

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

SILVERADO FINANCIAL INC
Form 10KSB
April 12, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended December 31, 2004

Commission File Number 0-28375

SILVERADO FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Nevada

86-0824125

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification Number)

5976 W. Las Positas Boulevard. Suite 116, Pleasanton, CA 94588

(Address of principal executive offices) (Zip Code)

Telephone Number: (925) 227-1500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
----- None	----- None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 No

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

The Registrant's revenues for the year ended December 31, 2004 were \$919,930

The approximate aggregate market value of Common Stock shares held by non-affiliates of the Registrant on December 31, 2004 was based on 17,493,963 total outstanding shares less shares held by affiliates for a total of non-affiliated shares and a closing price of \$0.25 per share on December 31, 2004.

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

On December 31, 2004, the Registrant had outstanding 18,216,697 shares of Common Stock, \$0.001 par value.

silveradofinancial
5976 West Las Positas Boulevard, Suite 116
Pleasanton, California 94588-8506
PH: 925.227.1500 FX: 925-227-1501

To the Shareholders of Silverado Financial, Inc,

It has been a busy year for all of us here at Silverado Financial and Silverado Mortgage.

We doubled the size of our Campbell, California office when we relocated our Corporate offices to Pleasanton, California and are already out of space. The new Phoenix, Arizona office is open with ten Advisors and eight telemarketers and Duane Sherry is hiring new salespeople as quickly as he can.

Silverado is currently lending in California, brokering loans in Colorado and is working to complete licensing in the Western United States.

The first loans have been submitted and closed on the warehouse line. Management has cleaned up the balance sheet and added to the book value of the firm. Revenue for 2004 was significantly higher than 2003 and 2005 looks extremely strong.

The warehouse line represents a significant achievement for the management of Silverado and completes the foundation for future growth. Silverado, as lender, anticipates generating even greater revenue stability and increased EPS through the additional fees attributable to each transaction.

Silverado's licensing doesn't sound exciting but it really is! Every new license Silverado is approved for is a new market with which it can begin marketing its products. To prepare the Company for the rapid growth projected in 2005 Management has been preparing mortgage banking licensing applications for Arizona, Colorado, Nevada, Utah, Washington and Oregon. It is anticipated that these applications will be approved by the end of the first quarter of 2005.

The board of directors has approved the 2005-operating plan and the Company anticipates growth on a level with 2004.

All in all it's been a good year for the Company and we look forward to 2005.

My sincere hope is that you will remain shareholders and spread the word about Silverado.

Cordially,

John E. Hartman
Chief Executive Officer
Silverado Financial, Inc.

TABLE OF CONTENTS PAGE

PART I

ITEM 1. DESCRIPTION OF BUSINESS4

ITEM 2. PROPERTIES18

ITEM 3. LEGAL PROCEEDINGS18

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS19

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS ...19

ITEM 6. MANAGEMENT'S PLAN OF OPERATION21

ITEM 7. FINANCIAL STATEMENTS23

ITEM 8. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE40

ITEM 8A. CONTROLS AND PROCEDURES40

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL
PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.....40

ITEM 10. EXECUTIVE COMPENSATION42

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.....43

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS43

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K43

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES44

ITEM 15. SIGNATURES45

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Background of the Company

Silverado Financial, Inc. (the "Company", "We", "Us" and "Our") is incorporated under the laws of the State of Nevada and based in Pleasanton, California in the

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

East San Francisco Bay Area. The Company provides first and second mortgage products to borrowers in California and Colorado through its operating subsidiary, Silverado Mortgage Corporation (SMC).

The corporation was initially formed on February 26, 1987 as Toledo Medical Corporation. The name was changed to Almaz Space Corporation on February 9, 1991 and to Ready When You Are Funwear, Inc. on April 14, 1992. On December 30, 1994 a group of individuals acquired control of the Company. On February 17, 1995, they changed the name to Rhombic Corporation. On March 19, 2003, the company changed its name to Silverado Financial, Inc.

In November 2002, the Company acquired Financial Software, Inc. as the first part of its strategy to enter the lucrative consumer finance sector. In May of 2003 the Company acquired Realty Capital Corporation, a California based mortgage brokerage, and renamed the wholly owned subsidiary Silverado Mortgage Corporation in August of 2004.

During 2004 the company had two wholly owned subsidiaries.

- * Financial Software, Inc. ("FSI");
- * Silverado Mortgage Corporation ("SMC");

Silverado acquired Financial Software, Inc. on November 19, 2002 in a share for share exchange basis for 4,400,000 shares of common stock. Financial Software, Inc. (FSI), a New Jersey corporation engaged in the development of Internet and Intranet financial software in addition to operating several financial industry publishing websites. Silverado acquired FSI in order to gain access to certain proprietary software products owned by FSI which we intend to further develop and extend into a comprehensive back office platform necessary to accomplish managements business objectives.

On May 9, 2003, Silverado acquired Realty Capital Corporation in exchange for 729,452 shares of restricted common stock from John E. Hartman, the President and Chief Executive Officer of the Company and a director. The Company was renamed Silverado Mortgage Corporation in August of 2004. SMC operates as a mortgage brokerage and mortgage banking company licensed by the California Department of Real Estate and by the California Department of Corporations as a Consumer Finance Lender. SMC generated all of the Company's 2004 revenue through its offices in Campbell and Pleasanton, California and Phoenix Arizona.

In addition to continuing, and expanding, the operation of SMC, other activities have consisted of developing the business plan, obtaining a warehouse line of credit, raising capital, business plan implementation and recruiting and training sales people. For the year ending December 31, 2004, the Company had revenues of \$919,930, and has expensed operating costs in the amount of \$1,590,650. Historically, the Company has had nominal cash resources and has been largely dependent on the direct financial support from a few shareholders, directors and officers along with limited revenue to pay for cash expenditures. In addition, the Company has been dependent on its officers, directors and certain key vendors accepting restricted common stock for their services.

BUSINESS OF THE ISSUER

General

Silverado Financial Incorporated is a mortgage banking company focused on providing non-prime borrowers, individuals who generally do not satisfy the credit, documentation or other underwriting standards set by more traditional sources of mortgage credit, with access to capital for the purchase and refinancing of one to four-family residential properties. The Company originates mortgage loans, which include fixed and adjustable-rate loans, for purposes such as debt consolidation, refinancing, education, home improvement and real estate

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

purchase.

As the primary aspect of the Company's business and finance strategy, Silverado sells its loans to third-party investors (correspondent investors) in the secondary mortgage market. Presently the Company sells its loans through whole loan sales to correspondent investors, but as the Company grows it will dispose of its loan production through a combination of whole loan sales and securitization.

4

The Company's mortgage business has two principal components. First, Silverado makes mortgage loans to individual borrowers. Each loan is a cash and expense outlay for the Company, because its total cost incurred in originating a loan exceeds the fees it collects at the time it originates the loan. At the time of origination, Silverado either finances the loan by borrowing under a warehouse line of credit, or acts as an agent and brokers the loan to another mortgage lender. Second, the Company sells the loans on a whole-loan basis, and uses the net proceeds from these transactions to repay its warehouse lines of credit and for working capital.

Silverado currently operates 2 offices in California, corporate headquarters and retail sales office in Pleasanton, California, a sales office in Campbell, California and a sales office in Phoenix, Arizona.

Additionally, management is in negotiations with several groups of Lending Advisors in Los Angeles, California, Denver, Colorado and Boise, Idaho. Silverado is currently applying for licensure as a mortgage banker in the following states: Arizona, Colorado, Utah, Nevada, Washington, Oregon and Idaho.

Because of Silverado's focus on the Non-Prime borrower, and the subsequent growth of that market segment, the Company is largely insulated from interest rate increases unlike many of its competitors in the highly sensitive Prime "A" paper market segment.

Warehouse Facility

On August 11, 2004 the Company's wholly owned subsidiary, Silverado Mortgage Corporation (formerly Realty Capital Corporation) received approval for a \$2,000,000 Mortgage Warehouse and Security Facility. A signed agreement was executed on September 3, 2004 and SMC began utilizing the warehouse and security facility on November 22, 2004.

Along with the Warehouse Facility comes a Demand Note. The Demand Note, in the event of a default, stipulates that any outstanding balance of warehouse facility can be called at any time inclusive of interest. Per the terms in the Warehouse agreement the Note is subject to mandatory prepayments and is collateralized by the mortgage loans and other predetermined assets.

The \$2 million warehouse line provides Silverado with the ability to potentially fund more than \$10 million per month in loans and in excess of \$120 million per year. The number of times that Silverado is able to "roll" its warehouse line is a critical metric with which to measure efficiency of the underlying operation. By having a more efficient loan process, through the use of a technology backbone, Silverado is able to streamline the packaging, submission, underwriting and funding and thereby decrease the "dwell time" of the loan on the warehouse line. The "dwell time" is the number of days that a loan is on the line and not sold to a third party investor. The lower the dwell time the lower the interest expense for using the warehouse line capital, this translates into a higher profit on a per-loan-basis.

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

Recent Operating Highlights

Management achieved several significant operational milestones during 2004, including the following:

- o Grew revenue to approximately \$1mm approximately 10 x 2003 revenue
- o Established Silverado as a Mortgage Bank with a \$2mm Warehouse Line
- o Tripled the size of the Campbell office
- o Expanded into Pleasanton, California
- o Created a Spanish/Latino hub operation
- o Expanded into Phoenix, Arizona
- o Established 12 new Correspondent Relationships
- o Continual Quarter-Over-Quarter growth in excess of 1.5x
- o Acquired Software Platform Upgraded and Operational
- o Developed and Implemented proprietary training program
- o Hired and trained 50+ new Lending Associates
- o Year-End 2004 Originations of approximately \$75mm

5

Strengths and Competitive Advantages

We believe that we have several strengths and competitive advantages that allow us to compete effectively in our business, including:

- o **Low Interest Rate Sensitivity:** Due to Silverado's focus on the non-prime borrower, and the subsequent growth of that market, Silverado is largely insulated from increases in interest rates.
- o **Performance-Based Compensation Structure.** Our compensation structure helps keep fixed costs at a minimum and allows us to weather industry down-turns.
- o **Proprietary Training Program.** We have developed and implemented a proprietary training program, which broadens the hiring pool and helps to accelerate internal growth.
- o **Position as a Direct Lender.** As the industry consolidates Silverado's position as a direct lender helps it to attract employees and insulates it against the proposed regulatory changes

Competition

We face competition in the business of originating, purchasing and selling mortgage loans. Our competitors include other consumer finance companies, mortgage banking companies, commercial banks, credit unions, thrift institutions, credit card issuers and insurance finance companies. Other financial institutions have gradually expanded their lending capabilities. Many of these companies have greater access to capital at a cost lower than our cost of capital under our warehouse, aggregation, and asset backed commercial paper facilities. Federally chartered banks and thrifts can preempt some of the state and local lending laws to which we are subject, thereby giving them a competitive advantage. In addition, many of these competitors have considerably greater technical and marketing resources than we have.

Competition among industry participants can take many forms, including convenience in obtaining a loan, customer service, marketing and distribution

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

channels, amount and term of the loan, loan origination fees and interest rates. Additional competition may lower the rates we can charge borrowers, thereby potentially lowering gain on future loan sales and securitizations. In 2004, the most significant form of competition was pricing pressure among mortgage originators. Some of our competitors lowered rates and fees to preserve or expand their market share.

Our results of operations, financial condition and business prospects could be materially adversely affected if competition intensifies or if any of our competitors significantly expands its activities in our markets. Fluctuations in interest rates and general economic conditions may also affect our competitive position. During periods of rising rates, competitors that have locked in low borrowing costs may have a competitive advantage. During periods of declining rates, competitors may solicit our customers to refinance their loans.

Regulation

Our business is regulated by federal, state, and local government authorities and is subject to extensive federal, state and local laws, rules and regulations. We are also subject to judicial and administrative decisions that impose requirements, and restrictions on our business.

At the federal level, these laws and regulations include the:

- o Equal Credit Opportunity Act;
- o Federal Truth and Lending Act and Regulation Z;
- o Home Ownership and Equity Protection Act;
- o Real Estate Settlement Procedures Act;
- o Fair Credit Reporting Act;

6

- o Fair Debt Collection Practices Act;
- o Home Mortgage Disclosure Act;
- o Fair Housing Act;
- o Telephone Consumer Protection Act;
- o Gramm-Leach-Bliley Act;
- o Fair and Accurate Credit Transactions Act;
- o CAN-SPAM Act;
- o Sarbanes-Oxley Act; and
- o USA PATRIOT Act.

These laws, rules and regulations, among other things:

- o impose licensing obligations and financial requirements on us;
- o limit the interest rates, finance charges, and other fees that we may charge;

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

- o prohibit discrimination;
- o impose underwriting requirements;
- o mandate disclosures and notices to consumers;
- o mandate the collection and reporting of statistical data regarding our customers;
- o regulate our marketing techniques and practices;
- o require us to safeguard non-public information about our customers;
- o regulate our collection practices;
- o require us to prevent money-laundering or doing business with suspected terrorists; and
- o impose corporate governance, internal control and financial reporting obligations and standards.

Our failure to comply with these laws can lead to:

- o civil and criminal liability;
- o loss of approved status;
- o demands for indemnification or loan repurchases from buyers of our loans;
- o class action lawsuits; and
- o administrative enforcement actions.

7

Compliance, Quality Control and Quality Assurance

We regularly monitor the laws, rules and regulations that apply to our business and analyze any changes to them. We also maintain policies and procedures, summaries and checklists to help our origination personnel comply with these laws.

