ENTRUST FINANCIAL SERVICES INC
Form 10QSB
August 14, 2002

SECURITIES & 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 June 30, 2002

or

( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _______________ to ______________.

Commission File No. 0-23965

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

Colorado (State or other jurisdiction of incorporation)

84-1374481 (IRS Employer File Number)

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

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

Indicate by check mark whether the Registrant (1) had filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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__

The number of shares outstanding of Registrant s common stock, par value $.0000001 per share, as of June 30, 2002 were 2,310,294 common shares.

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

PART 1 - FINANCIAL INFORMATION

ITEM 1. Financial Statements:

ENTRUST FINANCIAL SERVICES, INC.
Consolidated Balance Sheet
June 30, 2001
(Unaudited)

	June 30, 2002	December 31, 2001
ASSETS:		
Current assets:		
Cash	$ 781,145	$ 858,848
Accounts Receivable	678,827	638,339
Prepaid Expenses	41,166	59,554
Title Co. Advances	285,067	330,247
Loans Receivable	211,933	--
Note Receivable	664,676	645,769
Total current assets	2,662,814	2,532,757
Fixed assets		
Computers & Equipment	504,503	221,652
Furniture & Fixtures	176,918	183,682
Total fixed assets	681,421	405,334
Less accumulated depreciation	(243,105)	(196,808)
Net fixed assets	438,316	208,526
Other assets:		
Marketable Security	3,200	3,200
Loans Held for Resale	15,494,246	17,069,794
License	10	10
Intangible Assets	1,600,000	1,600,000
Deposit	20,730	21,730
Total other assets	17,118,186	18,694,734
TOTAL ASSETS	$ 20,219,316	$ 21,436,017
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 89,382	$ 141,523
Accrued Expenses	359,523	354,990
Notes Payable	322,618	163,688
Loan Reserve	70,716	41,036
Loan Repurchase	616,488	--
Debenture Payable	162,100	162,100

Total current liabilities	1,620,827	863,337
Other liabilities:		
Warehouse Line Payable	14,416,750	16,894,300
Total other liabilities	14,416,750	16,894,300
Stockholder's equity:		
Preferred stock, $.0000001 Par Value 1,000,000 Shares Authorized. None Issued	--	--
Common stock, $.0000001 Par Value 50,000,000 Shares Authorized, 2,310,294 are issued and outstanding for 2002 and 2,273,622 were issued and outstanding for 2001	1	1
Additional Paid-In Cash	6,478,389	6,445,316
Retained Earnings (Deficit)	(2,296,651)	(2,766,937)
Total Stockholders' Equity	4,181,739	3,678,380
TOTAL LIABILITIES & STOCKHOLDER'S EQUITY:	$ 20,219,316	$ 21,436,017

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

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

	Three-Months June 30,		Six-Months June 30,	
	2002	2001	2002	2001
REVENUE:				
Loan Origination Fees	$2,684,141	$2,115,953	$5,165,609	$3,543,431
Interest Income	337,933	249,242	712,110	421,243
Miscellaneous Income	222	21,749	301	146,654
Total Revenue	3,022,296	2,386,944	5,878,020	4,111,328
OPERATING EXPENSES:				

Loan Origination Costs	2,127,994	1,462,268	4,256,499	3,034,338
Interest Expense	268,998	140,421	514,323	274,802
General & Administrative	356,246	511,177	636,912	666,235
Total Operating Expenses	2,753,238	2,113,866	5,407,734	3,975,375
NET PROFIT	$ 269,058	$ 273,078	$ 470,286	$ 135,953
BASIC AND DILUTED NET EARNINGS PER SHARE ..			$ 0.21	$ 0.07
WEIGHTED AVERAGE SHARES OUTSTANDING			2,283,622	2,040,493

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

ENTRUST FINANCIAL SERVICES, INC.
STOCKHOLDER'S EQUITY (DEFICIT)
June 30, 2002
(Unaudited)

