ENTRUST FINANCIAL SERVICES INC
Form 10QSB
November 17, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

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

Commission File No. 0-23965

ENTRUST FINANCIAL SERVICES, INC.
(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| COLORADO | 84-1374481 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

6795 E. Tennessee Ave.
5th Floor
Denver, Colorado 80224
(Address of principal executive offices)

Issuer's telephone number: (303) 322-6999

Check whether the issuer (1) filed all reports required to be filed by section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was Required to file such reports) and (2) has been subject to such filing requirements for the past 90 Days.

Yes [X] No [ ]

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

| Class | Outstanding at September 30, 2003 |
|---|---|
| Common Stock, No Par Value, net of Treasury Stock | 2,546,795 |

Transitional Small Business Disclosure Format (check one):

Yes [ ] No [X]

ENTRUST FINANCIAL SERVICES, INC.
FORM 10-QSB
TABLE OF CONTENTS



2

PART 1 - FINANCIAL INFORMATION

ITEM 1. Financial Statements:

**ENTRUST FINANCIAL SERVICES, INC.**
**Balance Sheet**

| | September 30, 2003 | December 31, 2002 |
|---|---|---|
| | (unaudited) | |
| **ASSETS** | | |
| Cash | $ 1,536,487 | $ 2,459,425 |
| Cash - Restricted | 200,052 | 0 |
| Loans held for sale | 28,797,337 | 26,600,422 |
| Accounts Receivable | 111,662 | 863,793 |
| Notes Receivable | 500,000 | 500,000 |
| Prepaid expenses and other assets | 817,160 | 1,049,533 |
| Intangible Assets, net | 1,402,500 | 1,470,000 |
| Computer, equipment furniture, net | 112,668 | 104,677 |
| Total assets | $ 33,477,866 | $ 33,047,850 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Liabilities** | | |
| Warehouse lines of credit | $ 28,415,797 | $ 26,431,314 |
| Convertible Promissory Note | 2,000,000 | 2,000,000 |
| Notes & Debenture payable | -- | 406,711 |
| Loan Reserve | 1,037,294 | 105,690 |
| Accrued expenses and other liabilities | 1,086,896 | 474,777 |
| Total liabilities | 32,539,987 | 29,418,492 |
| **Stockholders equity** | | |
| Preferred stock, $.0000001 Par Value, 5,000,000 shares authorized, none issued | -- | -- |
| Common stock, $.0000001 Par Value, 50,000,000 shares authorized, 2,546,795 shares issued at Sept 30, 2003 and 2,520,385 at December 31, 2002 | 1 | 1 |
| Additional Paid-In Capital | 7,579,504 | 7,550,504 |
| Accumulated Deficit | (6,641,626) | (3,840,097) |
| Deferred Compensation | -- | (81,050) |
| Total stockholders equity | 937,879 | 3,629,358 |
| Total liabilities and stockholders equity | $ 33,477,866 | $ 33,047,850 |

See accompanying notes to the unaudited financial statements.

**ENTRUST FINANCIAL SERVICES, INC.**
**Statements of Operations**
**(Unaudited)**

| | Nine Months Ended Sept. 30, 2003 | Nine Months Ended Sept. 30, 2002 | Three Months Ended Sept. 30, 2003 | Three Months Ended Sept. 30, 2002 |
|---|---|---|---|---|
| Revenues | | | | |
| Loan Origination Fees | $ 4,914,240 | $4,246,688 | $ 1,883,346 | $1,541,256 |
| Premium Income | 4,031,763 | 3,764,202 | 1,512,256 | 1,304,191 |
| Interest income | 1,374,401 | 1,175,576 | 498,878 | 463,467 |
| Miscellaneous income | 7,542 | 1,109 | 214 | 641 |
| Total revenues | 10,327,946 | 9,187,575 | 3,894,694 | 3,309,555 |
| Expenses | | | | |
| Loan Origination Costs | 9,277,924 | 6,012,381 | 2,968,024 | 2,250,687 |
| Interest expense | 1,636,254 | 797,130 | 568,351 | 282,807 |
| General & Administrative | 1,861,006 | 1,811,604 | 664,136 | 634,897 |
| Total expenses | 12,775,184 | 8,621,115 | 4,200,511 | 3,168,391 |
| Cumulative effect of change in accounting principle, net of tax | 354,289 | -- | -- | -- |
| Net income (loss) | $(2,801,527) | $ 566,460 | $ (305,817) | $ 141,164 |
| Basic earnings per common share before cumulative effect of change in accounting principle | $ (0.97) | $ 0.25 | $ (0.12) | $ 0.06 |
| Per share cumulative effect of a change in accounting principle | $ (0.14) | -- | -- | -- |
| Basic earnings per share | $ (1.11) | $ 0.25 | $ (0.12) | $ 0.06 |
| Diluted earnings per share | $ (1.11) | $ 0.24 | $ (0.12) | $ 0.06 |

See accompanying notes to the unaudited financial statements.