Licensing

As of December 31, 2004, we were licensed in California under the California Department of Real Estate (DRE) and under the California Department of Corporations (DOC) as a Consumer Finance Lender (CFL). This approval by the Department of Corporations has enabled Silverado to hire W-2 employees to act as Lending Advisors instead of licensed real estate agents. This will allow us to pay lower commissions and hire from the significantly larger pool of available sales professionals who are not licensed by the DRE.

We are currently in the process of gaining licensure in Arizona and anticipate completing licensing in the Western United States by the end of fiscal 2005.

Regulatory Developments

During 2004, federal and state legislators and regulators adopted a variety of

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

new or expanded regulations, particularly in the areas of privacy and consumer protection.

Privacy

The federal Gramm-Leach-Bliley financial reform legislation imposes additional obligations on us to safeguard the information we maintain on our borrowers. Regulations have been proposed by several agencies that may affect our obligations to safeguard information. In addition, regulations that could affect the content of our notices are being considered by several federal agencies.

Also, several states are considering even more stringent privacy legislation. California has passed legislation known as the California Financial Information Privacy Act and the California On-Line Privacy Protection Act. Both pieces of legislation are effective July 1, 2004, and will impose additional notification obligations on us that are not pre-empted by existing federal law. If other states choose to follow California and adopt a variety of inconsistent state privacy legislation, our compliance costs could substantially increase.

Fair Credit Reporting Act

The Fair Credit Reporting Act provides federal preemption for lenders to share information with affiliates and certain third parties and to provide pre-approved offers of credit to consumers. Congress acted in late 2003 to make this preemption permanent, otherwise it would have expired at the end of the year and states could have imposed more stringent and inconsistent regulations regarding the use of pre-approved offers of credit and other information sharing. Congress also amended the Fair Credit Reporting Act to place further restrictions on the use of information shared between affiliates, to provide new disclosures to consumers when risk based pricing is used in the credit decision, and to help protect consumers from identity theft. All of these new provisions impose additional regulatory compliance costs on us and reduce the effectiveness of our marketing programs.

Home Mortgage Disclosure Act

In 2002, the Federal Reserve Board adopted changes to Regulation C promulgated under the Home Mortgage Disclosure Act ("HMDA"). Among other things, the new regulations require lenders to report pricing data on loans with annual percentage rates that exceed the yield on treasury bills with comparable maturities by 3%. The expanded reporting takes effect in 2004 for reports filed in 2005. We anticipate that a majority of our loans would be subject to the expanded reporting requirements.

The expanded reporting does not provide for additional loan information such as credit risk, debt-to-income ratio, loan-to-value ratio, documentation level or other salient loan features. As a result, lenders like us are concerned that the reported information may lead to increased litigation as the information could be misinterpreted by third parties.

Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003

The CAN-SPAM Act of 2003 applies to businesses, such as ours, that use electronic mail for advertising and solicitation. This law, generally administered by the Federal Trade Commission, preempts state laws to the contrary, and establishes, among other things, a national uniform standard that gives consumers the right to stop unwanted emails. New requirements are imposed for the header caption in emails, as well as return email addresses, and

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

consumers are granted the right to 'opt out' from receiving further emails from the sender. These new provisions impose additional regulatory and compliance costs on us and reduce the effectiveness of our marketing programs.

The Alternative Mortgage Transaction Parity Act

This law was enacted to enable state chartered housing creditors to make, purchase and enforce alternative mortgage transactions (i.e., loans that are not fixed rate, fully amortized) without regard to any state law on the subject, so long as these creditors complied with the same regulatory guidelines as federally chartered housing lenders. The Office of Thrift Supervision, under whose guidelines we operate, amended its regulations, effective July 1, 2003, to eliminate from the preemptive effect of the Act the regulation of prepayment and late charges on alternative mortgage loans. States can now regulate prepayment penalty and late charge provisions on alternative mortgage loans, and so on July 1, 2003, in less than a dozen states, we became subject to more restrictive state laws as to these issues.

Telephone Consumer Protection Act and Telemarketing Consumer Fraud and Abuse Prevention Act

These laws, enacted in 1991 and 1994, respectively, are designed to restrict unsolicited advertising using the telephone and facsimile machine. Since they were enacted, however, telemarketing practices have changed significantly due to new technologies that make it easier to target potential customers while at the same time making it more cost effective to do so. The Federal Communications Commission and the Federal Trade Commission have responsibility for regulating various aspects of these laws; such as regulating unwanted telephone solicitations and the use of automated telephone dialing systems, prerecorded or artificial voice messages, and telephone facsimile machines. In 2003, both agencies adopted 'do-not-call' registry requirements, which, in part, mandate that companies such as us maintain and regularly update lists of consumers who have chosen not to be called. These requirements also mandate that we do not call consumers who have chosen to be on the list. During this same time, over 25 states have also adopted similar laws, with which we also comply. As with other regulatory requirements, these provisions impose additional regulatory and compliance costs on us and reduce the effectiveness of our marketing programs.

Predatory Lending Legislation

The Home Ownership and Equity Protection Act of 1994 ("HOEPA") identifies a category of mortgage loans and subjects them to more stringent restrictions and disclosure requirements. In addition, liability for violations of applicable law for loans covered by HOEPA extends not only to the originator, but also to the purchaser of the loans. HOEPA generally covers loans with either (i) total points and fees upon origination in excess of the greater of eight percent of the loan amount or \$499 (an annually adjusted dollar amount), or (ii) an annual percentage rate (APR) of more than eight percentage points higher than United States Treasury securities of comparable maturity on first mortgage loans, and ten percentage points above Treasuries of comparable maturity for junior mortgage loans.

We do not originate loans covered by HOEPA because of the higher legal risks as well as the potential negative perception of originating loans that are considered to be "high cost" under federal law.

Several federal, state and local laws and regulations have been adopted or are under consideration that are intended to eliminate so-called "predatory" lending practices. Many of these laws and regulations go beyond targeting abusive practices by imposing broad restrictions on certain commonly accepted lending practices, including some of our practices. In addition, some of these laws impose liability on assignees of mortgage loans such as loan buyers, lenders and

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

securitization trusts. Such provisions deter loan buyers from purchasing loans covered by the applicable law. For example, after the October 1, 2002 effective date of the Georgia Fair Lending Act, many lenders and secondary market buyers refused to finance or purchase Georgia loans. As a result, many companies were forced to cease providing mortgages in Georgia until the law's amendment a few months later. Similar laws have gone into effect in New Jersey, as of November 27, 2003 ("New Jersey Home Ownership Act of 2002"), and in New Mexico, as of January 1, 2004 ("New Mexico Home Loan Protection Act"), that have impacted origination of loans in those states.

9

However, there can be no assurance that other similar laws, rules or regulations, won't be adopted in the future. Adoption of these laws and regulations could have a material adverse impact on our business by substantially increasing the costs of compliance with a variety of inconsistent federal, state and local rules, or by restricting our ability to charge rates and fees adequate to compensate us for the risk associated with certain loans. Adoption of these laws could also have a material adverse effect on our loan origination volume, especially if our lenders and secondary market buyers elect not to finance or purchase loans covered by the new laws.

Efforts to Avoid Abusive Lending Practices

In an effort to prevent the origination of loans containing unfair terms or involving predatory practices, we have adopted many policies and procedures, including the following:

Product Policies

- o We do not originate "high cost loans" as defined by HOEPA.
- o We do not originate loans containing single premium credit life, disability or accident insurance.
- o We do not originate loans containing balloon payments, negative amortization, mandatory arbitration clauses or interest rate increases triggered by borrower default.
- o We offer loans with and without prepayment penalties. When a borrower opts for a loan with a prepayment charge, the borrower benefits from a lower interest rate or pays lower upfront fees.
- o Prepayment penalties do not extend beyond three years from the origination date. On fixed rate loans, the maximum prepayment penalty term is three years. Prepayment penalties on adjustable rate loans do not extend beyond the first adjustment date.
- o We do not originate loans that pay off zero interest rate mortgages provided by charitable organizations or the government without borrower third-party counseling.

Loan Processing Policies

- o We only originate loans from applications that evidence a borrower's ability to repay the loan.
- o We consider whether the loan terms are in the borrower's best interests.

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

- o We do not solicit our loan portfolio within twelve months of loan origination.
- o We do not ask appraisers to report a predetermined value or withhold disclosure of adverse features. Appraisers are paid by the borrower either at closing or from the borrowers own funds regardless of whether or not the loans are closed.

We plan to continue to review, revise and improve our practices to enhance our fair lending efforts and support the goal of eliminating predatory lending practices.

10

Environmental

In the course of our business, we may acquire properties securing loans that are in default. There is a risk that hazardous or toxic waste could be found on such properties. If this occurs, we could be held responsible under applicable law for the cost of cleaning up or removing the hazardous waste. This cost could exceed the value of the underlying properties.

Employees

At December 31, 2004, Silverado Financial and its subsidiary companies employed approximately 100 individuals and contract employees. As is standard practice in the industry, we also have Lending Advisors working outside the company offices as independent contractors. We have no collective bargaining agreements. We believe that our relations with our employees are satisfactory.

Available Information

We make available, free of charge, on the Investor Relations Section of our Website (<http://www.silveradofinancial.com/investors.htm>) a link to the Securities and Exchange Commission Web Site where all of the Company's filings may be found.

RISK FACTORS

Stockholders and prospective purchasers of our common stock should carefully consider the risks described below before making a decision to buy our common stock. If any of the following risks actually occurs, our business could be harmed. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. When determining whether to buy our common stock, stockholders and prospective purchasers should also refer to the other information in this Form 10-K, including our financial statements and the related notes.

A prolonged economic slowdown or a lengthy or severe recession could hurt our operations, particularly if it results in a decline in the real estate market.

The risks associated with our business are more acute during periods of economic slowdown or recession because these periods may be accompanied by decreased demand for consumer credit and declining real estate values. Declining real estate values reduce the ability of borrowers to use home equity to support borrowings because they negatively affect loan-to-value ratios of the home equity collateral. In addition, because we make a substantial number of loans to credit-impaired borrowers, the actual rates of delinquencies, foreclosures and losses on these loans could be higher during economic slowdowns. Any sustained period of increased delinquencies, foreclosures or losses could adversely affect

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

our ability to sell loans, the prices we receive for our loans, the value of our mortgage loans held for investment or our residual interests in securitizations, which could have a material adverse effect on our results of operations, financial condition and business prospects.

Silverado's earnings may decrease because of increases or decreases in interest rates.

Our profitability may be directly affected by changes in interest rates. The following are some of the risks we face related to an increase in interest rates:

- o An interest rate increase may affect our earnings by reducing the spread between the interest we receive on our loans and our funding costs.
- o A substantial and sustained increase in interest rates could adversely affect our loan origination volume because refinancing an existing loan would be less attractive and qualifying for a purchase loan may be more difficult.
- o During periods of rising interest rates, the value and profitability of our loans may be negatively affected between the date of origination or purchase and the date we sell or securitize the loan.
- o When and if we securitize loans, the value of residual interests we retain and the income we receive from the securitizations structured as financings are based primarily on the London Inter-Bank Offered Rate ("LIBOR"). This is because the interest on the underlying mortgage loans is based on fixed rates payable on the loans for the first two or three years while the bondholders are generally paid based on an adjustable LIBOR-based yield. An increase in LIBOR reduces the net income we would receive from, and the value of, these mortgage loans and residual interests.

11

- o Our adjustable-rate mortgage loans have periodic and lifetime interest rate caps above which the interest rate on the loans may not rise. In the event of general interest rate increases, the rate of interest on these mortgage loans could be limited, while the rate payable on the senior certificates representing interests in a securitization trust into which these loans are sold may be uncapped. This would reduce the amount of cash we receive over the life of the loans in securitizations structured as financings and our residual interests, and could require us to reduce the carrying value of our residual interests.

We are also subject to risks from decreasing interest rates. For example, a significant decrease in interest rates could increase the rate at which loans are prepaid, which also could require us to reduce the carrying value of any residual interests. If prepayments were greater than expected, the cash we would receive over the life of our residual interests would be reduced. Higher-than-expected prepayments could also have a negative effect on the value of any servicing portfolio.

Any such changes in interest rates could have a material adverse effect on our results of operations, financial condition and business prospects.

An interruption or reduction in the securitization and whole loan markets could

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

hurt our financial position.

As we implement our plan to become a full service mortgage banking company, we will become increasingly dependent on the securitization market for the sale of our loans because we intend to securitize loans directly in the future and many of the whole loan buyers who purchase loans do so with the intention to securitize them. The securitization market is dependent upon a number of factors, including general economic conditions, conditions in the securities market generally and conditions in the asset-backed securities market specifically. In addition, poor performance of previously securitized loans could harm our access to the securitization market. Accordingly, a decline in the securitization market or a change in the market's demand for loans could have a material adverse effect on our results of operations, financial condition and business prospects.

If we are unable to maintain adequate financing sources, our earnings and our financial position will suffer and jeopardize our ability to continue operations.

We require substantial cash to support our operating activities and growth plans. Our primary sources of cash are profits generated by sales of mortgage products and the sale of our capital stock; however, we intend to generate income from warehouse and aggregation credit facilities, asset-backed commercial paper and the proceeds from the sales and securitizations of loans. We also intend to finance residual interests in securitization transactions using Net Interest Margin, or NIM, structures. As of December 31, 2003, we had no short-term warehouse and aggregation credit facilities or asset-backed commercial paper providing us with any committed or uncommitted borrowing capacity to fund loan originations and purchases pending the pooling and sale of such loans.

On August 11, 2004 our wholly owned subsidiary, Silverado Mortgage Corporation (formerly Realty Capital Corporation) received approval for a \$2,000,000 Mortgage Warehouse and Security Facility. A signed agreement was executed on September 3, 2004 and we started utilizing the warehouse and security facility on November 22, 2004.