	COMMON STOCKS		Additional Paid-in Capital	Retained Earnings (Deficit)	St
	Shares	Amount			
Issuance of stock for cash & services 4/97	695,345	$ 1	$ 108,510	$ --	$
Net loss for year	--	--	--	(3,080)	
Balance December 31, 1997	695,345	1	108,510	(3,080)	
Issuance of stock for cash 3/98 .	1,290	--	10,750	--	
Cancelled stock 5/98	(750)	--	(6,250)	--	
Issuance of stock for cash 7/98 .	4,995	--	24,998	--	
Net loss for year	--	--	--	(67,566)	
Balance December 31, 1998	700,880	1	138,008	(70,646)	
Issuance of stock for acquisition 4/99	510,000	--	2,889,412	--	
Issuance of stock for cash 6/99	125,320	--	891,839	--	
Issuance of stock for services 8/99	30,000	--	50,000	--	
Net loss for the year	--	--	--	(1,269,058)	
Balance December 31, 1999	1,366,200	1	3,969,259	(1,339,704)	

Issuance of stock for services 6/00	74,500	--	126,650	--	
Issuance of stock for cash 6/00	109,166	--	700,000	--	
Issuance of stock for repayment of Debenture 10/00 ..	285,626	--	500,000	--	
Issuance of stock for acquistion 12/00	20,000	--	838,763	--	
Net loss for the year	--	--	--	(2,194,219)	
Balance December 31, 2000	1,855,492	1	6,134,672	(3,533,923)	
Issuance of stock for acquisition 2/01	130,000	--	1	--	
Issuance of stock for cash 3/01	50,000	--	100,000	--	
Issuance of stock for services 3/10	30,000	--	30,000	--	
Issuance of stock for cash 4/01	64,596	--	70,424	--	
Issuance of stock for services 5/01	138,534	--	107,219	--	
Issuance of stock for services 7/01	5,000	--	3,000	--	
Net profit for the year	--	--	--	766,986	
Balance December 31, 2001	2,273,622	1	6,445,316	(2,766,937)	
Issuance of stock for services 2/02	10,000	--	13,000	--	
Issuance of stock for services 4/02	8,882	--	5,329	--	
Issuance of stock for services 6/02	17,790	--	14,744	--	
Net profit for the period	--	--	--	470,286	
Balance June 30, 2002	2,310,294	$ 1	$ 6,478,389	$(2,296,651)	$

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

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

Six-Months
June 30,

	2002	2001
Cash Flows from Operating Activities:		
Net Income	$ 470,286	$ 135,953
Adjustments to reconcile net loss to net cash used for operating activities		
Depreciation and Amortization	46,297	158,672
Stock issued for services	33,073	129,329
Changes in Assets & Liabilities:		
Notes Receivable	(18,907)	(12,814)
Accounts Receivable	(40,488)	(352,765)
Loans Receivable	(211,933)	(531,617)
Prepaid Expenses	18,388	594
Loans Held for Resale	(1,575,548)	(5,582,466)
Marketable Securities	--	148,000
Title Co. Advances	45,180	(37,198)
Inventory Parts	--	(1,924)
Deposits	1,000	(100)
Accounts Payable	(52,141)	(99,526)
Notes Payable	158,930	(48,661)
Loans Payable	(616,488)	200,873
Intangible Assets	--	(285,641)
Debenture Payable	--	162,100
Loan Reserve	29,680	--
Accrued Expenses	(128,674)	68,216
Net Cash Provided by Operating Activities	(1,841,345)	(5,948,975)
Cash Flows Used for Investing Activities:		
Capital Expenditures	(276,087)	(15,584)
Net Cash Used for Investing Activities	(276,087)	(15,584)
Cash Flows from Financing Activities:		
Increase in Warehouse line Payable	2,039,729	5,885,093
Issuance of Common Stocks	--	230,314
Net Cash Provided by Financing	2,039,729	6,115,407
Net Increase in Cash & Cash Equivalents	(77,703)	150,848
Cash & Cash Equivalents at Beginning of Period	858,848	278,930
Cash & Cash Equivalents at End of Period	$ 781,145	$ 429,778
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	$ 23,593	$ 26,977
Income Taxes	$ --	$ --
NON-CASH TRANSACTIONS		
Common stock issued in exchange for services	$ 33,073	$ 129,329

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

ENTRUST FINANCIAL SERVICES, INC.
Notes to Financial Statements
June 30, 2002
(Unaudited)

Note 1 Presentation of Interim Information:

In the opinion of the management of Entrust Financial Services, Inc., the accompanying unaudited financial statements include all normal adjustments considered necessary to present fairly the financial position as of June 30, 2002 and the results of operations for the three and six-months ended June 30, 2002 and 2001, and cash flows for the six-months ended June 30, 2002 and 2001. Interim results are not necessarily indicative of results for a full year.