**ENTRUST FINANCIAL SERVICES, INC.**
**Statements of Cash Flow**
**(Unaudited)**

| | Nine Months Ended Sept. 30, 2003 | Nine Months Ended Sept. 30, 2002 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income (loss) | $(2,801,527) | $ 566,460 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities | | |
| Depreciation | 99,792 | 77,705 |
| Interest Expense | 501,746 | -- |
| Amortization of Intangible Assets | 67,500 | 67,500 |
| Stock Issued for Services | 29,000 | 92,303 |
| Compensation expense related to options | 81,050 | 77,000 |
| Changes in Assets & Liabilities: | | |
| (Increase) Notes Receivable | -- | (201,525) |
| (Increase) Decrease Accounts Receivable | 762,131 | (234,982) |
| (Increase) Decrease loans held for sale | (2,196,915) | (5,718,074) |
| Decrease Prepaid Expense and other assets | 233,194 | 28,812 |
| Increase Loan Reserve | 931,604 | 475,548 |
| (Decrease)Accrued Expense and other liabilities | 99,550 | (151,993) |
| Net cash (used in) from operating activities | (2,192,875) | (4,921,246) |
| Cash flows from investing activities | | |
| Retirement of Equipment | 8,615 | -- |
| Purchase of Capital Equipment | (116,398) | (276,087) |
| Net cash used in investing activities | (107,783) | (276,087) |
| Cash flows from financing activities | | |
| Change in warehouse lines of credit, net | 1,984,483 | 4,998,387 |
| Decrease debenture Payable | (162,100) | -- |
| (Decrease) Increase notes payable | (244,611) | 57,828 |
| Net cash (used in) from financing activities | 1,577,772 | 5,056,215 |
| Decrease in cash and cash equivalents | (722,886) | (141,118) |
| Cash & cash equivalents at beginning of period | 2,459,425 | 858,848 |
| Cash and cash equivalents at end of period | $ 1,736,539 | $ 717,730 |

See accompanying notes to the unaudited financial statements.

**ENTRUST FINANCIAL SERVICES, INC.**
Notes to Financial Statements
September 30, 2003
(Unaudited)

**NOTE 1 - BASIS OF PRESENTATION**

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.

On April 30, 1999 the Company purchased 100% of Entrust Mortgage, Inc., a Colorado corporation, which is a wholly owned subsidiary of the Company and is included in the consolidated financial statements.

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

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. In addition, the Company has a regional sales force in Florida, California, Nevada and Colorado supporting the wholesale division. 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.

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

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Regulation S-B. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the Company s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations have been included. Operating results for the three and nine-month periods ended September 30, 2003 are not necessarily indicative of the results that might be expected for the 12 months ending December 31, 2003.



**ENTRUST FINANCIAL SERVICES, INC.**
Notes to Financial Statements
September 30, 2003
(Unaudited)

*Use of Estimates:* Accounting principles generally accepted in the United States of America require management to make estimates and assumptions in preparing financial statements that affect the amounts reported and disclosed. These estimates and assumptions may change in the future, and future results could differ from these estimates. Areas involving the use of management s estimates and assumptions, which are susceptible to change in the near term, include valuation of loans held for sale and loan loss reserves.

*Loan Loss Reserve:* 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. For 2003, management increased the loan loss reserve to 1/2% of 1% for wholesale loan fundings 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 or approximately $0.55 per share, which is included in operations for the nine months ending September 30, 2003.

*Revenue Recognition:* The Company originates all of its mortgage loans with the intent to sell these loans, without retaining any interest in them into the secondary market. The Company s earnings come from fees charged at closing, margins earned by selling loans for a premium and interest paid to the Company on a loan while the Company holds the loan for sale. Loan Origination fees and the direct Loan Origination costs are deferred until the related loan is sold. Margins earned by selling loan are recognized when the purchaser has taken title and assumes the risks and rewards of ownership. Income on all loans is recognized on the interest method. Accrual of interest income is suspended at the time at which collection of an account becomes doubtful.

Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101), which among other guidance clarified, the Staff s view on various revenue recognition and reporting matters. As a result, effective April 1, 2003, the Company adopted a change in its method of accounting for Loan Origination Fees and Costs. Under the new accounting method, the Loan Origination fees and the direct Loan Origination costs are deferred until the related loan is sold for a premium to a secondary investor. This method of recording revenue is more preferable and consistent with Financial Accounting Standards Board No. 91.

The implementation of the change 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 Company s earnings of $354,289 or approximately $0.14 per share, which is included in operations for the nine months ending September 30, 2003.

*Restricted Cash:* The Company has $200,000 in restricted cash set aside in a sinking fund as of September 30, 2003 and is required to make a $100,000 deposit on a monthly basis until the Company has cured its default under the Convertible Promissory Note.



**ENTRUST FINANCIAL SERVICES, INC.**
Notes to Financial Statements
September 30, 2003
(Unaudited)

*Loans Held for Sale:* Balances include deferred origination fees and costs and are stated at the lower of cost or market value in the aggregate. The market value of mortgage loans held for sale is based on market prices and yields at period end in normal market outlets used by the Company.

*Impact of Interest Rate Fluctuations:* Interest rate fluctuations generally have a direct impact on a mortgage banking institution s financial performance. Significant increases in interest rates may make it more difficult for potential borrowers to purchase residential property and to qualify for mortgage loans as well as potentially reduce the number of borrowers who are seeking to refinance their current loan. As a result, the volume and related income from loan originations may be reduced.

Significant decreases in interest rates may enable more potential borrowers to purchase residential property and to qualify for a mortgage loan as well as potentially increase the number of borrowers who are seeking to refinance their current loan. As a result, the volume and related income from loan originations may increase. However, significant decreases in interest rates may result in higher anticipated loan prepayment activity.

*Reclassifications*: Certain prior period amounts have been reclassified to conform to the current presentation. There was no impact to net income (loss) in any period.

**NOTE 2 CONVERTIBLE PROMISSORY NOTE**

The Company has a Convertible Promissory Note ( Note ) maturing on March 27, 2005. The interest is payable at 12% per annum, payable monthly, in arrears, and there is a 33% bonus interest payable only upon maturity or prepayment of the Note. However, upon maturity or prepayment of the Note, the Lender has the option of either receiving the additional bonus interest or foregoing the additional bonus interest and converting the Note into common stock at a conversion price of $3.00 per share, subject to price adjustments in certain defined circumstances. 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. Beginning in July 2003, the Company was in default under certain financial performance covenants because of its quarterly loss. As a consequence, the Note has been classified as debt due within one year. In accordance with the Note, the Company has deposited $200,000 into the sinking fund as of September 30, 2003 and will be required to make a $100,000 deposit on a monthly basis until the default is cured. The lender also informed the Company that there was a default in certain unspecified representation covenants relating to the Note. The Company disagrees that there has been a default in any representation covenants.



**ENTRUST FINANCIAL SERVICES, INC.**
Notes to Financial Statements
September 30, 2003
(Unaudited)

Finally, the lender has informed the Company that it is not declaring the Note due and payable but is reserving its future remedies. The Company believes that should the note be called the Company has adequate resources to satisfy this obligation. However, in accordance with the Pledge Agreement, the lender can exercise its future remedies and take control of Entrust Mortgage, Inc., the only substantial asset of the Company, at any time, until all defaults are cured. The Company is currently having discussions with the lender to resolve all outstanding issues. However the Company does not know at this time what the outcome of those discussions will be.