During volatile times in the capital and secondary markets, access to warehouse, aggregation and residual financing as well as access to the securitization and secondary markets for the sale of loans has been severely constricted. If we are unable to maintain adequate financing or other sources of capital are not available, we would be forced to suspend or curtail our operations, which could have a material adverse effect on our results of operations, financial condition and business prospects.

New legislation could restrict our ability to make mortgage loans, which could adversely impact our earnings.

Several states and cities are considering or have passed laws, regulations or ordinances aimed at curbing predatory lending practices. The federal government is also considering legislative and regulatory proposals in this regard. In general, these proposals involve lowering the existing federal Homeownership and Equity Protection Act thresholds for defining a "high-cost" loan, and establishing enhanced protections and remedies for borrowers who receive such loans. However, many of these laws and rules extend beyond curbing predatory lending practices to restrict commonly accepted lending activities, including some of our planned activities. For example, some of these laws and rules prohibit any form of prepayment charge or severely restrict a borrower's ability to finance the points and fees charged in connection with his or her loan. In addition, some of these laws and regulations provide for extensive assignee liability for warehouse lenders, whole loan buyers and securitization trusts. Because of enhanced risk and for reputational reasons, many whole loan buyers

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

elect not to purchase any loan labeled as a "high cost" loan under any local, state or federal law or regulation. Accordingly, these laws and rules could severely constrict the secondary market for a significant portion of our loan production. This would effectively preclude us from continuing to originate

12

loans that fit within the newly defined thresholds. For example, after the October 1, 2002 effective date of the Georgia Fair Lending Act, many lenders and secondary market buyers refused to finance or purchase Georgia loans. As a result, many companies were forced to cease providing mortgages in Georgia until the law's amendment a few months later. Similar laws have gone into effect in New Jersey, as of November 27, 2003 ("New Jersey Home Ownership Act of 2002"), and in New Mexico, as of January 1, 2004 ("New Mexico Home Loan Protection Act"), that have impacted origination of loans in those states. The potential long-term reduction in loans in New Jersey and in New Mexico could be quite severe. Moreover, some of our competitors who are national banks or federally chartered thrifts may not be subject to these laws and may as a consequence be able to capture market share from us and other lenders. For example, the Office of the Comptroller of the Currency recently issued regulations effective January 7, 2004 that preempt state and local laws that seek to regulate mortgage-lending practices. Passage of such laws could increase compliance costs, reduce fee income and reduce origination volume, all of which would have a material adverse effect on our results of operations, financial condition and business prospects.

We are no longer able to rely on the Alternative Mortgage Transactions Parity Act to preempt certain state law restrictions on prepayment penalties, which could adversely impact our earnings.

The value of a mortgage loan depends, in part, upon the expected period of time that the mortgage loan will be outstanding. If a borrower pays off a mortgage loan in advance of this expected period, the holder of the mortgage loan does not realize the full value expected to be received from the loan. A prepayment penalty payable by a borrower who repays a loan earlier than expected helps offset the reduction in value resulting from the early payoff. Consequently, the value of a mortgage loan is enhanced to the extent the loan includes a prepayment penalty, and a mortgage lender can offer a lower interest rate and/or lower loan fees on a loan which has a prepayment penalty. Prepayment penalties are an important feature used to obtain value on loans.

Certain state laws restrict or prohibit prepayment penalties on mortgage loans, and until July 2003, lenders could rely on the federal Alternative Mortgage Transactions Parity Act (the "Parity Act") and related rules issued in the past by the Office of Thrift Supervision (the "OTS") to preempt state limitations on prepayment penalties. The Parity Act was enacted to extend to financial institutions, other than federally chartered depository institutions, the federal preemption that federally chartered depository institutions enjoy. However, on September 25, 2002, the OTS released a new rule that reduced the scope of the Parity Act preemption and, as a result; we are not able to rely on the Parity Act to preempt state restrictions on prepayment penalties. The effective date of the new rule, originally January 1, 2003, was subsequently extended by the OTS until July 1, 2003 in response to concerns from interested parties about the burdens associated with compliance. The elimination of this federal preemption requires us to comply with state restrictions on prepayment penalties. These restrictions prohibit us from charging any prepayment penalty in eight states and limit the amount or other terms and conditions of our prepayment penalties in several other states. This may place us at a competitive disadvantage relative to financial institutions that continue to enjoy federal preemption of such state restrictions. Such institutions are able to charge prepayment penalties without regard to state restrictions and, as a result, may

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

be able to offer loans with interest rate and loan fee structures that are more attractive than the interest rate and loan fee structures that we are able to offer.

The scope of our lending operations exposes us to risks of noncompliance with an increasing and inconsistent body of complex laws and regulations at the federal, state and local levels.

Currently, we are licensed to originate mortgage loans only in California, however we are in the process of applying for licenses to generate loans in Arizona, Nevada, Utah, Idaho, Oregon and Washington, and when licensed we will be forced to comply with the laws and regulations, as well as judicial and administrative decisions, for all of these jurisdictions, as well as an extensive body of federal law and regulations. The volume of new or modified laws and regulations has increased in recent years, and, individual cities and counties have begun to enact laws that restrict non-prime loan origination activities in those cities and counties. The laws and regulations of each of these jurisdictions are different, complex and, in some cases, in direct conflict with each other. As our operations continue to grow, it may be more difficult to comprehensively identify, to accurately interpret and to properly program our technology systems and effectively train our personnel with respect to all of these laws and regulations, thereby potentially increasing our exposure to the risks of noncompliance with these laws and regulations.

Our failure to comply with these laws can lead to:

- o civil and criminal liability;
- o loss of approved status;
- o demands for indemnification or loan repurchases from purchasers of our loans;

13

- o class action lawsuits; or
- o administrative enforcement actions.

Any of these results could have a material adverse effect on our results of operations, financial condition and business prospects.

If warehouse lenders and securitization underwriters face exposure stemming from legal violations committed by the companies to whom they provide financing or underwriting services, this could increase our borrowing costs and negatively affect the market for whole loans and mortgage-backed securities.

In June 2003, a California jury found a warehouse lender and securitization underwriter liable in part for fraud on consumers committed by a lender to whom it provided financing and underwriting services. The jury found that the investment bank was aware of the fraud and substantially assisted the lender in perpetrating the fraud by providing financing and underwriting services that allowed the lender to continue to operate, and held the bank liable for 10% of the plaintiff's damages. This is the first case we know of in which an investment bank was held partly responsible for violations committed by the bank's mortgage lender customer. If other courts or regulators adopt this theory, investment banks may face increased litigation as they are named as defendants in lawsuits and regulatory actions against the mortgage companies with which they do business. Some investment banks may exit the business, charge more for warehouse lending or reduce the prices they pay for whole loans in

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

order to build in the costs of this potential litigation. This could, in turn, have a negative effect on our results of operations, financial condition and business prospects.

High delinquencies or losses on mortgage loans in securitizations may decrease cash flows or impair our ability to sell or securitize loans in the future.

Loans made to lower credit grade borrowers, including credit-impaired borrowers, entail a higher risk of delinquency and higher losses than loans made to borrowers with better credit. We plan to make a substantial portion of our loans to borrowers who do not qualify for loans from conventional mortgage lenders. No assurance can be given that our underwriting criteria or methods will afford adequate protection against the higher risks associated with loans made to lower credit grade borrowers. We will be subject to risks of default and foreclosure following the sale of loans through securitization. To the extent such losses are greater than expected; the cash flows received through residual interests and from securitizations structured as financings would be reduced. Increased delinquencies or losses may also reduce or eliminate our ability to sell or securitize loans in the future and could have a substantial, material adverse effect on our operations, financial condition and business prospects.

Our inability to realize cash proceeds from loan sales and securitizations in excess of the loan acquisition cost could adversely affect our financial position.

The net cash proceeds received from loan sales consist of the premiums received on sales of loans in excess of the outstanding principal balance, plus the cash proceeds received from securitizations, minus the discounts on any loans that are sold for less than the outstanding principal balance. If we are unable to originate loans at a cost lower than the cash proceeds realized from loan sales, our results of operations, financial condition and business prospects could be materially adversely affected.

Warehouse and aggregation financing is subject to margin calls based on the lender's opinion of the value of loan collateral. An unanticipated large margin call could adversely affect our liquidity.

The amount of financing we may receive under any warehouse and aggregation-financing agreements depends in large part on the lender's valuation of the mortgage loans that secure the financings. Asset-backed commercial paper facilities have similar provisions. Each such facility provides the lender the right, under certain circumstances, to reevaluate the loan collateral that secures outstanding borrowings at any time. In the event the lender determines that the value of the loan collateral has decreased, it has the right to initiate a margin call. A margin call would require us to provide the lender with additional collateral or to repay a portion of the outstanding borrowings. Any such margin call could have a material adverse effect on our results of operations, financial condition and business prospects.

We face competition that could adversely affect our market share and our revenues.

We face intense competition from finance and mortgage banking companies and from Internet-based lending companies. In addition, certain government-sponsored entities, such as Fannie Mae and Freddie Mac, are also expanding their participation in the non-prime mortgage industry. These government-sponsored

entities have a size and cost-of-funds advantage that allows them to purchase

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

loans with lower rates or fees than we are willing to offer. While the government-sponsored entities presently do not have the legal authority to originate mortgage loans, including non-prime loans, they do have the authority to buy loans. A material expansion of their involvement in the market to purchase non-prime loans could change the dynamics of the industry by virtue of their sheer size, pricing power and the inherent advantages of a government charter. In addition, if as a result of their purchasing practices, these government-sponsored entities experience significantly higher-than-expected losses, such experience could adversely affect the overall investor perception of the non-prime mortgage industry.

Competitors with lower costs of capital have a competitive advantage over us. In addition, establishing a lending operation such as ours requires a relatively small commitment of capital and human resources. This low barrier to entry permits new competitors to enter our markets quickly and compete with us. This could have a material adverse effect on our results of operations, financial condition and business prospects.

Some Thrifts, national banks and their operating subsidiaries are also expanding their lending activities. By virtue of their charters, these institutions are exempt from complying with many of the state and local laws that affect our operations. For example, they can offer loans with prepayment charges in many jurisdictions where we cannot. If more of these federally chartered institutions are able to use their preemptive ability to provide more competitive pricing and terms than we can offer, it could have a material adverse effect on our results of operations, financial condition and business prospects.

The intense competition in the mortgage industry has also led to rapid technological developments, evolving industry standards and frequent releases of new products and enhancements. As mortgage products are offered more widely through alternative distribution channels, such as the Internet, we may be required to make significant changes to our information systems to compete effectively. Our inability to continue enhancing our current capabilities, or to adapt to other technological changes in the industry, could have a material adverse effect on our results of operations, financial condition and business prospects.

Our hedging strategies may not be successful in mitigating our risks associated with changes in interest rates.

We may intend to use various derivative financial instruments to provide a level of protection against changes in interest rates, but no hedging strategy can protect us completely. When rates change we expect to record a gain or loss on derivatives, which would be offset by an inverse change in the value of loans or residual interests. We cannot assure you, however, that our use of derivatives will offset the risks related to changes in interest rates. It is likely that there will be periods in the future, during which we will incur losses after accounting for our derivative financial instruments. The derivative financial instruments we select may not have the effect of reducing our interest rate risk. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. In addition, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the derivatives that we may use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses.

The complex federal, state and municipal laws governing loan-servicing activities could increase our exposure to the risk of noncompliance.

We intend to service the loans we originate on a nationwide basis. Therefore, we must comply with the laws and regulations, as well as judicial and

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

administrative decisions, of all relevant jurisdictions pertaining to loan servicing, as well as an extensive body of federal laws and regulations. The volume of new or modified laws and regulations has increased in recent years, and, in addition, some individual municipalities have begun to enact laws that restrict loan-servicing activities. The laws and regulations of each of these jurisdictions are different, complex and, in some cases, in direct conflict with each other. As our servicing operations continue to grow, it may be more difficult to comprehensively identify, to accurately interpret and to properly program our technology systems and effectively train our personnel with respect to all of these laws and regulations, thereby potentially increasing our exposure to the risks of noncompliance with the laws and regulations pertaining to loan servicing. Our failure to comply with these laws could lead to, among other things: (i) civil and criminal liability, including potential monetary penalties; (ii) legal defenses causing delaying or otherwise adversely affecting the servicer's ability to enforce loans, or giving the borrower the right to rescind or cancel the loan transaction; (iii) class action lawsuits; and (iv) administrative enforcement actions. This could result in a material adverse effect on our results of operations, financial condition and business prospects.

Any non-prime loans we originate will generally have higher delinquency and default rates, which could result in losses on loans that we are required to repurchase.

Non-prime mortgage loans generally have higher delinquency and default rates than prime mortgage loans. Delinquency interrupts the flow of projected interest

15

income from a mortgage loan, and default can ultimately lead to a loss if the net realizable value of the real property securing the mortgage loan is insufficient to cover the principal and interest due on the loan. Also, our cost of financing and servicing a delinquent or defaulted loan is generally higher than for a performing loan. We bear the risk of delinquency and default on loans beginning when we originate them. In whole loan sales our risk of delinquency typically only extends to the first payment, but when we securitize we continue to bear some exposure to delinquencies and losses through our residual interests and the loans underlying our on-balance sheet securitization transactions. We are required to establish reserves based on our anticipated delinquencies and losses. We also re-acquire the risks of delinquency and default for loans that we are obligated to repurchase. We attempt to manage these risks with risk-based loan pricing and appropriate underwriting policies and loan collection methods. However, if such policies and methods are insufficient to control our delinquency and default risks and do not result in appropriate loan pricing and appropriate loss reserves, our business, financial condition, liquidity and results of operations could be materially harmed.