The financial statements and notes are presented as permitted by Form 10-QSB, and do not contain certain information included in the Company s audited financial statements and notes for the fiscal year ended December 31, 2001

Note 2 Equity Incentive Plan:

Five employees have been selected by Entrust Financial Services, Inc. to receive a stock option to purchase shares of the Company s Common Stock under the Company s Equity Incentive Plan. The grant date was March 15, 2002 and has an expiration date of March 15, 2007.

REPORT ON REVIEW BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Entrust Financial Services, Inc.
Denver, CO

We have reviewed the accompanying balance sheet of Entrust Financial Services, Inc. as of June 30, 2002 and the related statements of operations for the three and six-month periods ended June 30, 2002 and 2001, and the cash flows for the six-months ended June 30, 2002 and 2001 included in the accompanying Securities and Exchange Commission Form 10-QSB for the period ended June30, 2002. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accounts. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with accounting standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the balance sheet as of December 31. 2001, and the related statements of operations, stockholders equity and cash flows for the year then ended (not presented herein). In our report dated April 3, 2002, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of June 30, 2002 is fairly stated in all material respects in relation to the balance sheet from which it has been derived.

/s/ Michael Johnson & Co., LLC
Denver, CO
August 13, 2002

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The following discussion contains forward-looking statements regarding us, our business, prospects and results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause our 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: our ability to successfully develop new products for new markets; the impact of competition on our revenues, changes in law or regulatory requirements that adversely affect or preclude customers from using our products for certain applications; delays in our introduction of new products or services; and failure by us to keep pace with emerging technologies.

When used in this discussion, words such as believes , anticipates , expects , intends 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. We undertake 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 our business.

Results of Operations

The Company was profitable for the six months ended June 30, 2002. This marks our fifth straight quarter of profitability. Revenues were also significantly higher for the same three months and six months ended June 30, 2002 compared to the same period in the previous year. The source of our profit comes from a continuing increase in loan origination fees and interest income from increased funding volume. For the three months ended June 30, 2002, total revenues were $3,022,296 compared to revenues of $$2,386,944for the same period ended June 30, 2001. For the six months ended June 30, 2002, total revenues were $5,878,020 compared to revenues of $4,111,328 for the six months ended June 30, 2001. Operating expenses for the three months ended June 30, 2002 were $2,753,238 compared to $2,113,866 for the three months ended June 30, 2001. Operating expenses for the six months ended June 30, 2002 were $5,407,734 compared to operating expenses of $$3,975,375 for the same period ended June 30, 2001. The major components of operating expenses are loan origination costs, interest expenses, and general and administrative, which include independent contractor fees, office salaries and associated payroll costs, general and health insurance costs, rent and telephone expenses.

In he first six months of 2002, Entrust Mortgage, Inc, our wholly owned subsidiary, funded a total of $106,108,000 in loans as compared to $72,150,000 in loans for the same period ended June 30, 2001. This is an approximate 47% increase in loans funded over the comparable period in 2001. We fund non-conforming mortgages using our warehouse lines of credit to fund loan closings in order to sell the mortgages in the secondary market for a profit. We also earn fees paid by the borrower on mortgages we fund, and interest on the loans held for sale. The price secondary markets pay for Entrust loans is determined by many economic factors. We make every effort to lock our loan rates with our secondary markets to maintain a constant margin on our mortgage loans sold. We also earn an overall positive spread on interest rates while our loans are held for sale. Certain fixed cost are the same regardless of the loan volume, so the more business the Company transacts, the lower percentage of volume these expenses are.

As a result, we had a net profit of $470,286 for the six months ended June 30, 2002, compared to a net profit of $135,953 for the same period ended June 30, 2001. The net profit per share for the six months ended June 30, 2002 was $0.21 per share, compared to a net profit of $0.07 per share for the same period ended June 30, 2001, as restated to give effect for the one-for-ten reverse split of our common shares.

The Company believes that this increased level of profitability and increasing trend towards greater profits from mortgage operations will continue into the next quarter. We anticipate a greater level of earnings for the remaining two quarters as those have historically been our most profitable. Our principal focus will continue to be the mortgage banking business. The credit quality of the borrower is only one factor when determining loan approval. Good credit borrowers typically qualify for the highest loan to value mortgage programs, and the most preferential rates. When loaning to persons with more marginal credit, there are limitations on loan to value, and type of loan programs for which the borrower qualifies. The Company also incorporates risk based pricing , which means that the persons with more risk factors must pay a higher rate for the loan. The Company believes that these mitigations help it manage the risk when making loans.