**NOTE 3 - WAREHOUSE LINES OF CREDIT**

The Company funds mortgage loan originations using various warehouse lines of credit, which are secured by the mortgage loans funded by the lines. The Notes contain financial covenants and as of September 30, 2003 the Company was in default under certain financial covenants. The Company is currently having discussions with the lender to resolve all outstanding issues. However the Company does not know at this time what the outcome of those discussions will be. Amounts outstanding under the various credit facilities consist of the following:

| | **September 30, 2003** | **December 31, 2002** |
|---|---|---|
| $27.35 million mortgage warehouse credit facility at a commercial bank; interest at the 30-day LIBOR plus 225 to 375 basis points; expires May 31, 2004; interest rate was 4.0% at Sept. 30, 2003 | $26,221,713 | $25,496,014 |
| $3 million mortgage warehouse credit facility at a commercial bank; interest at the 30-day LIBOR plus 375 basis points; expires July 2, 2004; interest rate was 4.93% at Sept. 30, 2003 | $ 2,194,084 | $ 935,300 |
| | $28,415,797 | $26,431,314 |

**NOTE 4 - INTANGIBLE ASSETS**

Intangible assets consist of the following at September 30, 2003:

| | Acquis. Cost | Accum. Amot. | Net | Est. |
|---|---|---|---|---|
| **Useful Life** | | | | |
| Client Contracts | $1,200,000 | $265,000 | $ 935,000 | 20 Years |
| Technology Rights | 200,000 | 87,000 | 113,000 | 10 Years |
| State Approvals | 400,000 | 45,500 | 354,500 | 40 Years |
| Total | $1,800,000 | $397,500 | $1,402,500 | |

Intangible assets represents the excess of acquisition costs over the fair market value of the net assets of acquired business which have been allocated to identified intangible assets and are being amortized on a straight-line basis over their estimated useful lives ranging from ten to forty years. In accordance with APB 17, Intangible Assets , the Company continues to evaluate the amortization period to determine whether events or circumstances warrant revised amortization periods. Additionally, the Company considers whether the carrying value of such assets should be reduced based on the future benefits of its intangible assets.



**ENTRUST FINANCIAL SERVICES, INC.**
Notes to Financial Statements
September 30, 2003
(Unaudited)

**NOTE 5 INCOME TAXES**

As of September 30, 2003, the Company had a net operating loss carryfoward for federal tax purposes approximately equal to the accumulated deficit recognized for book purposes, which will be available to reduce future taxable income. The full realization of the tax benefit associated with the carryforward depends predominantly upon the Company s ability to generate taxable income during the carryforward period. Because, the current uncertainty of realizing such tax assets in the future, a valuation allowance has been recorded equal to the amount of the net deferred tax asset, which caused the Company s effective tax rate to differ from the statutory income tax rate. The net operating loss carryforward, if not utilized, will begin to expire in the year 2013.

**NOTE 6 EARNINGS PER SHARE**

The following summarizes the computation of basic and diluted earnings per share:

| | Three Months Ended September 30, 2003 | 2002 |
|---|---|---|
| Basic (loss) earnings per share | | |
| Net (loss)income for common stockholders | $ (305,817) | $ 141,164 |
| Weighted average shares outstanding | 2,533,590 | 2,310,294 |

| | Three Months Ended September 30, | |
|---|---|---|
| Basic (loss) earnings per share | $ (.12) | $ .06 |
| Diluted (loss) earnings per share | | |
| Net (loss) income for common stockholders | $ (305,817) | $ 141,165 |
| Weighted average shares outstanding | 2,533,590 | 2,392,794 |
| Diluted effect of assumed exercise of stock options | -- | -- |
| Diluted average shares outstanding | 2,533,590 | 2,392,794 |
| Basic (loss) earnings per share | $ (.12) | $ .06 |

| | Nine Months Ended September 30, 2003 | 2002 |
|---|---|---|
| Basic (loss) earnings per share | | |
| Net (loss)income for common stockholders | $(2,801,527) | $ 566,460 |
| Weighted average shares outstanding | 2,533,590 | 2,310,294 |
| Basic (loss) earnings per share | $ (1.11) | $ .25 |
| Diluted (loss) earnings per share | | |
| Net (loss) income for common stockholders | ($2,801,527) | $ 566,460 |
| Weighted average shares outstanding | 2,533,590 | 2,392,794 |
| Diluted effect of assumed exercise of stock options | -- | -- |
| Diluted average shares outstanding | 2,533,590 | 2,392,794 |
| Diluted (loss) earnings per share | $ (1.11) | $ .24 |

**ENTRUST FINANCIAL SERVICES, INC.**
Notes to Financial Statements
September 30, 2003
(Unaudited)

For the three and nine months ending September 30, 2003, options to purchase 90,000 of common stock at an average price of $1.72 and warrants to purchase 665,084 shares of common stock at an average price of $1.11 per share were outstanding but were not included in the calculation of diluted earnings per share because the exercise price was greater than the average market price of the common stock and was, therefore, anti-dilutive.