We are subject to losses due to fraudulent and negligent acts on the part of loan applicants, mortgage brokers, other vendors and our employees.

When we originate mortgage loans, we rely heavily upon information supplied by third parties including the information contained in the loan application, property appraisal, title information and employment and income documentation. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, the mortgage broker, another third party, or one of our employees, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsaleable or subject to repurchase if it is sold prior to detection of the misrepresentation, and the persons and entities involved are often difficult to

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

locate and it is often difficult to collect any monetary losses that we have suffered from them.

There are controls and processes designed to help us identify misrepresented information in our loan origination operations. We cannot assure you, however, that we have detected or will detect all misrepresented information in our loan originations.

We may be subject to fines or other penalties based upon the conduct of our independent brokers.

The mortgage brokers from whom we obtain loans have parallel and separate legal obligations to which they are subject. While these laws may not explicitly hold the originating lenders responsible for the legal violations of mortgage brokers, increasingly federal and state agencies have sought to impose such assignee liability. Recently, for example, the United States Federal Trade Commission ("FTC") entered into a settlement agreement with a mortgage lender where the FTC characterized a broker that had placed all of its loan production with a single lender as the "agent" of the lender. The FTC imposed a fine on the lender in part because, as "principal," the lender was legally responsible for the mortgage broker's unfair and deceptive acts and practices. The United States Justice Department in the past has sought to hold a non-prime mortgage lender responsible for the pricing practices of its mortgage brokers, alleging that the mortgage lender was directly responsible for the total fees and charges paid by the borrower under the Fair Housing Act even if the lender neither dictated what the mortgage broker could charge nor kept the money for its own account. Accordingly, we may be subject to fines or other penalties based upon the conduct of our independent mortgage brokers.

Our business is dependent upon conditions in California where we conduct a significant amount of our business.

In 2003, 100% of the mortgage loans we originated were secured by property in California. An overall decline in the economy or the residential real estate market, or the occurrence of a natural disaster, such as an earthquake, or a major terrorist attack in California could adversely affect the value of the mortgaged properties in California and increase the risk of delinquency, foreclosure, bankruptcy, or loss on mortgage loans in our portfolio. This would negatively affect our ability to purchase, originate and securitize mortgage loans, which could have a material adverse effect on our business, financial condition and results of operations.

If many of our borrowers become subject to the Soldiers' and Sailors' Civil Relief Act of 1940, as amended our cash flows from our residual securities and our securitizations structured as financings may be adversely affected.

Under the Soldiers' and Sailors' Civil Relief Act of 1940, a borrower who enters military service after the origination of his or her mortgage loan generally may not be charged interest above an annual rate of 6% during the period of the borrower's active duty status. The Act also applies to a borrower who was on reserve status and is called to active duty after origination of the mortgage loan. A prolonged, significant military mobilization as part of the war on terrorism or the war in Iraq could increase the number of the borrowers in our securitized pools who are subject to this Act and thereby reduce the interest

payments collected from those borrowers. To the extent the number of borrowers who are subject to this Act is significant, the cash flows we receive from loans underlying our on-balance sheet securitizations and from our residual interests

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

would be reduced, which could cause us to reduce the carrying value of our residual interests and would decrease our earnings. In addition, the Soldiers' and Sailors' Civil Relief Act of 1940, imposes limitations that would impair the ability of the servicer to foreclose on an affected mortgage loan during the borrower's period of active duty status, and under certain circumstances, during an additional three month period thereafter. Any such reduction in our cash flows or impairment in our performance could have a material adverse effect on our results of operations, financial condition and business prospects.

The inability to attract and retain qualified employees could significantly harm our business.

We are dependent on our account executives and retail loan officers to attract borrowers by, among other things, developing relationships with financial institutions, other mortgage companies and brokers, real estate agents, borrowers and others. We believe that these relationships lead to repeat and referral business. The market for skilled account executives and loan officers is highly competitive and historically has experienced a high rate of turnover. In addition, if a manager leaves Silverado, there is an increased likelihood that other members of his or her team will follow. Competition for qualified account executives and loan officers may lead to increased hiring and retention costs. If we are unable to attract or retain a sufficient number of skilled account executives at manageable costs, we will be unable to continue to originate quality mortgage loans that we are able to sell for a profit, which would have a material adverse effect on our results of operations, financial condition and business prospects.

An interruption in or breach of our information systems may result in lost business.

We rely heavily upon communications and information systems to conduct our business. Any failure or interruption or breach in security of our information systems or the third-party information systems on which we rely could cause underwriting or other delays and could result in fewer loan applications being received, slower processing of applications and reduced efficiency in loan servicing. We are required to comply with significant federal and state regulations with respect to the handling of customer information, and a failure, interruption or breach of our information systems could result in regulatory action and litigation against us. We cannot assure you that such failures or interruptions will not occur or, if they do occur, that the third parties on which we rely will adequately address them. The occurrence of any failures or interruptions could have a material adverse effect on our results of operations, financial condition and business prospects.

The success and growth of our business will depend upon our ability to adapt to and implement technological changes.

Our mortgage loan origination business is currently dependent upon our ability to effectively interface with our brokers, borrowers and other third parties and to efficiently process loan applications and closings. The origination process is becoming more dependent upon technological advancement, such as the ability to process applications over the Internet, accept electronic signatures, provide process status updates instantly and other customer-expected conveniences that are cost-efficient to our process. In addition, we are in the process of implementing a new loan origination system. Implementing and becoming proficient with the new loan origination system and other new technology will require significant financial and personnel resources. There is no guarantee that the implementation of our new loan origination system or other new technology will be successful. To the extent that we become reliant on any particular technology or technological solution, we may be adversely affected to the extent that such technology or technological solution (i) becomes non-compliant with existing industry standards, (ii) fails to meet or exceed the capabilities of our

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

competitors' equivalent technologies or technological solutions, or (iii) becomes increasingly expensive to service, retain and update. Any failure to acquire technology or technology solutions when necessary could limit our ability to remain competitive in our industry and could also limit our ability to increase the cost-efficiencies of our operating model, which would have a material adverse effect on our results of operations, financial condition and business prospects.

We may be required to repurchase mortgage loans or indemnify investors if we breach representations and warranties, which could adversely impact our earnings.

When we sell loans, we are required to make customary representations and warranties about such loans to the loan purchaser. Our whole loan sale agreements require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser or make a misrepresentation during the mortgage loan origination process. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan. Likewise, we are required to repurchase or substitute loans if we breach a representation or warranty in connection with our securitizations. The remedies available to a purchaser of mortgage loans are generally broader than those available to us against the originating broker or correspondent. Further, if a purchaser enforces its remedies against us, we may not be able to enforce the remedies we have against the sellers. The repurchased loans typically can only be financed at a steep discount to their repurchase price, if at all. They are also typically sold at a significant discount to the unpaid principal balance. Significant repurchase activity could negatively affect our cash flow and results of operations.

17

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may foreclose and take title to residential properties, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

Our charter and bylaws and Nevada law contain provisions that could discourage a takeover.

Our amended and restated certificate of incorporation and our amended and restated bylaws include various provisions that could delay, defer or prevent a takeover attempt that may be in the best interest of our stockholders. These provisions include the existence of a classified board of directors, the ability of our board of directors to issue shares of our preferred stock without any further stockholder approval and requirements that (i) our stockholders give advance notice with respect to certain proposals they may wish to present for a stockholder vote, (ii) our stockholders act only at annual or special meetings and (iii) two-thirds of all directors approve a change in the number of

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

directors on our board of directors. Issuance of our preferred stock could discourage bids for the common stock at a premium as well as create a depressive effect on the market price of our common stock.

We are also subject to Nevada General Corporation Law, which could discourage potential acquisition proposals, delay or prevent a change of control and prevent changes in our management.

If we do not manage our growth effectively, our financial performance could be harmed.

Rapid growth places, and will continue to place, certain pressures on our management, administrative, operational and financial infrastructure. As of December 31, 2003, we had no employees as all of our personnel were independent contractors; however, we have recently applied for licensure under the California Department of Corporations as a Consumer Finance Lender and will begin hiring loan executives as employees. Many of these employees have a limited understanding of our systems and controls. The increase in the size of our operations may make it more difficult for us to ensure that we originate quality loans and that we service them effectively. We will need to attract and hire additional sales and management personnel in an intensely competitive hiring environment in order to preserve and increase our market share. At the same time, we will need to continue to upgrade and expand our financial, operational and managerial systems and controls.

Various factors may cause the market price of our common stock to become volatile, which could adversely affect our ability to access the capital markets in the future.

The market price of our common stock may experience fluctuations that are unrelated to our operating performance. In particular, the price of our common stock may be affected by general market price movements as well as developments specifically related to the consumer finance industry and the financial services sector. These could include, among other things, interest rate movements, quarterly variations or changes in financial estimates by securities analysts, or a significant reduction in the price of the stock of another participant in the consumer finance industry. This volatility may make it difficult for us to access the capital markets through additional secondary offerings of our common stock, regardless of our financial performance.

ITEM 2. PROPERTIES

None.

ITEM 3. LEGAL PROCEEDINGS

On January 27, 2004 DL Pacific Center LP ("DL Pacific") filed a lawsuit for \$40,444 plus costs and attorney's fees against us in San Diego County Superior Court. The suit alleges that, after we purchased San Francisco Funding, Inc. ("SFF") in November 2003, we assumed SFF's obligations pursuant to DL Pacific's lease with SFF by accepting the benefits of such lease and by negotiating with DL Pacific for amendments to the lease. Silverado has agreed to settle the lawsuit.

On March 9, 2004 Robert E. Vener ("Vener") filed an amendment to his lawsuit for \$7,500 per month from November 2003 to March 2006 plus costs and attorney's fees against us in Marin County Superior Court. The suit alleges that, after we purchased San Francisco Funding, Inc. ("SFF") in November 2003, we assumed SFF's

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

obligations pursuant to Vener's lease with SFF by stating and representing to Vener that we would be responsible for any amounts due from SFF pursuant to the lease, and that Vener relied on our representations by allowing SFF to remain on the premises following SFF's default in the payment of rent on the lease. We have agreed to settle the suit.

We have filed a cross-complaint against SFF and its major stockholder(s) Mr. and Mrs. Daniel Selis, for indemnity for the cost of defending the Veneer lawsuit, and punitive damages resulting from breach of contract, fraud and/or interference with our advantageous business relationships because of: (1) SFF's material breaches of the SFF stock purchase agreement and SFF's material misrepresentations to us of SFF's liabilities and obligations, (2) SFF's written false statements to its creditors that we had assumed their debts, and (3) SFF's forwarding of its phone calls to our offices and directing their creditors to call our offices concerning payment of their liabilities and obligations.

On May 12, 2004 The Subway. Com filed for Arbitration for \$60,000 plus interest against us in the state of Florida. The suit claims breach of contract for stock promotion services. The Company believes it has meritorious defense and that no contract was ever consummated.

On July 16, 2004, the company was served with a complaint by the State of California, Department of Industrial Relations on behalf of a former contractor for back wages of \$10,937.50 and penalties of \$288.46 for an indeterminate number. It is management's opinion, that we have meritorious defenses based upon the facts, among others, that claimant was acting as an independent contractor who was paid for services performed and her claims are baseless.

On November 24, 2004, SRD Technologies signed a debt cancellation and release agreement which included the release of any and all liabilities owed to SRD Technologies, the relinquishing of 574,953 shares of Silverado Financial, Inc. (SLVO) stock, and a payment to be made by SRD Technologies for auditing expenses in the amount of \$7,500. On the date of the agreement the 574,953 shares were worth \$.05 a share or \$28,748. The affect on our books would be the release of debt in the form of a note payable in the amount of \$275,000 plus accrued interest of \$41,047. the \$7,500 payment would reduce our payable to our auditors and there would be a reduction in shares issued and outstanding.

On November 24, 2004, John Shebanow signed a general release agreement, which included the relinquishing of any and all shares of Silverado Financial, Inc. held by himself (575,870 shares), friends and family and releases any and all of

Silverado Financials liability to Mr. Shebanow on the date of the agreement the 575,870 shares were worth \$0.05 a share or \$28,794. The affect on our books would be a reduction in accounts payable of approximately \$20,660 and a reduction in the number of shares issued and outstanding.

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

None.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

General

The Company has an authorized capitalization of 20,000,000 shares of common stock and 1,000,000 shares of preferred stock, \$0.001 par value per share of which 18,216,697 were issued and outstanding at December 31, 2004.

Market Information

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

The Company's common stock is traded in the over-the-counter market on the OTC Bulletin Board under the symbol "SLVO". The following table sets forth the range of high and low bid quotes of the Company's Common Stock per calendar quarter which reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

19

2004	Low	High
Fourth Quarter (1)	\$ 0.040	\$ 0.380
Third Quarter (1)	\$ 0.070	\$ 0.330
Second Quarter (1)	\$ 0.100	\$ 0.240
First Quarter (1)	\$ 0.140	\$ 0.280
2003	Low	High
Fourth Quarter (1)	\$ 0.150	\$ 0.420
Third Quarter (1)	\$ 0.100	\$ 0.220
Second Quarter (1)	\$ 0.150	\$ 0.210
First Quarter (1)	\$ 0.200	\$ 0.350
2002	Low	High
Fourth Quarter (1)	\$ 0.100	\$ 0.900
Third Quarter (1)	\$ 0.110	\$ 0.600
Second Quarter (1)	\$ 0.110	\$ 0.275
First Quarter (1)	\$ 0.080	\$ 0.300

(1) As adjusted by the April 29, 2003 five for one rollback.