The Company has various representations and warranties it makes to secondary market investors on loans sold into secondary markets. If a mortgage goes into early payment default (usually within 3 months) the Company is obligated to repurchase the loan. If it is determined that fraud has been committed on a loan application, the Company is also obligated to repurchase the loan. The Company usually sells the loan into an alternative loan market, typically at a discount. In some cases, the Company forecloses on the loan, and sells the property to recover its capital and mitigate potential losses.

The repurchase of loans requires capital or credit to repurchase the loan until the resolution. The Company currently uses a repurchase line of credit to facilitate repurchases, but anticipates the need to expand these facilities.

Our new construction loan program for manufactured housing began generating revenues in the second quarter of this year. Entrust Mortgage is the exclusive marketer of this manufactured housing lending program. We are very optimistic about the prospects for this program, although it is still too early to predict the impact, if any, this program will have on our future profitability.

During this year, we intend to make application for listing on a recognized U.S. stock exchange, such as the American Stock Exchange or NASDAQ.

Liquidity and Capital Resources

As of the end of the reporting period, we had cash or cash equivalents of $781,145 compared to $429,778 for the previous year.

Net cash provided by our operating activities was to $(1,841,345) for the six months ended June 30, 2002, compared to net cash provided of $(5,948,975)for the six months ended June 30, 2001.

Cash flows used for investing activities were $(276,087) for the six months ended June 30, 2002, compared to $(15,584) the six months ended June 30, 2001.

Cash flows from financing activities for the six months ended June 30, 2002 were $2,039,729, compared to $6,115,407 the six months ended June 30, 2001.

We exchanged common stock valued at $33,073 for services for the six months ended June 30, 2002, compared to $129,329 for the six months ended June 30, 2001.

Our cash and cash equivalents position is healthy, compared to the previous year s comparable quarters. Of particular note is that we generated net income from operations of over $470,000 for the first six months of the year. While we are definitely in a much healthier financial position than we were last year, at this time, we continue to look at ways to generate additional cash and cash equivalents to meet our expanding mortgage company requirements. Short term capital has been sufficient to meet our current growth trends, but to continue to grow at its projected pace, the Company will need to increase its warehouse lines of credit and possibly seek equity investments to keep our debt to equity ratios in line with ours warehousing lender s requirements. We increased our warehouse credit lines to a combined total of $25,000,000 in the second quarter.

Other than as disclosed herein, there are no plans, proposals, arrangements, or understandings with respect to the sale or issuance of additional securities by us.

We do not intend to pay dividends in the foreseeable future.

PART II-OTHER INFORMATION:

ITEM 1. Legal Proceedings.

Our subsidiary, Entrust Mortgage, is a plaintiff in a lawsuit in Colorado District Court for the City and County of Denver against Aurora Loan Services pertaining to defaults on loans from two borrowers which were subsequently sold by Entrust Mortgage to Aurora Loan Services. Entrust Mortgage is vigorously pursuing the claims.

There are no legal proceedings of a material nature to which we are a party were pending during the reporting period. We know of no legal proceedings of a material nature pending or threatened or judgments entered against any of our directors or officers in his capacity as such.

ITEM 2. Changes in Securities and Use of Proceeds. None.

ITEM 3. Defaults upon Senior Securities. None.

ITEM 4. Submission of Matters to a Vote of Security Holders. None

ITEM 5. Other Information. None.

ITEM 6. Exhibits and Reports on Form 8-K:

(a) Exhibit 99.1 Certification of Chief Executive Officer, Scott J. Sax, pursuant to 18 USC Section 1350, as adopted pursuant to the Sarbanes-Oxley Act of 2002.
(b) Exhibit 99.2 Certification of Chief Financial Officer, David Hite, pursuant to 18 USC Section 1350, as adopted pursuant to the Sarbanes-Oxley Act of 2002.

No reports on Form 8-K were filed as of the most recent fiscal quarter.

SIGNATURES

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.

Dated: 08/13/02

By: /s/ Scott J. Sax
Scott J. Sax, Chief Executive Officer and President

Dated: 08/13/02

By: /s/ David Hite
David Hite, Chief Financial and Accounting Officer