**NOTE 7 COMMITMENTS:**

On July 5, 2002 the Company s Chairman resigned as the CEO and Chairman of the Board. Beginning in July 2002 and continuing for a period of forty-eight months, 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. Payments are made monthly and the Company is current on its obligation.

On July 23, 2002 the Company s Chairman of the Advisory Board resigned. The settlement agreement outlines options for a total of 70,000 shares of common stock to be issued at fair market value, provided, however that a maximum of 10,000 shares may be exercised per quarter starting September 30, 2002 and ending March 31, 2004. Such options are fully vested as of the exercise date. In addition, he will be paid $21,500 per quarter as additional compensation bonus, which he agrees and covenants to apply all such payments solely to the exercise of his stock options. Such bonus is non-cancelable until it expires March 31, 2004.



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

Some of the statements in this Form 10-QSB, including some statements in Management s Discussion and Analysis of Financial Condition and Results of Operations and Business are forward-looking statements about what may happen in the future. They include statements regarding our current beliefs, goals, and expectations about matters such as our expected financial position and operating results, our business strategy, and our financing plans. These statements can sometimes be identified by our use of forward-looking words such as anticipate, estimate, expect, intend, may, will, and similar expressions. We cannot guarantee that our forward-looking statements will turn out to be correct or that our beliefs and goals will not change. Our actual results could be very different from and worse than our expectations for various reasons. You are urged to carefully consider these factors, as well as other information contained in this Form 10-QSB and in our other periodic reports and documents filed with the Securities and Exchange Commission.

In our Form 10KSB filed with the Securities and Exchange Commission for the year ended December 31, 2002 and in the Footnotes to the unaudited Financial Statements for this report, we identified critical accounting policies and estimates for our business.

***Results of Operations***

**Three Months Ended September 30, 2003**

Loan Origination Fees increased from $1,541,256 for the three months ended September 30, 2002 to $1,883,346 for the three months ended September 30, 2003. Premium income also increased to $1,512,256 for the three months ended September 30, 2003 compared to $1,304,191 for this same period in 2002. The increase is attributable to the Company s wholesale division increased fundings from $51.9 million in the three months ended September 30, 2002 to $59.7 million in the same period in 2003. In addition, the Company s retail division increased funding to 26.2 million for the period ending September 30, 2003 compared to $14.0 million for the same period 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. However, revenue realized on each loan sold is lower for the three months ended September 30, 2003 compared to the same period in 2002.

Interest income increased from $463,467 for the three months ended September 30, 2002 to $498,878 for the three months ended September 30, 2003. This increase was attributable to an increase in overall loan originations and an increase in the average balance of loans held for sale.

Loan Origination Costs increased from $2,250,687 for the three months ended September 30, 2002 to $2,968,024 for the three months ended September 30, 2003. The increase was attributed to the increase in loan origination volume and the continued investment in the expansion of the Company s wholesale organization (sales and operations).

Interest expense increased from $282,807 for the three months ended September 30, 2002 to $568,351 for the three months ended September 30, 2003. This increase was the result of the interest paid and accrued on the $2,000,000 Convertible Promissory Note.



General and administrative expenses increased from $634,897 for the period ended September 30, 2002 to $664,136 for the period ended September 30, 2003.

The Company reported a Net Loss of $305,817 for the three months ended September 30, 2003 compared to Net Income of $141,164 for the three months ended September 30, 2002. This resulted in a decrease in basic earnings per share from $0.06 for the three months ended September 30, 2002 to ($0.12) for the same period in 2003 and $0.06 for the three months ended September 30, 2002 to ($0.12) for the same period in 2003 in diluted earnings per share.

***Results of Operations***

**Nine Months Ended September 30, 2003**

Loan Origination Fees increased from $4,246,688 for the nine months ended September 30, 2002 to $4,914,240 for the nine months ended September 30, 2003. Premium income also increased to $3,764,202 for the nine months ended September 30, 2003 compared to $4,031,763 for this same period in 2002. The increase is attributable to the wholesale Division increased fundings from $136.4 million for the nine months ended September 30, 2002 to $162.2 million in the same period in 2003. In addition, the Company s retail division increased funding to 68.1 million for the period ending September 30, 2003 compared to $33.9 million for the same period 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 is lower for the nine months ending September 30, 2003 compared to the same period in 2002.