On March 10, 2000 the Company's common shares began trading on the Berlin and Frankfurt Stock Exchanges in Germany under the symbol "919335".

Holders

The Company estimates that there are approximately 2200 shareholders of record of the Company's Common Stock and approximately 300 additional shareholders holding Common Stock in street name.

Recent Sales of Unregistered Securities

At December 31, 2004 we had \$19,608 in cash and \$821,577 in total assets. We also had \$467,071 in total liabilities down from \$657,889 in 2003. On November 24, 2004, SRD Technologies signed a debt cancellation for the \$275,000 note and management anticipates executing on its right to convert some \$36,000 in convertible notes currently outstanding. Through the cancellation of the \$275,000 debt and the conversion of the aforementioned \$36,000 in convertible notes Silverado's has all but eliminated its long and short-term debt obligations. In addition, Silverado anticipates settlement of \$939.00 in debt to affiliates and elimination of accrued officer salaries of \$138,480 through the conversion of the \$138,480 into an equal amount of restricted common shares.

On February 1, 2004, Silverado opened a \$200,000 private placement to accredited investors. Subscribers receive shares at a 50% discount to the closing price of

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

SLVO common stock on the day preceding receipt of their subscription agreement and investment. This offering is open only to accredited investors. As of December 31, 2004, we had received \$173,350 under this private placement.

We believe that we have sufficient capital and resources to support operations through the remainder of 2005. However, we do not believe that we will be able to successfully implement our long term plans without raising additional capital. We anticipate that the capital requirements for the balance of the period ending December 31, 2005 will require that additional cash be raised from external sources. We believe that this requirement will be met by cash equity investments.

20

Dividends

The Company has never declared or paid cash dividends on its common stock and anticipates that future earnings, if any, will be retained for development of its business. Payment of cash dividends in the future will be wholly dependent upon the Company's earnings, financial condition, capital requirements and other factors deemed relevant by them. It is not likely that cash dividends will be paid in the near future.

ITEM 6. MANAGEMENT'S PLAN OF OPERATION

THIS REPORT (AND ESPECIALLY THIS SECTION) CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, INCLUDING, WITHOUT LIMITATION, STATEMENTS REGARDING THE COMPANY'S EXPECTATIONS, BELIEFS, INTENTIONS, PLANS OR FUTURE STRATEGIES THAT ARE SIGNIFIED BY THE WORDS "EXPECTS", "PLANS" "ANTICIPATES", "INTENDS", "BELIEVES", OR SIMILAR LANGUAGE. SUCH FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, THE SEEKING OF REVENUE PRODUCING ACQUISITIONS, THE DEVELOPMENT PLANS FOR THE TECHNOLOGIES OF THE COMPANY, TRENDS IN THE RESULTS OF THE COMPANY'S DEVELOPMENT, ANTICIPATED DEVELOPMENT PLANS, OPERATING EXPENSES AND THE COMPANY'S ANTICIPATED CAPITAL REQUIREMENTS AND CAPITAL RESOURCES. THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS, UNCERTAINTIES AND OTHER FACTORS. ALL FORWARD-LOOKING STATEMENTS INCLUDED IN THIS DOCUMENT ARE BASED ON INFORMATION AVAILABLE TO THE COMPANY ON THE DATE HEREOF AND SPEAK ONLY AS OF THE DATE HEREOF. THE RISK FACTORS DISCUSSED IN THIS ANNUAL REPORT ON FORM 10-KSB ARE AMONG THOSE FACTORS THAT IN SOME CASES MAY AFFECT THE COMPANY'S RESULTS AND COULD CAUSE THE ACTUAL RESULTS TO DIFFER MATERIALLY AND ADVERSELY FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS. SUBJECT TO THE ABOVE QUALIFICATIONS AND SUCH RISK FACTORS, THE FOLLOWING DISCUSSION IS INTENDED TO PROVIDE AN ANALYSIS OF MANAGEMENT'S PLAN OF OPERATION AND SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S FINANCIAL STATEMENTS AND THE NOTES THERETO.

Silverado Financial, Inc., operates as a mortgage bank, and as the marketing and service organization to coordinate the activities of the Company's retail hub offices, spoke offices, subsidiary companies and strategic partners. Silverado will oversee the compliance, accounting, human resources, technology, help facilitate cross selling and branding, and control and monitor the experience of its retail and on-line clients. Silverado generates and controls the leads it provides its Advisors and Associates and has focused its growth strategy on creating unique proprietary lead flow.

By the December 31, 2006 Silverado will expand to operate five (5) retail hub offices across the United States located in Campbell and Pleasanton, California, Phoenix, Arizona, Denver, Colorado and Boise, Idaho.

Each hub shall contain approximately 100 employees including telemarketing,

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

Advisors, Associates, Loan Processors, a Sales Manager, Branch Manager and Telemarketing Manager. The Company currently operates hubs in San Jose, California and Phoenix, Arizona. By second quarter of 2005 it will open the Denver, Colorado Hub.

Each Hub will manage as many spoke office as are reasonable without over saturating the market. The San Jose, California Hub currently has a spoke in Pleasanton, California and plans to open one in Martinez California in the first quarter of 2005. Each spoke contains 10 to 20 Lending Advisors, a Loan Processor and a Branch Manager.

Management has begun to create the operational and technological infrastructure to connect each hub and spoke office ensuring a controlled flow of information, technology, and products through the mortgage bank for delivery to the desk of the Lending Advisor or Associate. Consistent net income will be achieved by making the Lending Advisor a conduit for the products and offerings of the Company so that delivery is consistent and a high level of service is achieved. Silverado anticipates that approximately 75% of its brokerage and banking revenue will come from internal loan products where Silverado acts as lender and that the remaining 25% will come from externally brokered loan products.

The departmental structure for Silverado Financial, Inc. will include:

- o Corporate
- o Marketing o Finance
- o Compliance

21

- o Human Resources
- o Technology
- o Banking
- o Education and Training (Silverado University)

Necessary steps to be taken in 2005 include:

1. Fully staff the Phoenix, Arizona hub by April 1, 2005
2. Open and begin staffing the Denver, Colorado hub by September 1, 2005.
3. Open and begin staffing the Boise, Idaho hub by December 1, 2005.
4. Focus hub expansion on the Western United States due to the rapid growth within these western states.
5. Create additional venues for lead generation.
6. Presently our Pleasanton, California office has a mixed focus on the Spanish speaking market. We see great opportunity in the Spanish speaking market and anticipate expanding Pleasanton's Spanish speaking workforce into a complete department or freestanding office of approximately 40-60 Spanish speaking Loan Advisors and 15-25 Spanish-speaking Telemarketing Associates. Opening a solely Latino/Hispanic hub office would probably be in the Central valley area of California, have Spanish speaking Telemarketers, Lending Advisors and Loan Processors, have all forms and documents printed in Spanish and actively pursue the Hispanic and Latino communities in the Western United States.

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

7. Formalize the Silverado training program and make it available to teach in all hub offices.
8. Obtain or renew mortgage-banking licenses in California, Arizona, Nevada, Oregon Washington, Utah, Colorado, Idaho and New Mexico.
9. Develop and implement incentive program for Managers, Advisors and Associates to promote internal loan sales and minimize brokered product.
10. Develop correspondent relationships to fill gaps in our current product offering mix
11. Complete website and software development-phase II

Hub Offices

Each hub office should be a stand-alone profit center. Hub Manager's are responsible for the profit, morale, expansion, etc. of their hub as well as achieving a minimum internal growth rate of 20%. Hub Manager's will report directly to Corporate Management at Silverado Financial, Inc. and layers of management will be kept thin, and communication should be open and easy. The Hub Managers will also be responsible for the creation and management of spoke offices in their area of operation.

Corporate management has allowed each Hub to operate autonomously, keeps a close eye on goals and growth, and helps to facilitate communication between corporate-to-hub, as well as hub-to-spoke operations.

Recruiting

Recruiting and training are the backbone of Silverado's internal growth strategy and as such the Company intends to continue the following strategies in its recruiting program.

1. Hire untrained personnel and train in the Silverado way.
2. Promote managers developed within the Company.
3. Ensure that all new hires start as Telemarketing Associates and control the entire training process.

22

Training

Continue to expand and implement Silverado University, our proprietary training program Implement the new classroom training program and mandate that all managers and corporate officers participate as teachers.

Expand the number of Senior Advisors/Mentors the Company has to facilitate projected growth.

Horizontal Integration

Silverado's target customer is the non-prime borrower, as such Silverado intends pursue opportunities for expansion by providing additional services to this market segment.

- i. Non-prime auto loans
- ii. Non-prime banking
- iii. Secured Short-Term Consumer Finance Loans

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

iv. Hard Money Real Estate Loans

ITEM 7. FINANCIAL STATEMENTS

Silverado Financial, Inc.

Audited Consolidated Financial Statements

For the Years Ended December 31, 2004, 2003 and 2002

Table of Contents

Report

Report of Independent Accountants 1

Audited Financial Statements

Consolidated Balance Sheets 2
 Consolidated Statements of Income 4
 Consolidated Statements of Stockholders' Equity 5
 Consolidated Statements of Cash Flows 7
 Consolidated Notes to Financial Statements 9

23

[LETTERHEAD OF SALLMANN,
YANG & ALAMEDA]

PERCY S. YANG, CPA, ABV
KATHLEEN M. ALAMEDA, CPA
DEBRA K. DOBLE, CPA
LOUISE SALLMANN (RETIRED)

J. LORI BATEMAN, CPA
 CYNTHIA BROWN, CPA
 JENNIFER D. CASTELLUCCIO, CPA
 KAYLEEN J. CLEMENS, CPA
 MARION E. LEACH, CPA
 MICHAEL R. RAMIL, CPA
 ARTHUR ROMERO, CPA
 JOHN ROSEHTNAL, CPA
 GEORGEAN M. VONHEEDER-LEOPOLD, EA
 DANIEL J. PAYNE, CPA

Report of Independent Accountants

To The Board of Directors and Stockholders of
Silverado Financial, Inc.
Pleasanton, California

We have audited the accompanying consolidated balance sheets of Silverado Financial, Inc. (a Nevada Corporation) as of December 31, 2004 and 2003 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years ended December 31, 2004. 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 audit.

We conducted our audit in accordance with auditing standards of the Public

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

Company Accountancy Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Silverado Financial, Inc. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the three years ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's significant operating losses 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.

/s/ Sallmann, Yang & Alameda

SALLMANN, YANG & ALAMEDA
An Accountancy Corporation

Pleasanton, California
April 6, 2005

1

Silverado Financial, Inc.

Consolidated Balance Sheets

	December 31,	
	2004	2003

Assets		
Current assets		
Cash	\$ 19,608	\$ 1,230
Accounts receivable	16,886	11,405
Stock receivable	7,857	--
Investments	--	17,775
Prepaid expenses	10,924	--

Total current assets	55,275	30,410
Furniture and equipment		
Furniture and equipment	149,971	134,271
Intellectual property	699,010	--
Accumulated depreciation and amortization	(104,576)	(17,901)

Total furniture and equipment	744,405	116,370
Other assets		

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

Deposits	21,897	6,900
Other intangibles	--	1,398,020

Total other assets	21,897	1,404,920

Total assets	\$ 821,577	\$ 1,551,700
	=====	

See accompanying notes and accountants' report

2

Silverado Financial, Inc.

Consolidated Balance Sheets

	December 31,	
	2004	2003

Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 55,870	\$ 244,821
Notes payable - other	25,000	--
Notes payable - shareholders	43,767	--
Due to affiliates	--	74,000
Payroll taxes payable	86,297	--
Income taxes payable	2,400	--
Accrued wages	206,432	--
Accrued liabilities	11,305	28,068
Convertible notes	36,000	36,000

Total current liabilities	467,071	382,889
Long-term debt		
Notes payable	--	275,000

Total long-term debt	--	275,000

Total liabilities	467,071	657,889
Stockholders' equity		
Preferred stock, \$.001 par value, 1,000,000 shares authorized, no shares issued and outstanding	--	--
Common stock, \$.001 par value, 20,000,000 shares authorized, 18,216,697 shares issued and outstanding	18,217	14,839
Deferred compensation	--	(16,000)
Additional paid in capital	10,889,713	10,455,513
Accumulated deficit	(10,553,424)	(9,560,541)

Total stockholders' equity	354,506	893,811

Total liabilities and stockholders' equity	\$ 821,577	\$ 1,551,700
	=====	

See accompanying notes and accountants' report

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

3

Silverado Financial, Inc.
Consolidated Statements of Income

	For the Years Ended December 31,		
	2004	2003	2002
Income			
Net sales	\$ 903,067	\$ 115,823	\$ 7,500
Cost of sales	320,563	91,016	--
Gross profit	582,504	24,807	7,500
Operating expenses			
Research and development	--	--	(9,184)
Intellectual property impairment	389,753	--	276,250
Selling, general and administrative expenses	1,114,222	910,565	136,587
Depreciation and amortization	86,675	18,537	--
Total operating expenses	1,590,650	929,102	403,653
Operating loss	(1,008,146)	(904,295)	(396,153)
Other income (expense)			
Interest income	--	9	--
Other income	33,378	--	--
Loss on sale of investments	--	(6,201)	--
Loss on sale of equipment	--	(1,269)	--
Interest expense	(16,515)	(26,304)	(6,820)
Total other income (expense)	16,863	(33,765)	(6,820)
Loss before income taxes	(991,283)	(938,060)	(402,973)
Income tax expense	1,600	--	--
Net loss	\$ (992,883)	\$ (938,060)	\$ (402,973)
Loss per share (basic)	\$ (0.05)	\$ (0.07)	\$ (0.06)
Loss per share (dilutive)	\$ (0.05)	\$ (0.07)	\$ (0.06)

See accompanying notes and accountants' report

4

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

Shares issued for services		480,179
Shares issued for Realty Capital Corporation		127,654
Shares issued for debt		52,101
Cancellation of shares		(16,684)
Net loss		(938,060)

Balance, December 31, 2003	--	893,811

All shares reflect reverse stocksplit 5:1 effective April 29, 2003.

See accompanying notes and accountants' report

5

Silverado Financial, Inc.

Consolidated Statements of Stockholders' Equity (continued)
For the Years Ended December 31, 2004 and 2003

	Common Stock Shares	Stock Amount	Additional Paid-in Capital

Balance, December 31, 2003 (from previous page)	14,839,492	\$ 14,839	\$ 10,455,513
Shares issued for cash	1,642,700	1,643	115,857
Shares issued for payables	944,890	945	158,256
Shares issued for services	1,980,889	1,981	225,754
Shares loaned to Company	(729,452)	(729)	(43,038)
Cancellation of shares	(461,822)	(462)	(22,629)
Net loss			

Balance, December 31, 2004	18,216,697	\$ 18,217	\$ 10,889,713
	=====		

	Net Unrealized Holding Loss on Available for Sale Securities	Total Stockholders' Equity

Balance, December 31, 2003 (from previous page)	\$ --	\$ 893,811
Shares issued for cash		117,500
Shares issued for payables		159,201
Shares issued for services		243,735
Shares loaned to Company		(43,767)
Cancellation of shares		(23,091)
Net loss		(992,883)

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

Balance, December 31, 2004 \$ -- \$ 354,506

All shares reflect reverse stocksplit 5:1 effective April 29, 2003

See accompanying notes and accountants' report

6

Silverado Financial, Inc.

Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2004	2003	2002
Operating activities			
Net loss	\$ (992,883)	\$ (938,060)	\$ (402,970)
Adjustments to reconcile net loss to cash flows from operating activities:			
Depreciation and amortization	86,675	18,537	--
(Gain) loss on sale of marketable securities	(9,813)	6,201	--
Loss on sale of equipment	--	1,268	--
Intellectual property impairment	389,753	--	276,250
Stock for services and payables	385,594	650,854	55,190
Other non-cash adjustments	10,801	--	--
(Increase) decrease in:			
Accounts receivable	(5,481)	33,648	(12,620)
Prepaid expenses	(10,924)	--	300
Deposits	(14,997)	292	(6,890)
Increase (decrease) in:			
Accounts payable	(188,951)	148,433	(1,880)
Due to affiliates	(74,000)	19,000	55,000
Payroll taxes payable	86,297	--	--
Income taxes payable	2,400	--	--
Accrued wages	206,432	--	--
Accrued liabilities	(16,763)	24,976	3,090
Net cash used in operating activities	(145,860)	(34,851)	(34,530)
Investing activities			
Proceeds from the sale of investments	27,588	10,275	--
Accounts payable converted to notes payable - other	25,000	--	--
Cash received in acquisition of Silverato Mortgage Corporation (formerly Reality Capital Corporation)	--	1,245	--
Purchases of equipment	(15,700)	--	--
Net cash provided by investing activities	36,888	11,520	--
Financing activities			
Proceeds private placements - stock	111,350	14,000	--
Deferred compensation	16,000	--	--
Proceeds from convertible notes	--	10,000	26,000

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

Net cash provided by financing activities	127,350	24,000	26,000
Net increase (decrease) in cash	18,378	669	(8,530)
Cash at beginning of year	1,230	561	9,100
Cash at end of year	\$ 19,608	\$ 1,230	\$ 561

See accompanying notes and accountants' report

7

Silverado Financial, Inc.

Consolidated Statements of Cash Flows (continued)

	For the Years Ended December 31,		
	2004	2003	2002
Supplemental disclosure of cash flow information:			
Interest expense	\$ --	\$ 26,304	\$ 6,820
Stock receivable for decrease in valuation of software purchased with Financial Software, Inc.	7,857		
Supplemental disclosure of non-cash investing and financing activities:			
Issuance of 4,400,000 common shares to purchase Financial Software, Inc.			1,089,903
Issuance of 729,452 common shares to John E. Hartman to purchase Silverado Mortgage Corporation, formerly Realty Capital Corporation		127,654	
Issuance of 248,372 common shares in exchange for cancellation of debt		52,101	
Receipt and cancellation of 62,000 shares from a director for the sale of all scientific intellectual property		(16,684)	
Receipt of 729,452 common shares from John E. Hartman in exchange for a note payable to be satisfied with the re-issuance of shares	(43,767)		
Receipt of 461,822 common shares for decrease in valuation of software purchased with Financial Software, Inc.	(23,091)		
Relinquishment of notes payable for decrease in valuation of software purchased with Financial Software, Inc.	(275,000)		

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

See accompanying notes and accountants' report

8

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation

Nature of Operations

Silverado Financial, Inc. (the Company) is incorporated under the laws of the State of Nevada and based in Pleasanton, California in the San Francisco Bay Area. This Company provides first and second mortgage products to borrowers in California through its subsidiary Silverado Mortgage, formerly Realty Capital Corporation.

The corporation was initially formed on February 26, 1987 as Toledo Medical Corporation. The name was changed to Almaz Space Corporation on February 9, 1991 and to Ready When You Are Funwear, Inc. on April 14, 1992. On February 17, 1995 the name was changed to Rhombic Corporation. On March 19, 2003 the company changed its name to Silverado Financial, Inc.

The Company's efforts, since inception, until October 2002, had been primarily focused on the acquisition of the rights to intellectual property that could lead to the development of innovative scientific technologies. During the years 1999 and 2000 it began to focus on the research and development of its portfolio of acquired intellectual property. During 2001, the main objective was to identify and develop specific applications from the intellectual property in order to make them commercially marketable. In November 2002, the Company acquired Financial Software, Inc. as the first part of its strategy to enter the financial services sector.

During 2004, the Company had two wholly owned subsidiaries as follows:

- o Financial Software, Inc. (FSI)
- o Silverado Mortgage Corporation (SMC), formerly Realty Capital Corporation (RCC)

On November 19, 2002, the Company acquired all of the issued and outstanding shares of Financial Software, Inc. (FSI) a New Jersey corporation engaged in the development of Internet and Intranet financial software in addition to operating several financial industry publishing websites. This acquisition was completed on a share for share exchange basis for 4,400,000 shares of the Company's common stock. FSI was acquired in order to gain access to certain proprietary software products owned by FSI, which the Company intends to further develop and extend into comprehensive mortgage platforms called MortgageCenter and FinanCenter. FSI transferred its state of incorporation to California in February 2003.

On May 9, 2003, in a non-arms length transaction with John E. Hartman, the Company's President, the Company issued 729,452 shares of restricted common stock at a purchase price of \$0.175 per share, which was based on the prior five days average trading price, in exchange for all of the outstanding shares of Realty Capital Corporation (RCC). The purchase price of RCC was \$127,654 and was

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

the net asset value of RCC, as determined by an independent, third party valuation. The shares were issued under Section 4(2) of the 1933 Securities Act.

Additionally Rockford, Nanophase, ADEPT and RDT were held as subsidiaries until sold in 2003. Rockford, Nanophase, ADEPT and RDT were never active, held any assets or had any liabilities or operations. These subsidiaries were created for the purpose of developing specific applications from scientific intellectual property. The Company never implemented its plans to develop the scientific intellectual property. All of its scientific intellectual properties, together with certain marketable securities held for sale, were sold in 2003 to a director, in exchange for the return of 62,000 shares of the Company's common stock and the cancellation of \$1,100 in debt.

Going Concern and Plan of Operations

The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and extinguishment of liabilities in the normal course of business.

9

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

As shown in the accompanying financial statements, the Company had a net loss of \$992,883, \$938,060 and \$402,973 for the years ended December 31, 2004, 2003 and 2002, respectively. It has incurred an accumulated deficit of \$10,553,424 and has a deficit in working capital of \$411,796 as of December 31, 2004. The ability of the Company to continue as a going concern is dependent on obtaining additional capital and financing and operating at a profitable level. The Company intends to seek additional capital either through debt or equity offerings, or a combination thereof, and to seek acquisitions which will generate sales volume with operating margins sufficient to achieve profitability. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Basis of Presentation

The Company has prepared the financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation have been included.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the operations, account balances and cash flows of the Company and its wholly owned subsidiaries, Financial Services, Inc. and Silverado Mortgage Corporation, formerly Realty Capital Corporation. Intercompany transactions and account balances have been eliminated in consolidation. The operations are consolidated from their respective acquisition dates of November 19, 2002 (Financial Services, Inc.) and May 9, 2003 (Silverado Mortgage Corporation).

Concentration of Credit Risk

The Company maintains its cash balances in several financial institutions

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

located in California. The balances held are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2004 and 2003 the Company's account balances did not exceed these limits.

The Company's revenues are concentrated in the mortgage industry which is highly competitive and subject to fluctuations in economic condition. The Company's results of operations, financial condition and business prospects could be materially adversely affected if competition intensifies or if competitors significantly expand their activities in the Company's markets. Fluctuations in interest rates and general economic conditions may also affect the Company's competitive position.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Financial Instruments

Financial instruments consist primarily of cash, investments in marketable securities and obligations under accounts payable and accrued expenses. The carrying amounts of cash, accounts receivable, accounts payable, notes payable and accrued expenses approximate fair value because of the short term maturity of those instruments.

Investments

Statements of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires that all applicable investments be classified as trading securities, available for sale securities or held to maturity securities. The Company did not have any investments classified as trading

See accompanying notes and accountants' report

10

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments (continued)

securities or held-to-maturity securities. The statement further requires that available for sale securities be reported at fair value, with unrealized gains and losses excluded from earnings but reported in a separate component of stockholders' equity (net of the effect of income taxes) until they are sold. At the time of sale, any gains or losses are recognized as a component of operating results.

At December 2004 and 2003, the Company's investments held for sale were \$0 and \$17,775, respectively.

Furniture and Equipment

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

Furniture and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over estimated useful lives generally ranging from three to seven years. Intellectual property is carried at cost less valuation impairment expense and is amortized using the straight-line method over its estimated useful life of three years. Leasehold improvements are carried at cost and are amortized over the shorter of their estimated useful lives or the related lease term (including options), generally ranging from one to six years. Expenditures for major renewals that extend useful lives of furniture, equipment and improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. For income tax purposes, depreciation is computed using the modified cost recovery system.

Depreciation expense for the years ended December 31, 2004, 2003 and 2002 was \$28,424, \$18,537 and \$0, respectively. Amortization expense for the years ended December 31, 2004, 2003 and 2002 was \$58,251, \$0 and \$0, respectively.

Intellectual Property

The Company's intellectual property is comprised of a software platform purchased with Financial Services, Inc. in 2002. The Company periodically evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that an impairment exists. The Company put the software into productive use October 2004 and began amortizing the asset as of that date.

Impairment of Long-Lived Assets

On January 1, 2002, the Company adopted SFAS No. 144, Accounting for Stock-Based Compensation which requires that long-lived assets, to be held and used, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

In the event that facts and circumstances indicate that the cost of long-lived assets, primarily intellectual property and patents, may be impaired, the Company performs a recoverability evaluation. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts exceed the fair values of the assets. Assets to be disposed of are reported at the lower of carrying values or fair values, less costs of disposal.

The Company recognized an impairment expense for the years ended December 31, 2004, 2003 and 2002 of \$389,753, \$0 and \$276,250, respectively.

See accompanying notes and accountants' report

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

Compensating Balances

Employees of the company are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

absences, and, accordingly, no liability has been recorded in the accompanying financial statements. The company's policy is to recognize the costs of compensated absences when actually paid to employees.

Stock-Based Compensation

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148 Accounting for Stock-Based Compensation - Transition and Disclosure, established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation. The Company periodically issues options to consultants and members of the Board of Directors. The estimated value of these options is determined in accordance with SFAS No. 123 and expensed as the granted options vest to the grantees.

The price of any options granted pursuant to these grants is not to be less than 100 percent of the fair market value of the shares on the date of grant. The options expire one year from date of grant and are immediately vested. There was no charge to expense for the value of the options during the periods ended December 31, 2004, 2003 and 2002 as no options were issued.

Restatement of Share Amounts

Effective April 29, 2003, the Company changed its trading name and trading symbol to SLVO on the OTCBB and decreased the number of issued and outstanding shares of common stock by issuing one new share for each five shares held.

Revenue Recognition

Sales are generally recognized at the time of loan funding, provided that no significant vendor obligations exist and collections of accounts receivable are probable.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2004, 2003 and 2002, the Company incurred advertising costs of \$723, \$0 and \$0, respectively.

Research and Development

Expenditures for research activities relating to software development and improvement are charged to operations as incurred.

Income Taxes

The Company accounts for income taxes under the asset and liability method as prescribed by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. As such, deferred income tax assets and liabilities are recognized for the future tax consequences of the differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

See accompanying notes and accountants' report

12

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

Technical Pronouncements

Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities.

This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. The Company has and will continue to report convertible notes as liabilities.

3. Intellectual Property

Since its inception, the Company entered into numerous agreements as a result of having acquired certain rights to various complex intellectual scientific properties. The Company periodically analyzes its investments in intellectual property for impairment.

During the quarter ended June 30, 2003, in a non-arms length transaction with Robert George Krushinsky, a director of the Company, the Company received 62,000 shares of its own common stock together with cancellation of an outstanding debt in the amount of \$1,100 in exchange for all of the scientific intellectual property assets acquired prior to the acquisition of FSI in November 2002 as well as all shares of Rockford Technology held for sale by the Company.

