loans to the ultimate investor and a service release premium paid by the ultimate investor. The Company has not recorded these loans as Mortgages Loans Held for Sale because these loans are being assigned and transferred at the time of closing. The Loan Purchase Agreement was terminated as of October 23, 2004. At December 31, 2004, the mortgage loans originated and held by the lender for sale to the ultimate investors is \$2,541,600.

E. WAREHOUSE LINES OF CREDIT AND LOAN PURCHASE AGREEMENT (Continued)

The Company entered into a financing arrangement with a third party to sweep loans off the warehouse line of credit at their face value. They had first right of refusal to purchase loans that they financed by paying the floor of a best efforts lock price. If they decided they did not want the loans or could not meet the other investors best efforts price, the Company would sell off the loan under the best efforts lock and pay them a financing fee. At December 31, 2004, the amount outstanding under this financing arrangement is \$17,333,100. Subsequent to yearend the Company discontinued this financing arrangement.

F. 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. The Note contains financial covenants, which as of the end of 2003 the Company was not in compliance with. In accordance with the Note, the Company had deposited \$500,000 into a restricted cash account as of December 31, 2003. As of December 31, 2004, the balance in the restricted cash account was \$2,805.

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.

G. CAPITAL LEASE OBLIGATIONS

The Company leases equipment with a capitalized cost of \$235,416 and a book value of \$135,365 under capital leases expiring through November 2006. The lease agreements call for aggregate monthly payments of \$7,331.

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ENTRUST FINANCIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS

G. CAPITAL LEASE OBLIGATIONS (Continued)

Following is a schedule of the future minimum lease payments together with the present value of the net minimum lease payments as of December 31, 2004:

<u>Year Ending December 31,</u>	<u>Amount</u>
2005	\$ 87,975
2006	59,348
Total minimum lease payments	147,323
Less amount representing interest	(12,783)
Total obligation	134,540

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<u>Year Ending December 31,</u>	<u>Amount</u>
Less current portion	(70,622)
Long-term portion	\$ 63,918

H. INCOME TAXES

The components of income tax expense (benefit) are as follows for the year ended December 31:

	<u>2004</u>	<u>2003</u>
Current federal and state income taxes	\$None	\$None
Deferred income tax (benefit)	(41,700)	(1,351,200)
Increase (decrease) in valuation allowance	41,700	1,351,200
	<u>\$None</u>	<u>\$None</u>

The tax effects of significant temporary differences which give rise to the Company's deferred tax assets and liabilities are as follows at December 31:

	<u>2004</u>	<u>2003</u>
Deferred tax assets (liabilities)-		
Net operating losses	\$ 1,668,600	\$ 1,710,300
Reserve for losses	529,700	418,500
Fixed assets	(47,700)	(19,900)
	<u>2,150,600</u>	<u>2,108,900</u>
Valuation allowance	(2,150,600)	(2,108,900)
	<u>\$ None</u>	<u>\$ None</u>

The Company has net operating losses of approximately \$4,473,000 available to offset future consolidated federal and state taxable income. Based upon the Company's current operating losses and the uncertainty as to future taxable income and the realization of the deferred tax asset, a full valuation allowance has been provided for the Company's net deferred tax asset as of December 31, 2004.

I. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases its office under a non-cancelable operating lease expiring December 2005. The Company also leases office equipment under short-term leases. Total rent expense charged to operations under all operating leases amounted to \$288,421 and \$281,037 for the years ended December 31, 2004 and 2003, respectively. Future minimum rental payments under the office lease is as follows at December 31, 2004:

<u>Year Ended December 31,</u>	<u>Amount</u>
2005	\$179,670

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 December 31, 2004 and 2003, the Company paid \$354,488 and \$305,586, respectively, under the terms of this agreement.

On July 23, 2002 the Company's Chairman of the Advisory Board resigned. The settlement agreement outlined options for a total of 70,000 shares of common stock issued quarterly. As of December 31, 2004, all shares have been issued and the obligation paid in full.

Regulatory Net Worth Requirement

In accordance with the regulatory requirements of the Department of Housing and Urban Development (HUD) governing non-supervised, direct endorsement mortgagees, Entrust Mortgage, Inc. is required to maintain a net worth (as defined by HUD) of \$250,000. At December 31, 2004, Entrust Mortgage, Inc. exceeded the regulatory net worth requirement by \$17,260.

J. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) plan covering substantially all employees. The Plan covers eligible employees of the Company who have completed three months of service. Employees may contribute amounts subject to certain IRS and plan limitations. The Company made no contributions for the years ended December 31, 2004 and 2003.

K. FAIR VALUE OF FINANCIAL INSTRUMENTS

Due to their short-term nature, the carrying value of cash, short-term receivables, short-term payables, and warehouse line of credit approximate their fair value at December 31, 2004 and 2003. The fair value of loans held for sale is estimated based upon secondary market prices and approximated their carrying values at December 31, 2004 and 2003.

L. STOCK OPTIONS AND WARRANTS

In 2001, the Company adopted the Equity Incentive Plan, whereby 250,000 shares of the Company's common stock (after the one-for-ten reverse split) were reserved for options that could be granted pursuant to the terms of the plan. Under the terms of the plan, the option price could not be less than 100% of the fair market value of the Company's common stock on the date of grant, and if the optionee owned more than 10% of the voting stock, the option price per share could not be less than 110% of the fair market value.

	<u>Shares Subject to Outstanding Options</u>	<u>Weighted Average Exercise Price per Share</u>
December 31, 2002	90,000	\$ 1.80
Granted	55,000	\$ 0.56
Exercised/Cancelled	(40,000)	\$ 1.00
December 31, 2003	105,000	\$ 1.52
Granted	45,000	\$ 0.80
Exercised/Cancelled	--	--
December 31, 2004	150,000	\$ 1.28

<u>Exercise Price</u>	<u>Options Outstanding</u>		<u>Options Exercisable</u>
	Shares	Average Life (in years)	Shares
\$0.51	15,000	1.00	5,000
\$0.60	40,000	4.00	10,000
\$0.80	45,000	3.00	--
\$2.00	50,000	3.00	33,500

The Company had issued warrants to purchase common stock to certain consultants of the Company. These warrants have terms ranging from two years to three years. At December 31, 2003, warrants to purchase 530,000 shares of the Company's common stock at a weighted average exercise price of \$1.08 per share were outstanding. At December 31, 2003 warrants for 430,000 shares are exercisable and the balance maybe exercisable according to a specific schedule. At December 31, 2004 all warrants had expired without being exercised.

L. STOCK OPTIONS AND WARRANTS (Continued)

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Pro forma information regarding net income and earnings per share has been determined as if the Company accounted for the options under the fair value method of FAS 123. For purposes of pro forma disclosures, the estimated fair value of the options granted is amortized over the vesting period of the options. The pro forma information is as follows for the years ended December 31:

	2004	2003
Net Loss	\$(216,250)	\$(3,640,218)
Pro forma stock-based compensation expense	16,114	78,039
	Pro forma net loss	\$(3,718,257)
Basic earnings per share:		
As reported	\$ (0.08)	\$ (1.43)
	Pro forma	\$ (1.46)

The fair value of each option grant is estimated using the Black-Scholes Option pricing model. The assumptions used by year, and the calculated weighted average fair value of options granted, are as follows:

	2004	2003
Expected Yield	1.00%	1.00%
Risk-free interest rate	1.12%	1.12%
Expected life in years	3	4
Expected volatility	1.27	0.97
Weighted average fair value of options granted	\$0.56	\$0.34

### M. SUBSEQUENT EVENT

On March 4, 2005, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") by and among the Company, Entrust Mortgage, Inc and BBSB, LLC ("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.

The closing of the Entrust Mortgage Sale is subject to a number of conditions, including approval of the Entrust Mortgage Sale by the requisite vote of the Company's shareholders, receipt of all material third party consents and other customary closing conditions.

### SIGNATURES



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In accordance with Section 13 or 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.

### Entrust Financial Services, Inc.

Date: March 25, 2005 By: /s/ Jeffrey D. Rudolph  
Jeffrey D. Rudolph,  
Chief Executive &  
Financial Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 25, 2005 By: /s/ Linda Elliot  
Linda Elliot, Director

Date: March 25, 2005 By: /s/ Kate Longenecker  
Kate Longenecker,  
Director

Date: March 25, 2005 By: /s/ Steve Johnson  
Steve Johnson, Director

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

EXHIBITS  
TO  
Entrust Financial Services, Inc.

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
3.1*	Articles of Incorporation, filed with Form 10SB, March 27, 1999.
3.2*	Bylaws, filed with Form 10-SB, March 27, 1999.
3.3*	Articles of Amendment to change name to easy Qual.com, Inc., filed with Form 10-KSB, March 29, 2001
3.4*	Articles of Amendment to change name to Entrust Financial Services, Inc. , filed with Form 10-KSB, March 29, 2001.
4.1*	Equity Incentive Plan, filed with definitive proxy, July 17, 2001.
4.2*	2002 Stock Compensation Plan I , filed with Form S-8, February 14, 2002.
4.3*	Form of Bayview Debenture, filed with Form 10-KSB, March 12, 2002. as Exhibit 10C
4.4*	Form of Bayview Warrant, filed with Form S-3, May 15, 2002.
4.4a*	Bayview Warrant.
4.5*	Form of Hite Warrant , filed with Form S-3, May 15, 2002.
4.5a*	Hite Warrant.
4.6*	Form of Catalyst Warrant, filed with Form S-3, May 15, 2002.
4.6a*	Catalyst Warrant.
4.7*	Form of Barrett Warrant, filed with Form S-3, May 15, 2002.
4.7a*	Barrett Warrant.
4.8*	Form of King Debenture, filed with Form S-3, May 15, 2002.
10.53*	Consultant Agreement with Catalyst Group, LLC, filed with Form S-3, May 15, 2002.

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10.64\* Consultant Agreement with William Barrett , filed with Form S-3, May 15, 2002.

10.5\* Consultant Agreement with David A.Hite, filed with Form 10-KSB, March 12, 2002.

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- 10.6\* Convertible Promissory Note, filed with Form 8-K, January 14, 2003.
- 10.7\* Pledge Agreement, filed with Form 8-K, January 14, 2003.
- 10.8\* Guaranty Agreement, filed with Form 8-K, January 14, 2003.
- 10.9\* Registration Rights Agreement, filed with Form 8-K, January 14, 2003.
- 10.10\* Escrow Agreement, filed with Form 8-K, January 14, 2003.
- 10.11\* Security Agreement, filed with Form 8-K, January 14, 2003.
- 10.12\* Employment Agreement of Scott Sax.
- 10.13\* Stock Purchase Agreement, filed with Form 8-K, March 4, 2005

- 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

\*Previously filed