Interest income increased from $1,175,576 for the nine months ending September 30, 2002 to $1,374,401 for the nine months ended September 30, 2003. This increase was attributable to an increase in overall loan originations and an increase in the average balance of loans held for sale.

Loan Origination Costs increased from $6,012,381 for the nine months ended September 30, 2002 to $9,277,924 for the nine months ending September 30, 2003. The increase was attributed to three main factors: increase in loan origination volume, continued investment in the expansion of the Company s wholesale organization, and increase in the loan loss reserve. In addition, during the second quarter the Company charged an additional $1.0 million to the loan loss reserve based upon the loan default experience.

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 $354,289 or approximately $0.14 per share, which is included in operations for the period ending September 30, 2003.

Interest expense increased from $797,130 for the nine months ending September 30, 2002 to $1,636,254 for the nine months ending September 30, 2003. This increase was the result of the interest paid and accrued on the $2,000,000 Convertible Promissory Note.

General and administrative expenses increased from $1,811,604 for the period ended September 30, 2002 to $1,861,006 for the period ended September 30, 2003.

The Company reported a Net Loss of $2,801,527 for the nine months ended September 30, 2003 compared to Net Income of $566,460 for the nine months ended September 30, 2002. This resulted in a decrease in basic earnings per share from $0.25 for the nine months ended September 30, 2002 to ($1.11) for the same period in 2003 and $0.24 for the nine months ended September 30, 2002 to ($1.11) for the same period in 2003 in diluted earnings per share. The change in accounting estimate for the loan loss reserve and the change in revenue recognition accounted for as a change in accounting principle had a significant impact on the Company s net loss for the period. The loan loss reserve increased by $1.4 million or approximately $0.55 per share for the period ended September 30, 2003. 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 Company s Earnings of $354,289 or approximately $0.14 per share, which is included in operations for the period ended September 30, 2003.

***Liquidity and Capital Resources***

Loan origination increased substantially for the nine months ended September 30, 2003, compared to the nine months ended September 30, 2002. For the nine months ended September 30, 2003 the Company originated $162.2 million in loans held for sale and sold $159.7 million of loans. This compares to the origination of $136.4 million in loans held for sale and the sale of $134.1 million in loans for the nine months ended September 30, 2002.

As a consequence, during the nine months ended September 30, 2003, net cash used in operating activities was $2,192,875 compared to net cash used from operating activities of $4,921,246 for the nine months ended September 30, 2002. Net cash 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 $276,087 for the period ended September 30, 2002 compared to $107,783 for the period ended September 30, 2003. These investments are primarily used to purchase new equipment and to upgrade existing equipment. The Company believes it will continue to make investments in technology in the future to enhance and maintain its product and service offerings.

Cash flow provided by financing activities for the nine months ended September 30, 2003 was $1,577,772 and cash flow from financing activities for the period ending September 30, 2002 was $5,056,215. 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 $141,118 for the period ended September 30, 2002 and $722,886 for the period ended September 30, 2003, which primarily reflects the net loss from operations and the decrease in Notes & Debenture Payables.



Cash flow requirements depend on the level and timing of the Company s activities in loan origination in relation to the timing of the sale of such loans. In addition, the Company requires cash flow for the payment of operating expenses, interest expense, and capital expenditures. Currently, the Company s primary sources of funding are borrowings under warehouse lines of credit, proceeds from the sale of loans in the secondary market and internally generated funds.

Liquidity refers to the ability or the financial flexibility to manage future cash flows and fund operations on a timely and cost-effective basis.

The Company s sources of cash flow include cash from premium income on the sale of mortgage loans, net interest income, and borrowings. The Company sells its mortgage loans generally on a monthly basis to generate cash for operations. The Company s uses of cash in the short term include the funding of mortgage loan purchases and originations and purchases of mortgage servicing rights, payment of interest, repayment of amounts borrowed pursuant to warehouse lines of credit, operating and administrative expenses, income taxes and capital expenditures.

The Company has a Convertible Promissory Note ( Note ) maturing on March 27, 2005. The interest is payable at 12% per annum, payable monthly, in arrears, and there is a 33% bonus interest payable only upon maturity or prepayment of the Note. However, upon maturity or prepayment of the Note, the Lender has the option of either receiving the additional bonus interest or foregoing the additional bonus interest and converting the Note into common stock at a conversion price of $3.00 per share, subject to price adjustments in certain defined circumstances.