On November 19, 2002, in connection with the acquisition of Financial Software, Inc., the Company acquired certain software, web sites and intellectual property which can aggregate financial information from a large number of data sources on an individual basis, amalgamate the host of disparate objectives as they relate to a persons financial goals, be they investment or debt related or any combination. This software suite, together with mortgage generation capabilities can create a variety of new and different mortgage, investment or insurance products. The Company recorded the software on its books at the seller's basis of \$1,398,020. The Company engaged an experienced software developer based in Palo Alto, California to perform an independent, third party valuation of the software during 2003.

During the fourth quarter of 2004, Silverado Financial, Inc. began implementing its FinanceCenter Software system, but in doing so found that the software was in need of upgrades in both programming and technology. With that in mind, management felt that it was necessary to impair the original valuation of \$1,398,020 down 50% to \$699,010. Additionally, on November 24, 2004 the purchase price of the intellectual property was renegotiated as follows: SRD Technologies (former owner of Financial Services, Inc.), signed a debt cancellation and release agreement which included the release of any and all liabilities owed to SRD Technologies, the relinquishment of 574,953 shares of Silverado Financial,

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

Inc. stock, and a payment for auditing expenses in the amount of \$7,500. An additional 44,000 shares were relinquished from Mike Shultz in the re-negotiation. On the date of the agreement 618,953 shares were valued at \$0.05 a share or \$30,948.

At December 31, 2004 there remains 157,131 shares or \$7,857 receivable from SRD Technologies. The note payable of \$275,000 corresponding accrued interest of \$41,047 and \$7,500 in accounts payable have been reversed in these financial statements. The resulting impairment expense was \$389,753.

The Company placed the software into service October 2004 and is amortizing the software over a three year period commencing upon the in-service date. Amortization expense for the year ended December 31, 2004 was \$58,251. Amortization expense is estimated to be as follows for the years ended December 31,

See accompanying notes and accountants' report

13

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

Year	Amount
-----	-----
2005	\$ 233,003
2006	233,003
2007	174,761

	\$ 640,767
	=====

4. Acquisitions

On November 19, 2002, the Company acquired all of the issued and outstanding shares of Financial Software, Inc. (FSI) a New Jersey corporation engaged in the development of Internet and Intranet financial software in addition to operating several financial industry publishing websites. This acquisition was completed on a share for share exchange basis for 4,400,000 shares of the Company's Common Stock. FSI was acquired in order to gain access to certain proprietary software products owned by FSI, which the Company intends to further develop and extend into comprehensive mortgage platforms called MortgageCenter and FinanCenter.

Through the acquisition of FSI, the Company acquired assets of \$26,775 in marketable securities, \$1,398,020 in Intellectual property (MortgageCenter and FinanCenter software), and \$1,904 in computer equipment. The Company also acquired liabilities of \$61,796 in accounts payable and \$275,000 through the assumption of a note payable.

On May 9, 2003 the Board of Directors approved the acquisition of Realty Capital Corporation (renamed Silverado Mortgage Corporation in 2004), a mortgage brokerage company, from John Hartman for 729,452 restricted common shares. Mr. Hartman (President of Silverado Financial, Inc.) abstained from the vote. The acquisition was made at a trading value of \$127,654 which was the net asset value of Realty Capital Corporation and the average closing bid price of the Company on they prior five trading days. Mr. Hartman's holdings of Silverado Financial, Inc. common stock were 103,511 shares (0.87% of total shares outstanding) prior to acquisition and 832,963 shares (6.59% of total shares

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

outstanding) after the acquisition of Realty Capital Corporation, respectively.

Through the acquisition of Realty Capital Corporation, the Company acquired total assets of \$168,233, consisting of \$33,963 in accounts receivable and prepaid expenses, \$49,284 in computers and equipment, and \$84,986 in furniture. The Company also acquired liabilities of \$7,871 in accounts payable and \$32,708 through the assumption of notes payable.

5. Accounts Payable

As of December 31, 2004 and 2003, the Company owes its vendors a total of \$55,870 and \$244,421, respectively, of which approximately \$21,188 and \$86,518 were outstanding over ninety days.

6. Long-Term Debt

Notes Payable

See accompanying notes and accountants' report

14

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

	2004	2003

Through the acquisition of Financial Software, Inc. (FSI), the Company became obligated for the acquired accounts payable in the amount of \$30,000. In June 2003, the Company issued 33,000 shares of stock at a value of \$5,000 and a note payable for \$25,000 in satisfaction of accounts payable to one of the FSI vendors. The note carries interest at 5.0%	\$ 25,000	\$ --
On October 11, 2004 John E. Hartman returned 729,452 shares, valued at \$43,767, of Silverado Financial, Inc. stock to allow the Company the capability to issue more shares for financing transactions and services. Silverado Financial, Inc. will satisfy the note obligation with re-issuance of shares and a 5% bonus of 36,472 shares, valued at \$2,188.	43,767	--

	68,767	--
Current portion	68,767	--

Long term-debt	\$ --	\$ --
	=====	

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

Convertible Notes Payable

The Company has three convertible notes payable totaling \$36,000 at 10% per annum, maturing in 2005 as a result of the Company's extensions of two convertible notes that were originated during 2002. At December 31, 2004 and 2003 there was \$7,144 and \$3,537 of accrued unpaid interest, respectively.

A schedule of the maturity dates of the convertible debentures with their attached warrants are as follows:

Amount	Original Maturity Date	Extended Maturity Date	Warrants Outstanding
\$ 16,000	10/11/2003	10/11/2005	40,000 shares at \$.40 per share
\$ 10,000	11/16/2003	11/16/2005	25,000 shares at \$.40 per share
\$ 10,000	7/23/2004	7/23/2005	25,000 shares at \$.40 per share

These notes can be converted into common stock for the same amount of shares as their right to purchase shares through their warrants. Management plans to convert these to equity in 2005; however if the Company has the ability to make all note payments under their terms and does not convert or further extend the convertible notes payable, the minimum annual payment is as follows:

Year	Amount
2005	\$ 36,000

See accompanying notes and accountants' report

15

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

Warehouse Facility

On September 3, 2004, the Company's wholly owned subsidiary, Silverado Mortgage Corporation signed an agreement for a \$2,000,000 mortgage warehouse and security facility. The Company began utilizing the warehouse and security facility on November 22, 2004.

The warehouse facility requires a demand note. The demand note, in the event of a default, stipulates that any outstanding balance of warehouse facility can be called at any time inclusive of interest. Per the terms in the warehouse agreement the note is subject to mandatory prepayments and is collateralized by the mortgage loans and other predetermined assets.

7. Operating Lease Commitments

During April 2004, the Company became responsible for a lease for 2,512 square

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

feet in an office building in Pleasanton, California. The lease is for a period of three years ending on May 31, 2007 with an option to renew for an additional three years. The base rental under the lease is \$52,752 per annum (4,396 per month) during the first twelve-month period, \$54,259 per annum (\$4,522 per month) for the second twelve-month period and \$55,766 per annum (\$4,647 per month) during the third twelve-month period. The lease provides for the Company to pay its proportionate share of the landlord's common costs.

During September 2004, the Company became responsible for a lease for 6,000 square feet in an office building in Campbell, California. The lease is for a period of three years ending on October 31, 2007. The base rental under the lease is \$108,000 per annum (\$9,000 per month) during the first twelve-month period and \$120,000 per annum (\$10,000 per month) for the second twelve-month period and \$126,000 per annum (\$10,500 per month) during the third twelve-month period. The lease provides for the Company to pay its proportionate share of the landlord's common costs.

During November 2004, the Company became responsible for a lease for 6,000 square feet in an office building in Phoenix, Arizona. The lease is for a period of three years ending on January 31, 2008. The base rental under the lease is \$99,000 per annum (\$8,250 per month) during the first thirty-six month period except the Company shall pay \$2,750 for the first ninety (90) days, \$4,125 for the second ninety (90) days and \$6,875 for the third ninety (90) days of the lease. The lease provides for the Company to pay its proportionate share of the landlord's common costs.

Lease expense for the years ended December 31, 2004, 2003 and 2002 was \$93,604, \$53,808 and \$15,773, respectively.

Minimum future commitments under all operating leases are as follows for the years ended December 31,

Year	Amount
-----	-----
2005	\$ 193,881
2006	275,138
2007	227,236
2008	8,250

	\$ 704,505
	=====

See accompanying notes and accountants' report

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

8. Income Taxes

The components of the provision for income tax consist of the following for the years ended December 31,

	2004	2003	2002
	-----	-----	-----
Current tax expense - state	\$ 1,600	\$ --	\$ --
Deferred tax benefit:			
Federal	141,933	296,228	165,219

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

California	45,058	52,276	--
Change in valuation allowance	(186,991)	(348,504)	(165,219)

Total deferred tax expense	--	--	--

Provision for income taxes	\$ 1,600	\$ --	\$ --
=====			

The Company's effective income tax rate is higher than what would be expected if the federal statutory rate were applied to loss from operations primarily because of net operating losses deductible for financial reporting purposes that are not deductible for tax purposes. A full valuation of net deferred tax assets was recorded at December 31, 2004, 2003 and 2002 due to the Company's uncertainty as to future realization of income tax loss carryforwards. The valuation allowance increased by approximately \$186,991, \$348,504 and \$165,219 for the years ended December 31, 2004, 2003 and 2002, respectively.

A reconciliation of the Company's income tax expense rate to U.S. federal statutory rate for the years ended December 31, is as follows:

	2004	2003	2002

Federal statutory rates	(15%)	(34%)	(34%)
State statutory rates	(9%)	(6%)	0%
Change in valuation allowance	19%	34%	34%
Expiration of net operating loss carryforward	5%	6%	0%

	0%	0%	0%
=====			

At December 31, 2004 the Company had realized federal net operating losses of approximately \$8,825,215. Future realization of the net deferred tax assets is dependent on generating sufficient taxable income prior to their expiration. The realized net operating losses expire, as follows:

See accompanying notes and accountants' report

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

Expiration	Consolidated Federal	Silverado Mortgage Corporation State	Financial Servi State

2009	\$ 44,994		
2010	379,485	\$ 2,109,954	
2011	461,101	318,228	
2012	236,028	76,034	

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

10. Related Party Transactions

On May 9, 2003 the Board of Directors approved the acquisition of Realty Capital Corporation (renamed Silverado Mortgage Corporation in 2004), a mortgage brokerage company, from John Hartman (President of Silverado Financial, Inc.) for 729,452 restricted common shares. Mr. Hartman abstained from the vote. The acquisition was made at a trading value of \$127,654 which was the net asset value of Realty Capital Corporation and the average closing bid price of the Company on the prior five trading days. Mr. Hartman's holdings of Silverado Financial, Inc. common stock were 103,511 shares (0.87% of total shares outstanding) prior to acquisition and 832,963 shares (6.59% of total shares outstanding) after the acquisition of Realty Capital Corporation, respectively.

As of December 31, 2003, Sherry Hartman, the broker of record for Realty Capital Corporation and the spouse of the President of Silverado Financial, Inc. had an outstanding debt to the Company in the amount of \$11,405.

On October 11, 2004 John E. Hartman returned 729,452 shares, valued at \$43,767, of Silverado Financial, Inc. stock to allow the Company the capability to issue more shares for financing transactions and services. Silverado Financial, Inc. will satisfy the note obligation with reissuance of shares and a 5% bonus of 36,472 shares, valued at \$2,188.

11. Contingencies

On January 27, 2004 DL Pacific Center LP (DL Pacific) filed a lawsuit for \$40,444 plus costs and attorney's fees against the Company in San Diego County Superior Court. The suit alleges that, after the purchase of San Francisco Funding, Inc. (SFF) in November 2003, the Company assumed SFF's obligations pursuant to DL Pacific's lease with SFF by accepting the benefits of such lease and by negotiating with DL Pacific for amendments to the lease. Silverado has agreed to settle the lawsuit for the nuisance value of \$2,500.

On March 9, 2004 Robert E. Vener (Vener) filed an amendment to his lawsuit for \$7,500 per month from November 2003 to March 2006 plus costs and attorney's fees against the Company in Marin County Superior Court. The suit alleges that, after the purchase San Francisco Funding, Inc. (SFF) in November 2003, the Company assumed SFF's obligations pursuant to Vener's lease with SFF by stating and representing to Vener that it would be responsible for any amounts due from SFF pursuant to the lease, and that Vener relied on the Company's representations by allowing SFF to remain on the premises following SFF's default in the payment of rent on the lease. Silverado Financial, Inc. has agreed to settle the suit for the nuisance value of \$3,000.

Silverado Financial, Inc. has filed a cross-complaint against SFF and its major stockholder Mr. and Mrs. Daniel Selis, for indemnity for the cost of defending the Vener lawsuit, and punitive damages resulting from breach of contract, fraud and/or interference with the Company advantageous business relationships.

On May 12, 2004 The Subway.Com filed for arbitration for \$60,000 plus interest against the Company in the state of Florida. The suit claims breach of contract for stock promotion services. The Company believes it has meritorious defense and that no contract was ever consummated.

On July 16, 2004, the Company was served with a complaint by the State of California, Department of Industrial Relations on behalf of a former contractor for back wages of \$10,938 and penalties of \$288 for an indeterminate number of days. Outside counsel for the company has advised that at this stage in the proceedings he cannot offer an opinion as to the probable outcome. The company believes the suit is without merit and is vigorously defending its position.

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

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

None.

ITEM 8A: CONTROLS AND PROCEDURES

a) Evaluation of disclosure controls and procedures. Our chief executive officer and principal financial officer, after evaluating the effectiveness of the our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this annual report (the "Evaluation Date"), has concluded that as of the Evaluation Date, our disclosure controls and procedures were adequate and designed to ensure that material information relating to the Company and our consolidated subsidiaries would be made known to him by others within those entities.

(b) Changes in internal control over financial reporting. There were no significant changes in the our internal control over financial reporting during the fourth fiscal quarter that materially affected, or are reasonably likely to materially affect, the our internal control over financial reporting.

PART III

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

The following table sets forth the names and ages of the current directors and executive officers of the Company, the principal offices and positions with the Company held by each person and the date such person became a director or executive officer of the Company.

Each serves until the next annual meeting of the stockholders.

Name of Executive Officers & Directors	Age	Title	Since
R.G. Krushnisky	42	Director	1/1/1995
Albert Golusin	49	C.F.O & Director	2/5/1999
John Hartman	38	President, CEO & Chairman of the Board	9/26/2000
Sean Radetich	36	COO & Director	1/10/2000

John E. Hartman- President, CEO, and Chairman of the Board

As Chief Executive and Chairman of the Board Mr. Hartman is actively involved in leading and building Silverado Financial with particular focus on non-prime mortgage banking, policy initiatives and strategic investments that are driving the consolidation of the mortgage industry. Prior to being appointed Chief Executive Officer of Silverado Financial, Inc., Mr. Hartman was Chief Executive

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

Officer of NEXT Advisors, Incorporated where he was responsible for raising its venture funding and for completing three acquisitions including an on-line securities brokerage, ATradeUSA.com, an insurance brokerage and a traditional securities brokerage. Before joining Next Advisors, Mr. Hartman was Managing Partner of Hartman-Kauffman, LLC, and a high-touch investment advisory firm, which was acquired by Next Advisors. As the Managing Partner of H-K, he increased the gross sales of the San Jose office 400% and more than tripled the sales force. From 1995 to January 1999, Mr. Hartman was with Morgan Stanley where he managed assets for both individuals and institutions. Prior to beginning his career at Morgan Stanley, he was a Partner at Realty Capital Partners where he syndicated equity funding and managed the development of several multimillion-dollar commercial and residential real estate developments in coastal California. Prior to Realty Capital Partners, he held the positions of research analyst and Investment Property Specialist with Grubb & Ellis, a commercial real estate firm headquartered in San Francisco, California. Mr. Hartman received his Masters in Business Administration (MBA) from California Coast University in Santa Ana, California and his Bachelor of Science Degree in Business Administration from San Jose State University in San Jose, California.

20

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

Sean Radetich - Executive VP - Chief Operations Officer - Member of the Board

As Chief Operating Officer Mr. Radetich is responsible for the day-to-day operations of the Company. Mr. Radetich operates Silverado's mortgage banking operations, oversees the mortgage brokerage operations, pursues State and Federal licensure for brokerage and banking, investigates potential acquisition targets and ensures the strategic goals of the entire Company are met through the implementation of policy and procedure via the line managers. Mr. Radetich has over 12 years of his professional career identifying and working with emerging growth companies. Mr. Radetich has extensive management and capital markets experience, which includes direct investment into and raising capital for emerging micro-capitalization companies. Mr. Radetich served as Chief Financial Officer for WebCash Corporation, a B2B internet infrastructure company backed by Berg McAfee and Silicon Valley Angel Fund, and for over 10 years Mr. Radetich has represented a select group of institutional investors by structuring and negotiating their private investments into emerging micro-capitalization companies. Some of the companies that Mr. Radetich has invested into, managed PIPE transactions and/or performed business development for are: Silverado Financial (SLVO-OTCBB), Next Advisors, Interchange Corp. (INCX-NASDAQ), Peabody's Coffee (PBDY-OTCBB), Clearworks Technologies (formerly CLWK-OTCBB) and Cekatel. Mr. Radetich previously worked for LBI Group and SBC Warburg in the Structured Product/Private Placement Divisions, Webcash as Chief Financial Officer and Hamilton & Associates as a real estate analyst. Mr. Radetich received his B.S. in International Economics from the University of Oldenburg, Germany, and an A.S. in California Real Estate from Napa College.

RG "Jako" Krushnisky - Director

Mr. Krushnisky has been an officer and director for both public and private company's in the U.S. and Canada. As an independent director for Silverado he is currently President and CEO of Rockford Energy Corporation. Rockford Energy is in the business of developing environmentally friendly energy sources such as hydroelectric and wind power. Mr. Krushnisky is one of the original founding members of Rhombic Corporation who oversaw the development of various material science projects including its joint venture with Daimler Benz Aerospace while

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

serving as its President and CEO. Additionally, Mr. Krushnisky is a founding shareholder and member of the board of directors for Silverado Financial, Inc. Mr. Krushnisky is a skilled entrepreneur and corporate officer who in addition to his work with Rockford and Silverado is the owner of International Laser Games in British Columbia, Canada. Mr. Krushnisky received his Bachelor of Science in Business and International Commerce from United States International University in San Diego, California from 1979-1982 and conducted further studies in economics in London, England from 1982-1983.

SECTION 16 (A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers and persons who own more than 10% of a class of the Company's equity securities which are registered under the Exchange Act to file with the Securities and Exchange Commission initial reports of ownership and reports of changes of ownership of such registered securities.

Such executive officers, directors and greater than 10% beneficial owners are required by Commission regulation to furnish the Company with copies of all Section 16(a) forms filed by such reporting persons.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and on representations that no other reports were required, no person required to file such a report failed to file during fiscal 2004. Based on stockholder filings with the SEC, Silverado Financial, Inc. is subject to Section 16(a) filing requirements.

Code of Ethics

The Company has adopted a Code of Ethics as of the date of this report.

ITEM 10. EXECUTIVE COMPENSATION

21

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

The following table sets forth certain information concerning the compensation paid by the Company for services rendered in all capacities to the Company for the three fiscal years ended December 31, 2004, 2003, 2002 and 2001 for all officers, individually, and, as a group, for all officers and directors.

SUMMARY COMPENSATION TABLE

Name and Principle Position	Year	Annual Compensation			Long Term Co
		Other Salary (\$)	Annual Bonus (\$)	Securities Restricted Stock Compensation (\$)	Underlying Award(s) (\$)
John E. Hartman, CEO (4)	2004	--	--	--	\$ 120,000
	2003	--	--	--	\$ 105,000
	2002	--	--	--	--
Albert Golusin CFO (3)	2004	--	--	--	\$ 82,500

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

	2003	--	--	--	\$ 60,000
	2002	--	--	--	--
Sean Radetich, COO (7)	2004	--	--	--	\$ 90,000
	2003	--	--	--	\$ 33,000
	2002	--	--	--	--
All Officers & Directors as a group (two persons) (3) (4) (5) (6) (7) (8)	2004	--	--	--	\$ 292,500
	2003	--	--	--	\$ 203,000
	2002	--	--	--	\$ 85,675

(3) Albert Golusin, during 2002 he served as the Chief Financial Officer and the Chief Executive Officer from January 1, 2002 to September 25, 2002. During 2002 he received 1,189,156 restricted common shares at a trading value of \$48,153. During 2003, he received 280,228 restricted common shares at a trading value of \$60,000

(4) John Hartman became the Chief Executive Officer on September 26, 2002. During 2002 he received 238,610 restricted common shares at a trading value of \$15,000. During 2003, he received 503,913 restricted common shares at a trading value of \$105,000 for 2004 he is an owed 956,091 restricted commons share as deferred compensation.

(5) R.G. Krushnisky, Vice President and Director of the Company, provides his consulting services on a part-time basis. During 2001, Mr. Krushnisky received \$15,000 for services as a Vice President. He also earned \$18,000 for director fees during 2001. During 2002 he received 304,532 restricted common shares at a trading value of \$15,261. During 2003, he received 25,014 restricted common shares at a trading value of \$5,000 he is owed 36,439 in directors fees.

(7) Sean Radetich, Executive Vice-President, Chief Operating Officer and Director of the Company, during 2003, he received 137,014 restricted common shares at a trading value of \$33,000. During 2004 he is owed 699,147 restricted common shares as deferred compensation.

There are no current plans to pay cash or stock dividends on the Company's stock.

VALUE OF OPTIONS AT DECEMBER 31, 2004

The Company had no options outstanding from which it could obtain cash during the entire year 2004.

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

OPTION GRANTS IN THE LAST FISCAL YEAR

The Company granted no options during 2004.

COMPENSATION OF DIRECTORS

The company compensates all independent directors \$500 for each meeting attended. The amount is paid in Common shares, the price of which is determined by the average closing price of the Common stock during the month in which the

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

meeting is held. No compensation is paid to any employee director for attendance at any meeting or any other services provided as a director.

STOCK OPTION PLAN

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table contains information, as of December 31, 2003, regarding the shareholdings of (1) The Company's current directors and executive officers, (2) those persons or entities who beneficially own more than 5% of its common stock and (3) all of the directors and executive officers as a group (giving effect to the exercise of the warrants held by each such person or entity). Unless otherwise indicated, the person or entity listed in the table is the beneficial owner of the shares and has sole voting and investment power with respect to the share indicated:

Name	Number of shares of Common Stock Beneficially Owned	Percent of Com Beneficially
John Hartman Chief Executive Officer, Chairman of the Board 5976 W. Las Positas Blvd., Suite 116 Pleasanton, CA. 94588	274,027	
Albert Golusin Chief Financial Officer, Director 10641 North 44th Street Phoenix, Arizona 85028	582,060	
R.G. Krushnisky Director 93 English Bluff Road Tsawwassen, British Columbia Canada V4M 2M4	170,022	
Sean Radetich Executive Vice-President, COO & Director 5976 W. Las Positas Blvd. Suite 116 Pleasanton, CA. 94588	758,275	
Total shares owned by Directors and Officers of the Company (4 persons)	2,631,444	

(1) Based upon 18,216,697 outstanding shares of common stock on December 31, 2004. There were no options outstanding at December 31, 2004.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

23

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

None

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

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

(a) EXHIBITS.

The following exhibits required by Item 601 to be filed herewith are incorporated by reference to previously filed documents:

Exhibit No.	Description and Method of Filing
3.2	The corporate by-laws filed on December 3, 1999 in the Form 10-QSB 10.1 Stock Option Plan filed in the 10-QSB on May 17, 2000.
10.	Letter on change of accountant, incorporated by reference to Form 8/K filed on March 19, 2004 and on Form 8-K/A on April 7, 2004
21.1	Subsidiaries of Issuer as of December 31, 2003
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)
32.1	Certification of Chief Executive Officer pursuant to Section 1350

(b) REPORTS ON FORM 8-K

1. Form 8-K dated December 2, 2003 relating to the acquisition of San Francisco Funding, Inc. 2. Form 8-K dated December 24, 2003 relating to the rescission of the acquisition of San Francisco Funding, Inc.

(a) Exhibits

31.1 Certificate of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

A Form 8-K/A was filed on April 7, 2004, reported in Items 4 pertaining to the Change in the Registrant's Certifying Accountants.

A Form 8-K was filed on May 20, 2004, reported in Items 2 and 7 pertaining to the acquisition of Lendingtech.com, Inc. The agreement was amended to extend the closing date until an audit of Lendingtech, com's historical financials were provided.

A Form 8-K was filed on November 15, 2004, reported in Section 5, Item 5.02 for Departure of Directors or Principles Officers; Election of Directors; Appointment of Principle Officers pertaining to the resignation of Al Golusin as Chief Financial Officer, Chairman and Director of the Registrant.

A Form 8-K was filed on December 1, 2004, reported Section 1 Item 1.01 for Entry into a Material Definitive Agreement. This pertains to the Debt Cancellation and General Release Agreement signed by SRD Technologies. Details can be referenced in the Subsequent Events section.

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Sallman, Yang & Alameda was the Company's independent auditor for the year ended December 31, 2004 and reviewed the quarterly financial statements for the first three quarters during 2004 prepared by Epstein, Webber. Sallman Yang & Alameda performed the services listed below and was paid the fees listed below.

AUDIT FEES

Silverado's previous auditors Epstein, Webber billed aggregate fees of approximately \$9,300 for the review of the financial statements included in the Company's Quarterly Reports on Form 10-QSB for each of the three quarters ended September 30, 2004.

Sallman, Yang & Alameda billed the Company and approximately \$17,000 for 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 the Company's Quarterly Reports on Form 10-QSB.

TAX FEES

Sallman, Yang & Alameda anticipates charging the Company \$4,000 for the preparation of the 2004 State and Federal corporate tax returns.

ALL OTHER FEES

Sallman, Yang & Alameda did not provide or bill for any other professional services during the two years ended December 31, 2004.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SILVERADO FINANCIAL, INC.

Date: April 11, 2004

By /s/ John E. Hartman

John E. Hartman, Chief Executive Officer

In accordance with the Exchange Act, the report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Date: April 11, 2004

By /s/ John E. Hartman

Edgar Filing: SILVERADO FINANCIAL INC - Form 10KSB

John E. Hartman, Chairman

25

Silverado Financial, Inc.

Notes to Consolidated Financial Statements (continued)

Date: April 11, 2004

By /s/ Sean Radetich

Sean Radetich, Director

Date: April 11, 2004

By /s/ R.G. Krushnisky

R.G. Krushnisky, Director

SUBSIDIARIES OF ISSUER AS OF DECCMBER 31, 2004

The company has two operating subsidiaries. They are as follows:

Financial Software, Inc.:

Financial Software, Inc. is incorporated under the laws of the State of California.

Silverado Mortgage Corporation:

Silverado Mortgage Corporation is incorporated under the laws of the State of California.

26