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, where by 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. Beginning in July 2003, the Company was in default under certain financial performance covenants because of its Quarterly loss. As a consequence, the Note has been classified as debt due within one year. In accordance with the Note, the Company deposited $200,000 into a sinking fund as of September 30, 2003 and will be required to make a $100,000 deposit on a monthly basis until the default is cured. The lender also informed the Company that there was a default in certain unspecified representation covenants relating to the Note. The Company disagrees that there has been a default in any representation covenants.

Finally, the lender has informed the Company that it is not declaring the Note due and payable but is reserving its future remedies. The Company believes that should the note be called the Company has adequate resources to satisfy this obligation. However, in accordance with the Pledge Agreement, the lender can exercise its future remedies and take control of Entrust Mortgage, Inc., the only substantial asset of the Company, at any time until all defaults are cured. The Company is currently having discussions with the lender to resolve all outstanding issues. However the Company does not know at this time what the outcome of those discussions will be.



The Company funds its business through the use of warehouse lines of credit. The warehouse lines of credit currently have a limit of $30 million. The warehouse lines of credit are payable on demand. The terms of the warehouse lines of credit impose certain limitations on the operations of the Company. The line of credit contains financial covenants and as of September 30, 2003 the Company was in default under certain financial covenants. The Company is currently having discussions with the lender to resolve all outstanding issues. However the Company does not know at this time what the outcome of those discussions will be.

**ITEM 3. CONTROLS AND PROCEDURES**

(a) *Evaluation of disclosure controls and procedures*. After evaluating the effectiveness of the Company s disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 ( Exchange Act ) Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report, our chief executive officer and chief financial officer, with the participation of the Company s management, have concluded that the Company s disclosure controls and procedures are effective to ensure that information that is required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules of the Securities Exchange Commission.

(b) *Changes in internal controls*. There were no changes in our internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.



**PART II OTHER INFORMATION**

ITEM 1. Legal Proceedings

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

ITEM 2. Changes in Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

The Company has a Convertible Promissory Note ( Note ) maturing on March 27, 2005. The interest is payable at 12% per annum, payable monthly, in arrears, and there is a 33% bonus interest payable only upon maturity or prepayment of the Note. However, upon maturity or prepayment of the Note, the Lender has the option of either receiving the additional bonus interest or foregoing the additional bonus interest and converting the Note into common stock at a conversion price of $3.00 per share, subject to price adjustments in certain defined circumstances. 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, where by 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. Beginning in July 2003, the Company was in default under certain financial performance covenants because of its Quarterly loss. As a consequence, the Note has been classified as debt due within one year. In accordance with the Note, the Company deposited $100,000 into a sinking fund on August 1, 2003 and will be required to make a $100,000 deposit on a monthly basis until the default is cured. The lender also informed the Company that there was a default in certain unspecified representation covenants relating to the Note. The Company disagrees that there has been a default in any representation covenants.

Finally, the lender has informed the Company that it is not declaring the Note due and payable but is reserving its future remedies. The Company believes that should the note be called the Company has adequate resources to satisfy this obligation. However, in accordance with the Pledge Agreement, the lender can exercise its future remedies and take control of Entrust Mortgage, Inc., the only substantial asset of the Company, at any time until all defaults are cured. The Company is currently having discussions with the lender to resolve all outstanding issues. However the Company does not know at this time what the outcome of those discussions will be.

The Company funds its business through the use of warehouse lines of credit. The warehouse lines of credit currently have a limit of $30 million. The warehouse lines of credit are payable on demand. The terms of the warehouse lines of credit impose certain limitations on the operations of the Company. The line of credit contains financial covenants and as of September 30, 2003 the Company was in default under certain financial covenants. The Company is currently having discussions with the lender to resolve all outstanding issues. However the Company does not know at this time what the outcome of those discussions will be.



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

None

ITEM 5. Other Information

None

ITEM 6. Exhibits and Reports on Form 8-K

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

(b) Reports on Form 8-K:

The Company filed current reports on Form 8-K during this reporting period on August 26, 2003.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 14, 2003

**Entrust Financial Services Inc.**

By: /s/ Scott J. Sax
Scott J. Sax
Chief Executive Officer

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



EXHIBIT INDEX
Form 10-QSB
Quarter Ended September 30, 2003

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |