

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

FORM 10-K

(Mark One)

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

For the fiscal year ending December 31, 2009

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

For the transition period from _____ to _____

Commission file number: **333-103331**

Genesis Financial, Inc.

(Name of Issuer in its Charter)

Washington

(State of Incorporation)

03-0377717

(IRS Employer Identification No.)

12314 E. Broadway, Spokane Valley, WA

(Address of principal executive offices)

99216

(Zip Code)

Issuer's telephone number: **(509) 462-1468**

Securities Registered Pursuant of Section 12(b) of the Act: **None**

Securities Registered Pursuant of Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (229.405) is not contained herein, and will not 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-K or any amendment of this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.
Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2009, the last business day of the registrant's most recently completed fiscal year, based on the last reported trading price of the registrant's common stock on the Over the Counter Pink Sheets was \$1,029,982. The sum excludes the shares held by officers, directors, and stockholders whose ownership exceeded 10% of the outstanding shares at June 30, 2009, in that such persons may be deemed affiliates of the Company. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of June 30, 2009 there were 6,707,108 common shares issued and outstanding.

Genesis Financial, Inc.
FORM 10-K

December 31, 2009

TABLE OF CONTENTS

PART I		2
ITEM 1.	Business.	2
ITEM 1A.	Risk Factors	13
ITEM 1B.	Unresolved Staff Comments	13
ITEM 2.	Properties	13
ITEM 3.	Legal Proceedings	14
ITEM 4.	Removed and Reserved	14
PART II		15
ITEM 5.	Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	15
ITEM 6.	Selected Financial Data	16
ITEM 7.	Managements Discussion and Analysis of Financial Condition and Results of Operations	16
Item 7A.	Quantitative and Qualitative Disclosure About Market Risk.	20
ITEM 8.	Financial Statements and Supplementary Data.	21
ITEM 8B.	Other Information.	35
ITEM 9.	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.	35
ITEM 9A(T).	Controls and Procedures.	35
PART III		37
ITEM 10.	Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(A) of the Exchange Act.	37
ITEM 11.	Executive Compensation	38
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	40
ITEM 13.	Certain Relationships and Related Transactions and Director Independence.	41
ITEM 14.	Principal Accounting Fees and Services.	43
PART IV		44
ITEM 15.	Exhibits and Financial Statement Schedules	44
SIGNATURES		45

PART I

ITEM 1. Business.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains many forward-looking statements, which involve risks and uncertainties, such as our plans, objective, expectations and intentions. You can identify these statements by our use of words such as "may," "expect," "believe," "anticipate," "intend," "could," "estimate," "continue," "plans," or other similar words or phrases. Some of these statements include discussions regarding our future business strategy and our ability to generate revenue, income, and cash flow. We wish to caution the reader that all forward-looking statements contained in this Form 10-K are only estimates and predictions. Our actual results could differ materially from those anticipated as a result of risk facing us or actual events differing from the assumptions underlying such forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements contained in this Annual Report on Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements. We undertake no obligation to update any of these factors or to publicly announce any change to our forward-looking statements made herein, whether as a result of new information, future events, changes in expectations or otherwise.

OVERVIEW

INTRODUCTION. Genesis was incorporated in the State of Washington on January 24, 2002 for the purpose of purchasing and reselling seller financed real estate receivable contracts (also referred to as "contracts" or "real estate notes"). We initially focused on purchasing residential and commercial real estate receivables contracts and business notes from \$25,000 to \$250,000 in value, and the brokering of larger transactions. As the business grew, we expanded our services to include larger contracts, commercial real estate loans, and other forms of cash flow investment instruments. In 2007, the sub-prime real estate markets started to experience problems, and by mid-2008, the market was in a free-fall. The Company started to experience increased delinquencies, and the collapse of the financial markets eliminated any chance of our payors being able to refinance or sell their properties, which resulted in increased repossessions. Effective January 1, 2009, the Company out-sourced all their operations and servicing functions to reduce expenses during this downturn, and management tightened up underwriting parameters. Management focused their efforts on maintaining the performing portions of the portfolio, selling repossessed collateral properties, and reducing debt.

INDUSTRY BACKGROUND. Real estate notes have been used by sellers ever since men started claiming parcels of land as their own. Historically, no market existed for sale of real estate notes, so a holder of a note typically collected the payments from the borrower, and held the note to maturity. It is only in the last 20 years or so that an active market for selling real estate receivables on a large scale has developed.

Historically, Metropolitan Mortgage & Securities Co., Inc., Associates Financial Services, and several other large finance companies (Nations Bank, GMAC, Bank of America, Beneficial Finance, AVCO Finance, American General, Chrysler First, Security Pacific, Sears, and others) were the source of funds that drove the real estate receivables market. Some of the larger real estate receivables brokers also obtained specialty warehousing lines provided by First National Acceptance Corp. and Associates Financial Services and used the lines to compete for product by buying receivables direct from sellers.

Associates Financial, after being acquired by Citigroup abandoned the seller financed receivable market. First National Acceptance Corp. (Lansing, MI), an affiliate of Michigan State Bank, at one point had approximately \$170 million in warehousing lines to large receivables brokers but many of the lines were apparently poorly underwritten and administered, and FNAC incurred considerable losses. As a result, FNAC cancelled almost all of the lines, and this has severely restricted larger brokers' ability to hold real estate receivables for pooling and sale to the secondary markets. Private Mortgage Services filed bankruptcy in 2000. Many of the other sources of funds for buying real estate notes and other cash flow instruments dried up around the turn of the decade.

The reduction in availability of funds to purchase real estate notes created a void in the market for a few years from 2000 thru 2003, and again from 2007 thru 2009. The brokers with product to sell were faced with limited avenues, creating a market opportunity for Genesis, and that was the focus of the Company's business plan during that period. The Company also pursued commercial real estate loans during these periods to fill the void in the contract market.

In 2004, a couple larger financial institutions, who had dabbled in the industry in the past on a smaller, wholesale scale, recognized the potential in buying seller financed real estate contracts directly from the sellers, and jumped in with both

feet. Their competitiveness drove many of the brokers out of business, and made the margin spreads so low that smaller funding companies with a higher cost of funds could not compete, or had to settle for lower quality contracts. Genesis was one of those companies, and although we felt we could maintain a presence in the industry by focusing on niche sectors of the market, such as partial purchases and non-conforming property types, management decided to expand the Company's focus, and look to other business markets as well. Commercial real estate lending was the Company's primary choice to pursue. In the latter part of 2008, national economic conditions made any real estate lending very precarious, forcing the Company to again re-focus their efforts, and real estate receivables became our primary target.

COMPETITION. From 2004 thru the end of 2007, Bayview Financial Trading Group and C-Bass were the primary players in the real estate note buying business. Each of these companies were well funded and had the resources to purchase large quantities of contracts that meet their underwriting requirements. Bayview is a 25 year old private firm owned by management and Allstate Insurance Company, based in Orlando, Florida. The investment banking firm purchased individual receivables through their subsidiary, Interbay Funding, LLC, located in Dallas, Texas. Large receivables and receivable pools were purchased directly through Bayview's Florida operation. Where in the past, Interbay and Bayview strictly purchased contracts on a wholesale basis, utilizing the existing broker network, they moved to a program of direct purchasing from the consumer in mid 2007, cutting out the brokers whenever possible.

C-Bass is a New York based financial services company who operated in the real estate receivables market through its subsidiary, NoteOne, Inc. NoteOne was headquartered in Midland, Texas, and focused on the acquisition of single family receivables throughout the United States. NoteOne utilized both the wholesale broker network and the retail direct mail campaigns to generate inventory. C-Bass was purchased a few years ago by Philadelphia based Radian Group, Inc. a leading provider of private mortgage insurance.

Both of these companies discontinued purchasing real estate receivables in 2008, primarily due to the decimation of the securitization markets. This left a huge funding void in the seller financed real estate receivables market. Genesis had been forced to re-focus their business towards more commercial real estate lending in late 2004, due to the heavy competition, and at the end of 2007, made the decision to change that focus back towards the seller financed real estate receivables, to take advantage of the void left by the exiting big players.

There were other regional companies that purchased real estate notes that were better capitalized than Genesis, but none had the financial capabilities of a Bayview or C-Bass. As of December 31, 2008, both of these companies had moved away from the market, but the competitive rates established by these two companies could not be sustained by the remaining market players, as their cost of funds was considerably higher. For example, for the past several years, sellers of real estate receivables could expect conversion rates of 8%-9% for a standard residential contract receivable. As of 2008, the remaining funders required 12%-15% conversion rates. This increase virtually wiped out any margin the brokers may have for a commission, and many sellers chose to hold onto their contract, rather than accept the severe discount that these conversion percentages required. This caused a dramatic decrease in available product.

COMPETITIVE ADVANTAGE. In this competitive environment, Genesis sought to distinguish our offering from those of our competitors through excellent service, rapid customer response, and consistent and fair underwriting evaluations and procedures. We believed that our market focus on superb service and our existing contacts in the industry would provide a sustainable competitive advantage. We also felt our ability to diversify into other related markets, such as commercial real estate lending, would give us a competitive advantage. Throughout 2008, the Company focused on increasing their presence in the seller financed markets, supplementing that business with the occasional commercial real estate loan. By the third quarter of 2008, it was becoming apparent that the real estate markets were going to get worse before they got better, and the Company tightened its' purchasing and lending parameters to mitigate the increasing risk. Effective January 1, 2009, the Company out-sourced all their operations and servicing functions to reduce expenses, and further tightened underwriting parameters, while management focused on selling repossessed collateral properties and reducing company debt. As of December 31, 2009, this is still the focus of management, and the Company continues to be extremely selective in both markets on new investments and loans.

MARKET ANALYSIS

The seller financed real estate receivables business is a small part of the business of financing real estate purchases. To understand our market, it is helpful to first gain a broader perspective of the overall business of financing real estate purchases, and where our niche fits in the overall market. Key elements of the industry such as the broker network are also described in the paragraphs that follow.

TRADITIONAL REAL ESTATE FINANCING. The Federal National Mortgage Association (FNMA, or "Fannie Mae") and the Government National Mortgage Association (GNMA, or "Ginnie Mae") are agencies of the federal government established many years ago primarily to facilitate financing of 1 - 4 family owner-occupied residential real estate. FNMA

and GNMA establish strict guidelines for the type of collateral and the creditworthiness standards of the individual buyers. When the collateral and borrower meet those guidelines, traditional mortgage lenders can sell the resulting home loans through a sophisticated and very large secondary market network. Purchasers of FNMA and GNMA "mortgage-backed securities" ultimately provide the funding of such loans. Most of the homes sold in the US are financed through this mechanism.

When a transaction does not meet strict collateral and credit standards, the transaction cannot be sold through this FNMA/GNMA secondary market funding network, and must be funded through other means. In many cases, seller financing is the most desirable alternative, and that is when Genesis can help.

SELLER FINANCED REAL ESTATE RECEIVABLES. The number of seller-financed real estate receivables transactions is difficult to quantify because the transactions are private. The only way to accurately identify seller financed receivables in a given county would involve physically reviewing every title transfer recorded throughout an entire county. To the best of our knowledge, there is little reliable data that is publicly available. We know that Metropolitan, Associates, and the American Cash Flow Institute have all conducted research over the years, but much of this information is either not publicly available or is costly to obtain.

Taking what information is available publicly, it is possible to get a rough idea of the size of a single aspect of the real estate business (single family residential). The Bureau of Census issued a report in October, 1994 on financing of residential property. See Bureau of the Census, Statistical Brief SB/94/27. That report indicates that first mortgage debt on residential properties exceeded \$2 trillion as of 1991. A percentage of this first mortgage debt is held in seller financed real estate notes or contracts. While the percentage cannot be determined with certainty from information that is publicly available, we believe that the number and amount first mortgage debt held in seller financed real estate notes or contracts is significant and will provide Genesis with significant opportunities for growth as the financial markets improve. Genesis will also continue to pursue first mortgage originations on commercial real estate properties, as well as other cash flow instruments as sources for growth opportunities.

INVESTMENT POLICIES. We invest in seller financed real estate receivable contracts, originate commercial real estate loans, and pursue other forms of cash flow instruments that make sense. The Company discontinued purchasing business notes in late 2004, as their performance did not meet our expectations. The real estate contracts that we purchase are primarily in the sub-prime market, and may be secured by single family residences, multi-family residences, mobile homes, commercial property, and/or land. We do not intend to limit our purchases of contracts to contracts with particular types of underlying real estate security. We will look at each individual contract as a unique investment opportunity. The contracts or interests in contracts that we purchase will generally offer a return of 12% or more and will be secured by real properties. We will evaluate the adequacy of the underlying real property that serves as collateral for our investment on a case by case basis, but we will target an investment to value ratio below 70%. Contracts that we purchase will typically be held for more than one year. We may purchase longer term contracts (three to five year terms) with the intent to hold until maturity. We may also acquire long term contract obligations (five to thirty years) with the intent to hold for a period and then resell our interests to accredited private investors. Should the secondary institutional markets open back up, we will also pursue sales into those markets.

THE IMPACT OF ECONOMIC CYCLES ON SELLER FINANCED REAL ESTATE NOTES. Historically, the volume of seller financing has increased when interest rates rose because buyers could not afford monthly payments associated with high-rate loans, and could not qualify for home loans under GNMA/FNMA's income ratios. Seller financing was used as tool to help sell the properties. The same held true when money was tight during recessionary cycles as sellers offer favorable terms to reluctant buyers to make sales more attractive. To some extent, therefore, seller financing is counter-cyclical. When the availability of product increases, either because interest rates are high or because money is tight, the transaction volume of the buy/sell intermediaries also increases.

Spreads increase when interest rates are high, primarily because there is more room to factor in a discount to yield. As a result, when rates are up, buy/sell operations in the Seller Financed Real Estate Receivables business enjoy higher gross returns. When mortgage rates peaked at 17% in the 1980's, intermediaries regularly earned spreads of 6% or more.

The economic environment as of December 31, 2009 is very volatile, and while it has created a uniquely attractive opportunity for Genesis as a Real Estate Note intermediary, it has also created obstacles that have not been experienced in the past. We currently have a real estate market that is experiencing dramatically declining values. Consumer spending is slowing down and yet interest rates are still at low levels. Simultaneously, the banks and large finance companies are tightening credit requirements and have completely exited the "sub-prime" lending markets. The seller-receivable industry is only one small component of the sub-prime category, and is not technically "sub-prime" because collectability is based on the proper underwriting of the collateral rather than the creditworthiness of the payee (borrower). In the past, when the big national players pulled out of the "sub-prime" market, it left a void that provided opportunities for those who were

properly positioned to take advantage of the situation. However, in the present environment, savings and investment rates have continued to remain at record lows, encouraging holders of seller financed real estate receivables to hold on to their paper, rather than selling at the required high-discount rates that are required by the smaller regional buyers.

BROKER NETWORK. The national real estate receivables broker network has evolved over the years into a large, highly fragmented group of entrepreneurial financial referral sources. Each broker has his/her own area of expertise. Most focus only on real estate offered in their respective local geographic markets. Some also market their services regionally and nationally. These brokers are in business to find people willing to sell notes or contracts at a discount, and they work closely with funding sources because the brokers are generally not in a position to fund the purchase of the notes or contracts themselves.

Three significant for-profit training companies have developed over the last 15 years specifically to train individuals in the techniques and potential profits of brokering seller-financed receivables. The largest of these companies, the American Cash Flow Association ("ACFA") of Orlando, Florida, has graduated 55,000 "cash flow managers" who have training in the placement of seller-financed receivables, account receivable factoring, and other niche financing opportunities. Not all trained brokers are competent or remain active in the industry, but 3,000 active brokers annually attend ACFA's convention.

Of the active brokers, there are about 20 who market nationally and are especially productive in generating seller-financed receivables. These brokers with national scope work to attract customers nationwide. They typically engage in broad based direct mail campaigns and they may also work with a sub network of local and regional brokers that refer business to them. Our management knows these brokers very well. A couple of the top-producing brokers in the country are former contract buyers for Metropolitan, and all were hired and trained by Mike Kirk, our President. Mike Kirk maintains excellent working relationships with these top-producing brokers. As our business grows, we will focus our efforts on maintaining established long-term relationships with the nation's key brokers. At this time, no one broker provides a material amount of our business. As our business grows, we expect to continue working with a wide range of brokers and we intend to avoid exclusivity or reliance on a particular person or business.

MARKETING

We commenced operations in January, 2002, and have continuously focused on developing our product flow ever since. As a result, we have taken a relatively low key approach to our marketing effort, relying primarily on reestablishing broker relationships through direct personal contact, word of mouth advertising, and deal solicitations by e-mail and fax to a wide list of prospects. We have also maintained contacts with the larger institutional buyers, when they are active in the market, and establishing contacts with any new buyers of real estate receivables, especially in the private sector. We have also continued to maintain an active presence in the commercial origination markets, but have scaled back our market area to the Northwestern United States.

As our business grows, we will undertake to broaden our marketing presence and raise our profile through some or all of the following methods:

- We have established a website where brokers, investors, contract sellers and potential borrowers can learn about our programs and staff. The website is now operational and can be found at www.genesisfinance.com.
- We send monthly mailers to brokers, secondary market investors, and private investors, to stay in front of our key clients.
- We will maintain our presence at the two major national industry conventions held each year (ACFA and Noteworthy), sponsoring workshops and convention sessions at these shows to promote the benefits of working with Genesis.
- Two of the leading broker-training institutions (ACFA and Russ Dalby) have offered to promote Genesis as one of the leading receivable buyers in return for our participation in their training sessions. This provides us with the platform to train the next generation of brokers in our methods and establish credibility with new brokers who are just getting started in the market.
- We may develop modest promotional awards to say "thank you" to brokers and investors.
- We run small classified ads in a few newspapers and other publications in the Northwest. This allows us to pick up a few retail transactions, generating additional volume at much higher spreads.

The main thrust of Genesis' marketing effort will continue to involve daily telephone contact with the key brokers in the country, all of whom are well known by our management. Our success will depend on long-term broker relationships and our staff will continue the high level of service they are known for.

PRODUCTS

We initially focused on buying and reselling seller financed residential and small commercial real estate receivables contracts. In appropriate circumstances, we will also generate fees from brokering deals that either do not meet our funding requirements or are too large for our current capabilities, and although we no longer buy business notes by themselves, we are now expanding our focus to include hybrid contracts that include some real estate with a business, as well as refining our commercial lending programs. As our business grows, and our relationships with the brokers, the institutional buyers, and our primary lenders are more firmly entrenched, we will expand our product offerings to include other cash flow products. These products are discussed in more detail below.

SELLER FINANCED RESIDENTIAL REAL ESTATE RECEIVABLES. Seller financed residential real estate receivables represent first lien positions on residential property (also referred to as "houses" or "collateral"). The houses may be located anywhere in the United States. The related Real Estate Notes will normally range in size from \$20,000 to \$250,000 and are expected to average about \$75,000. The receivables will usually require monthly payments to amortize the receivable balance over terms of up to 30 years, although balloon payments and "calls" (shorter maturities dates) are not uncommon.

On average, Genesis will buy the Real Estate Notes at a discount to yield 2% to 4% or more above the face (stated) interest rate on the note or contract. By using the discount to yield to calculate the net present value of the future cash flow stream, our investment in the receivable will be substantially less than the face (stated or nominal) balance of the receivable. In a strong market where institutional buyers are active, we will typically hold the receivable for 90 to 180 days, during which time we will collect the receivable payments directly from the person obligated to pay the receivable, and then sell to the institutional buyer. However, in a weak market, lacking institutional buyers, we focus on selling the receivables immediately after acquisition to accredited private investors.

In dealing with institutional buyers, we will sell the receivables in groups (pools) to these secondary market investors. The receivable pools typically sell at discounts to yield 1% to 3% more than the face rates of the receivables. The difference between our discount to yield on the purchase of receivables (2% to 4% over face rate) and our discount to yield on the sale of the receivables (1% to 3% over face rate) is referred to as the "SPREAD". Since receivables are sold at a positive "spread" or a premium over our cost, the sale of receivables produces a gain. Our revenue is generated from both the interest earned on owned receivables while they are held for resale, and the gain on the sale to the secondary investor. Our profitability is directly related to the total receivable volume and the average spread.

When selling to accredited private investors, the spread remains fairly constant at 3%, which provides the investors with a fluctuating return. A 12% return is usually the minimum return private investors will accept.

Sellers' receivables fall into two broad categories: "SEASONED RECEIVABLES," and "simultaneous closings". Seasoned receivables are those that originated sometime in the past and the payor has established a payment history on the receivable. These seasoned receivables are perceived to involve less risk because of the established payment record. "SIMULTANEOUS CLOSINGS" are those seller receivables that we purchase and fund at the same time that the buyer is purchasing the property from the real estate owner. No payment history exists on a simultaneous closing, and unlike conventional home financing, the real estate owners (sellers) rarely obtain in-depth credit information on their buyer. As a result, underwriting the receivable is highly subjective and very collateral-oriented.

All the residential receivables in this product category will be secured by first liens on residential real estate houses. The value of the houses are determined by appraisals performed by appraisers familiar with markets where houses are located and performed at the time the receivables are created by the seller. The nominal balance of the original receivable compared to the appraised value of the houses (the Loan to Value, or LTV) will normally range from 70% to 90%. Since we buy the receivable at a discount, our investment in the receivable is lower than the face. Our investment compared to the value of the collateral (Investment to value, or ITV) will normally range from 50% to 70%. For seasoned receivables Genesis' underwriters may require that the original appraisal be supplemented with an updated appraisal (usually with a current "drive-by" or "windshield" appraisal).

Most receivables are sold "service released", meaning that the buyer of the receivable assumes the right and responsibility to collect the payments and service the receivable. All receivables are both bought and sold non-recourse.

Our returns are dependent on how well and how efficiently we enhance the value of the receivables we purchase. The primary risk of owning any receivable is the risk of non-payment. Since seller receivables frequently lack comprehensive borrower credit information, the credit risk is often difficult to quantify and the underwriting process focuses primarily on collateral (see Underwriting Section). Investors believe that as a receivable becomes seasoned, the risk of non-payment drops. By holding a receivable, even for 3 to 6 months, and receiving a history of payments, the risk goes down and the

value of the receivable increases significantly. Increased value of a receivable is reflected in a lower discount to yield requirement by the secondary market investor and a higher spread on the sale of the receivable.

In order to maximize the velocity of the funds available to us during the first years of our business, we intended to sell all receivables as soon as practical (within 90 to 180 days). As we built a stable financial base and developed adequate funding capacity, we would consider holding selected loans for longer periods of time when the extended holding periods will provide greater profits. As of December 31, 2009, the elimination of the "sub-prime" market buyers, coupled with the dramatic drop in real estate values nationwide, and the lack of available financing, has limited our ability to sell contracts, and we have either sold most contracts individually to private investors, or have decided to hold some contracts to maturity, or until market conditions improve.

As of December 31, 2009, the Company has experienced a dramatic increase in delinquencies, surpassing the level of national conventional market trends. In past market downturns, seller financed receivable buyers weathered these downturns because most of our contracts have high borrower's equity positions, are well-seasoned, and our investment ratios to value are much lower than in the conventional markets. However, in this present market downturn, those contracts that have resulted in repossession, in many cases, are secured by properties that have dropped in value to a level where the principle investment amount exceeds that value.

SELLER FINANCED COMMERCIAL REAL ESTATE RECEIVABLES CONTRACTS. The commercial contracts follow the same basic process as residential contracts. The only significant difference between the two is in type of collateral that underlies the contract. We initially limited our purchases of commercial property contracts to those less than \$250,000, and initially, we would not bid a commercial property contract until we had determined that we had a buyer for the contract ready, willing, and able to purchase the contract from us within a reasonable time after we closed. When we started originating commercial loans in 2004, the increasing appetite from accredited private investors to participate in larger commercial deals eventually dictated a change in that policy. Our maximum size limit was raised to \$5,000,000 in 2006. The financial markets melt-down throughout 2008 and 2009 severely limited the ability of commercial property holders to refinance or sell their properties, which has resulted in increased delinquencies and repossessions of these larger dollar deals. The costs of collection, litigation, maintenance, and the holding of these deals has severely reduced the Company's capital. This, in turn, has severely affected the Company's ability to purchase new receivables and fund new originations.

BROKERED LOAN AND REFERRAL FEES. From time to time, we will be presented with residential and commercial financing requests that do not meet our current requirements, but that we can refer to another financing source that will fund the transaction. In such cases, we will earn referral or finder's fees for simply referring the prospective transaction. In some cases, we may agree to document and close the transaction in a "simultaneous closing" in which the funding source remits funds to the closing agent and pays us the referral fee that we earned on the transaction. In either case, we are never at risk, and we never outlay our own funds to complete the transaction. Throughout 2008 and 2009, brokering these deals became our primary focus, due to our capital constraints, but the overall reduction of financing availability throughout the Nation severely limited our ability to find funding sources. Our production was minimal throughout 2008, and that trend continued throughout 2009.

OTHER TYPES OF RESIDENTIAL REAL ESTATE RECEIVABLES. In most instances, our purchases of seller financed real estate receivables contracts will involve a purchase of the entire note balance. In some instances, this method may be modified to in any of several ways.

PARTIAL PURCHASE. This is the purchase of the front portion of the contract cash flow. For example, Genesis might purchase the first ten years cash flow of a twenty year note, and the remaining ten years might be retained by the seller. In a partial purchase, our position is secured by a recorded full assignment of the note. An unrecorded "Partial Purchase Agreement" contract is signed with the seller, outlining the agreement. The seller's position in title is eliminated, and should the note go into default, the seller must either pay off our position or forfeit their rights to the remaining cash flow. At the start of 2008, Genesis decided to pursue this product in earnest, as the investment exposure was considerably lower than with full purchases, and as of December 31, 2009, it is still our promoted preference for purchases.

REVERSE PARTIAL PURCHASES. This is the purchase of the entire note, with an agreement to pass through a certain number of the front-end payments. For example, we may purchase a twenty year note, but agree to pass the first six payments through to the seller. This option is also secured by a recorded full assignment of the note and related lien document. An unrecorded "Reverse Partial Agreement" contract is signed with the seller, outlining the agreement. The seller's position is eliminated. Should the note become delinquent, or go into default, the RPA becomes invalid, and the pass through obligation is eliminated. Because these notes are not saleable in the secondary market until the pass through period has expired, Genesis will not purchase such transactions until at least year 2, and only after it is positioned to hold

receivables for the six (6) month pass through period. As of December 31, 2009, Genesis has not purchased any reverse partials.

OTHER RESIDENTIAL PRODUCTS. There are numerous ways to purchase the cash flows of receivables including multi-stage payouts, split payments, and many other variations beyond the options listed above; it's simply an internal rate of return calculation of the cash flow stream the seller desires to sell. Due to the uniqueness, and difficulty in servicing, many of these purchasing options are not saleable to secondary market investors, and are too complex to be used in sales to accredited private investors. Since Genesis intends to resell everything it purchases, our purchasing options will be limited to only those programs that are readily sold in the secondary markets, or to accredited private investors, eliminating many of these alternatives.

NON-REAL ESTATE CASH FLOWS. There are a number of cash flows available to purchase which are not secured by real estate but are paid by credit worthy payors (e.g. annual lottery payments paid by state governments, structured settlements payable by large companies, insurance company annuities paid over time). Lucrative yields can be earned by purchasing these receivables. The secondary market for these receivables was very limited in past years, but with the exodus of investors from the real estate markets, these receivables have become highly desirable, subsequently driving the buy rates to such a low level that Genesis cannot be competitive as a funder, but may take advantage of opportunities to broker such receivables as the opportunities may arise.

INTEREST ONLY AND BALLOON PAYMENT CONTRACTS. From time to time, Genesis may purchase contracts calling for interest only payments for some number of periods. Interest only contracts may be subject to greater degrees of risk than contracts with principal and interest amortization, since the borrower in an interest only contract is not demonstrating a present ability to repay the principal. Similar risks exist in contracts with balloon payment obligations. While the risk associated with investment in these types of contracts may be higher, Genesis is in a position to control the risk through the underwriting process. When higher risk contracts are proposed, the in house underwriters will adjust pricing or review the collateral position to assess the chances of repayment. Genesis is primarily a collateral based lender, so this assessment of risk on interest only or balloon payment contracts is very similar to the risk assessment undertaken on other seller financed real estate contracts and with commercial real estate loans. In many instances, Genesis may not have access to borrower credit reports, payment histories or other forms of information available to traditional lenders. By placing a higher degree of reliance on the collateral offered, the underwriters are able to match the pricing of the transaction and the expected return with the risk of non-payment. In general, interest only contracts will result in a lower loan to value percentage than comparable contracts with principal and interest amortization schedules. In present market conditions, receivables with balloons are viewed as very high risk if the balloon is due within a couple years, as the availability of refinancing is very limited, and many properties have mortgage debt exceeding the present value of the property securing the debt.

SUBMITTING BROKERS QUALIFICATIONS. Genesis will be very selective in choosing the brokers from whom they will accept submissions. Due to limited personnel resources, and the volatile real estate values, Genesis will not accept submissions from unknown or inexperienced brokers. Packages must be complete and accurate, and take into account present market conditions and values. Historically, only experienced brokers are capable, and trustworthy, of meeting this requirement.

QUOTING PURCHASES. Brokers call, fax, or email in requests for price quotes. In this business, speed, accuracy, and consistency are essential. If the quote request has complete information, a responsive quote will be given as soon as possible, but no later than the end of the next business day following the day on which the quote request is received. All quotes are subject to verification of the information provided at the time of the quote and underwriting approval. Although it is Genesis' intent to honor all quotes, they are subject to due diligence and underwriting. Occasionally information is discovered in due diligence that "just doesn't smell right", and Genesis will back out of the deal. Genesis management has operated this way for years with the broker community, and it is standard operating procedure. Brokers understand that quotes are not binding, and Genesis has no obligation to fund unless and until it decides to fund. In the present market environment, the decline rate has increased dramatically, as Genesis management just cannot get comfortable with many deals, especially in certain geographic areas that they have experienced increased delinquencies and repossessions.

BROKER SOFTWARE. BrokerNet is an industry-standard software program for packaging and calculating quotes. BrokerNet is software developed by Metropolitan Mortgage, and is used throughout the industry. The software is extremely versatile and allows the user to enter a wide variety of parameters and desired returns, and instantly receive a dozen different quote formats. Genesis personnel are familiar with BrokerNet, and use its capabilities during processing and closing procedures. Since most large brokers use BrokerNet, it provides a standard format for submissions and helps ensure that each file contains the necessary information for subsequent secondary market sale.

COMMERCIAL REAL ESTATE LENDING. Genesis has been a commercial real estate lender on a small scale since 2004, supplementing the Company's seller financed contract acquisitions. In the latter part of 2004, due to the competitiveness of the seller financed contract market, management decided to expand the Company's efforts in the

commercial lending market. Notice of this expansion was passed to the existing broker network, and potential business started coming in. Since the management and staff of Genesis had considerable previous experience with commercial lending, it was a natural and comfortable adjustment. As with any business venture, the Company looked through the commercial lending industry for a “niche”, and it was determined that Genesis was best suited to do “Hard Money” commercial lending. Hard money lenders focus on those loans that are usually smaller in size, shorter terms (more of an interim financing), often collateralized by non-conforming property types, or the borrowers do not qualify for conventional financing due to credit history issues. Hard money loans carry a higher interest rate also, providing a smaller, high cost-of-funds lender like Genesis with a decent spread on their investment.

Although hard money loans carry a higher degree of risk, due to the non-conforming nature of the loans, that risk is partially offset with the low loan-to-values, which seldom exceed 60%, providing a cushion for the lender even if the property has to be repossessed and resold. Throughout 2008, as real estate values throughout the Nation continued to decline, it became apparent that loan to value ratios as low as even 50%-60% were not sufficient to provide that cushion for the lender, as values have dropped in some geographic areas as much as 50%-70%. As of December 31, 2009, these values continue to decline, and the Company does not see an end to this decline anytime soon.

COMPETITION. When Genesis formally entered the hard money markets in the latter half of 2004, the market was very competitive, but very fragmented. Most hard money lenders operate on a local basis, limiting their lending to borrowers and collateral properties located a short distance from their base of operations. They also market only to the retail market, ignoring brokers and dealing directly with the borrowers.

Genesis already had an existing broker network in place, and felt that a wholesale marketing effort to those brokers would generate higher volumes of potential loans to review. Since hard money lenders normally have a closing rate of 1 out of 20 deals reviewed, management felt they could (1) look at more deals and therefore close more deals, and (2) the brokers could pre-qualify the deals, reducing the wasted effort of reviewing deals that won't close. With management's experience buying seller financed contracts secured by real estate properties located throughout the nation, expanding our lending market nationwide would provide an extra advantage over the regionalized lenders.

Beginning in late 2007, we started to see some of the commercial lenders cutting back and tightening their lending parameters, and some were even exiting the business, or closing their doors due to high delinquencies and repossessions. By the end of 2009, a large percentage of the lenders have exited the business or closed their doors, and virtually every remaining commercial real estate lender has severely tightened their parameters. The Company expects this trend to continue.

MARKET ANALYSIS. The hard money market was quite strong in 2004, at the time of the Company's increased focus in making these loans, and continued that way throughout 2006. Frequent foreclosure litigation and repossessions are an expected part of the hard money industry, in contrast to the conventional markets. With the exception of those few deals with unusual circumstances affecting the outcome, most problem deals were eventually worked out, and paid off, or the repossession and resale resulted in a profit, broke even, or at worse, the Company experienced a small loss. The losses were at an acceptable level, but the Company established a loss reserve account, and started setting aside funds to cover those small losses in 2005, and continued that practice throughout 2006.

In 2007, the Company started to experience increased delinquencies, primarily due to a slow-down in the borrower's business, resulting in reduced cash flows. The workouts that before resulted in a payoff before repossession declined dramatically. This appeared to be due to the fact that the borrowers could not refinance their collateral properties, nor could they sell their properties to pay off the loan. This was resulting in more repossessions, and the Company was finding that they could not sell those repossessed properties as easily, and not for as much as the appraisal indicated they should sell for.

As of December 31, 2007, it was apparent that the real estate markets throughout the country were experiencing a downturn in values, and at the same time the lending markets were tightening up, making refinancing very difficult, regardless of the property type. The Company was experiencing increasing delinquencies, resulting in increased litigation expense, and eventual repossession. In several cases, it was apparent that the present value of the collateral had dropped below the principle loan balance, which assured a sizable loss unless values rebounded fairly soon.

As of December 31, 2008, delinquencies, repossessions, and mark-to-market adjustments increased to a point where it was obvious that the losses would far exceed the Company's ability to reserve for, and an additional provision of \$2,017,655 was taken.

As of December 31, 2009, real estate values continued to plummet, and delinquencies and repossessions increased. An additional provision of \$1,542,433 was taken.

As of the third quarter of 2008, Management felt the real estate and financial markets were going to continue to decline, and made the decision that some major adjustments in the way the Company operated going forward was necessary. The decision was made to reduce overhead expense by outsourcing the day-to-day operations of the Company, to focus on reducing the Company's debt through a re-structuring of terms with our credit facilitators, to pursue the sale of Company assets, to continue acquisitions and originations only on deals that have been pre-sold, to focus on salvaging delinquent accounts through increased collection activity and workouts, and to increase the focus on maintenance and resale of repossessions. This plan was implemented January 1, 2009.

UNDERWRITING

UNDERWRITING INTRODUCTION. The key to success with Genesis's business model rests with the underwriting process for seller financed real estate receivables purchases and commercial real estate originations. The underwriting for seller financed receivables and hard money commercial loans are very similar, but significantly different from underwriting FNMA/GNMA loans. FNMA/GNMA loan applications are completed by trained clerks and approved or declined by a computer with little subjective analysis of the borrower or the collateral. This is necessary in order to maintain uniformity of product for the guaranteeing government agencies and the end institutional investors. Underwriting seller financed receivables and hard money commercial loans is highly subjective, and requires very experienced analysis and understanding of collateral, borrowers, and the parameters required by various secondary market and private investors.

In order to maintain tight control over the process of purchasing seller financed real estate receivables, and making hard money commercial real estate loans, Genesis performs its own underwriting of all contracts and loans considered. Genesis maintains total control of the process and does not fund a purchase or loan if information requested from a participant in the process is not forthcoming or is unsatisfactory. While the underwriting process is complex and involves a number of participants, Genesis is the funnel point through which all information is filtered. Michael Kirk has over 30 years experience in all aspects of the finance business and over 20 years experience in underwriting seller financed paper and hard money loans, and he performs the initial underwriting function for the Company. With the financial melt-down that is occurring throughout the Nation, the Company has added another layer in the underwriting process; all new acquisitions and originations must be presented and approved by the Board, once Kirk has completed his due diligence. The underwriting process is described in more detail in the following paragraphs.

UNDERWRITING PHILOSOPHY. Seller-financing and hard money lending are unique financial products and must be underwritten as such. They cannot be underwritten in the same "black and white" manner that is standard in the conventional mortgage industry. These products are "gray". That's why they were not funded through conventional means at the outset. Something caused them to fall out of the "black and white" underwriting, and they didn't qualify for conventional mortgage financing.

Of all the conventional lenders that have tried the seller-financed market and/or the hard money commercial market, and failed over the years, all attempted to underwrite the product in the same manner as conventional mortgage loans. Even though the lenders knew the contract or loan had been through the system already, and was rejected, they still kept the automated "black and white" lending requirements, but relaxed the criteria and just made it easier for poor quality deals to get approved. The end result was higher than expected risk and substantial losses.

Success in the world of seller-financed real estate receivables and hard money commercial real estate loans requires much more common sense and judgment, backed by years of front-line experience with the product. The entire transaction has to be reviewed as a whole, not just piece by piece. "Absolute rejection" minimums have to be established and followed, but "automatic approval criteria" is a recipe for failure in this market. Brokers are professionals at "knowing the system," and getting their deals through that system. If you give them defined "black and white" parameters, they will package and massage deals until they fit those parameters.

Underwriting seller-financed product requires an extensive knowledge of documentation variations and requirements, state and local laws and practices, real estate values and marketability, credit, collection, foreclosure procedures, time requirements, and human nature. Transaction documentation varies tremendously, from office supply store standard form documents that have been filled in by buyer and seller at a kitchen table, to attorney-prepared contracts dozens of pages thick. Hard money commercial loans may utilize the same basic documentation as a conventional loan, but that's where the similarity ends. The required documentation in one state may not be acceptable in another state, or the county in a particular location may require additional documentation in order to allow recording. Different types of title policies are required depending on the area, or the mood of the title company. Our personnel know and understand these differences and have many years of experience with documenting and processing transactions.

As noted above, Genesis controls the underwriting process in house. Michael Kirk is primarily responsible for all underwriting details, including coordinating the information flow among the various participants, and working together with the Company's Board of Directors to determine the acceptability of the contract proposal once the files are complete. We believe that the in house underwriting function is essential to the proper evaluation of inventory purchases, and we intend to continue the process internally. In order to provide some consistency to our underwriting procedures, we have adopted the underwriting guidelines discussed in the next section.

UNDERWRITING GUIDELINES

MARKETABILITY. The ability to remarket the seller financed real estate receivable contract or the commercial loan is extremely important to Genesis. Protecting our equity position is one of the most critical issues in our transactions. Appraised value is simply the opinion of the appraiser at the time of the transaction. The underwriter needs to look at the whole picture, not just the estimated value. What condition is the property in? How long have the buyers been in the property, and are they responsible for the present condition? Is it well kept, being improved, or is it deteriorating? Is it overbuilt for the area? What's the neighborhood like? Is it in an area of transition, crime, or gentrification? How would the location affect a resale? What's the geographic market look like? Appreciating? Declining? Stable? Although the appraisal will address many of these factors, the appraisers are used to working for mortgage brokers, or real estate agents, who are usually pushing for the highest value possible, and many are more concerned with client satisfaction than accuracy. In the seller-financed and hard money industries, the underwriter must make an independent evaluation of the appraisal and determination of value to be certain adequate collateral coverage exists. Michael Kirk performs this analysis for the company.

UNDERWRITING PROCEDURES. Genesis has established the following procedures to provide uniformity in its underwriting practices.

FIRST REVIEW. The in house underwriter first gives the file a quick overview, looking to see if there are any items that would result in an "absolute rejection" of the file. If the buyer has prior foreclosures, is in bankruptcy proceedings that have not been dismissed or discharged, has multiple bankruptcies, is unemployed with no visible means of support, etc., the submission will be rejected. If the property is of an unacceptable type, in unacceptable condition, located in a market that is known to be rapidly declining, or in a market that has been a problem for Genesis in past, the file will be rejected. If the receivable documentation is incomplete, incorrect, or includes clauses that may be detrimental to our security position, or our ability to enforce collection of the debt, the file will be rejected. If a file is rejected in the initial review, the underwriter will convey that decision and the reason to the borrower/seller or submitting broker. The file cannot be resubmitted without additional information to justify another look. Files with documentation problems will not be reconsidered until evidence is received indicating the documentation deficiency has been corrected.

PRICING ISSUES. In some cases involving the purchase of a seller financed real estate receivable, the requested buy price from the broker will be outside our target pricing. In such cases, if the submission is not rejected during the preliminary review based on a credit or collateral, then the underwriter will notify the submitting broker that the file is outside our pricing parameters and is being placed on hold. Should the broker and the contract holder wish to adjust their pricing to our approved buy price the file will be underwritten at the adjusted pricing. If the broker cannot, or is unwilling to consider a lower buy price, we will return the file to the broker without any further underwriting attention.

THE STRUCTURE. When underwriting a seller financed real estate contract, the in house underwriter gives careful consideration to the structure of the transaction. Does the structure meet the needs and abilities of the buyer? Or does the structure meet the needs of the seller (or broker) with terms that will bring the maximum price in the market, but tax the buyer's ability to pay? Was the down payment real? Was the down payment made with the borrower's funds, or did they have to borrow it, or was it a gift? Can the buyer afford the payments now, and does it appear they will continue to have the ability to perform? Was the sales price inflated to offset the buyer's inability to finance through conventional channels? Was the sales price inflated to offset the discount in the sale of the note? Does everything about the transaction make sense, or are there "red flags" that suggest further investigation is required?

DOCUMENTATION. The documentation of the sale that created the seller financed documentation is read thoroughly, looking for unusual addendums, or inserted phrases that may jeopardize our position. The in house underwriter will discuss any questions or concerns about the acceptability or legal structure of the documentation with our closing staff and/or the closing title company. The title report is reviewed in conjunction with the documentation. Does the report substantiate all the represented facts? Are there potential problems in the report that may jeopardize our position?

THE APPRAISAL. The appraisal report and property description supplied by the borrower, seller or broker are considered together. Any inconsistency in this information is a red flag, and must be explained to the underwriter's satisfaction before the submission is approved. The in house underwriter must be confident that the property value, the marketability of the

property, and the desirability of the area are acceptable. The underwriter will also establish an estimated quick-sale price for the property during this research. If it appears the sales price was too high (in the case of a contract purchase), or conditions in the area and/or problems with the property dramatically reduce the property's estimated quick-sale value, the transaction will either be declined, or the buy price, or loan amount, will be lowered to provide Genesis with what we feel is sufficient collateral value.

CREDIT INFORMATION. The in house underwriter scrutinizes what credit information is available on the buyer very carefully and considers the information in the context of the entire deal structure. Credit scores and credit reports are reviewed very closely: consumer credit accounts, collections, judgments, line and loan balances, length of credit relationships, time in the credit file, employment information, consumer statements, address histories, aliases, and anything else appearing on the report is reviewed and compared with representations. All loan application and other financial information that was submitted with the file is reviewed closely. If there are any inconsistencies, if anything raises a red flag, or there is just something that makes the underwriter uncomfortable or apprehensive, the underwriter notes the concerns in the file and resolves those concerns prior to submitting the deal to the Board for final approval. The credit underwriting of a seller-financed transaction consists of again looking at the overall deal. The credit scores and credit trade histories are simply pieces of the puzzle, and loan applications and tax returns or financial statements are usually not available. The underwriter's opinion of the buyer's ability to make the payments, based on all the information taken together, takes precedence over the credit-score itself.

BOARD REVIEW & APPROVAL. In the 4th quarter of 2008, management added the requirement of Board approval for any acquisitions or originations. As of December 31, 2009, that requirement is still in place.

PROCESSING/CLOSING PROCEDURES. At the completion of the underwriting process, if the transaction is approved, the file moves into the closing process. When our in house closer receives the file, the first step is to review the entire package for completeness, with special focus on the documentation. If no discrepancies are noted, our closer will initiate the closing process. The time goal for the closing process cannot be established due to our limited control over the process, but normally, the closing will take place within 1-2 weeks after the process is started.

SETUP PROCEDURES. Upon receipt of the closed file from the closer, our Operations Coordinator reviews the file for completeness and makes sure everything is in a standardized format. Follow-up requirements are added to the existing master follow-up sheet, and the appropriate recording authorities are contacted to determine when required items will be received (such as the final Title Policy). The follow-up is calendared according to each response. Our Operations Coordinator is responsible for all follow-up.

If the file is slated for immediate sale, our Operations Coordinator adds it to the immediate sale list, files it as such, notifies management that it has been added to the list and advises management of any documentation that is in follow-up.

DEFAULT PROCEDURES. Genesis is staffed by experienced professionals, who have in-depth knowledge in underwriting, collection, and litigation. Receivables and loans will be sold after short holding periods and defaults are expected to be minimal. Some defaults will occur, however, and we will take steps after we become aware of the default to protect our interests. Genesis operates under the policy that any transaction over 90 days delinquent is a defaulted transaction. In a default situation, Genesis will pursue one or more of the following alternatives: discussion with the submitting broker concerning ways to remedy the default; an offer to re-write or modify the note for the borrower/buyer to cure the default provided good evidence is available that the re-write will be honored by the borrower/buyer; sale of the Real Estate Note with the delinquency disclosed (possibly at a loss); acceptance of a deed in lieu of foreclosure; and/or foreclosure and foreclosure sale.

SECONDARY MARKET RESALES

OVERVIEW. Since inception, Genesis has purchased contracts and originated loans with the goal of resale to various secondary market and private investors. Genesis attempts to resell the contracts and loans as soon as possible with a view toward optimizing gains on resale. With the elimination of the secondary market, and the participating secondary market buyers, the primary buyers have been private investors. The Company feels that condition will continue for the foreseeable future, but will continue to monitor the financial markets, and establish relationships with any secondary market buyers that may re-surface in the future.

REQUEST FOR POOL BIDS. Although pool sales to private investors are not common in today's environment, the Company has procedures in place to handle these sales. When Genesis has acquired a sufficient number of contracts and loans for resale in a pool, the Operations Coordinator prepares a request for bid and lists the receivables/loans on an Excel spreadsheet that shows all relevant information (balance, face rate, payment amount, remaining term, etc.). The request for

bid is then faxed and/or emailed to suitable secondary market and private investors. The investors review the request and fax or email back a bid price, subject to file review and underwriting.

SALE OF POOLS. When Genesis accepts a bid for a pool, the Operations Coordinator assembles and forwards to the successful bidder the related loan files. The successful bidder reviews and underwrites each file to confirm that each loan meets their underwriting and document requirements. Occasionally, the investor rejects individual loans included in the pool and the bid price adjustment is negotiated accordingly. Upon the investor's final acceptance of the pool of loans, Genesis forwards original files to the investor, the investor prepares the assignment documents, closes the pool purchase and wires funds to Genesis. Genesis normally receives funds within 2 weeks from the date the successful bid is accepted.

Genesis is not dependent on one or a small number of secondary market purchasers or private investors for resale of its products. We deal with a sizable number of note buyers and we typically request bids from multiple parties on contract sales. Although there are no large National players in the market at this time, we see interest in our products from smaller regional players, and from private investors. We believe that there are sufficient entities and individuals interested in acquiring our products that we will not be dependent on any one source for a significant percentage of our loan resales. Although the pool secondary market has dried up as of December 31, 2009, it is our intention to continue to search out, and cultivate, new sources of loan pool buyers so that we do not become dependent on a single or a small group of buyers.

GOVERNMENTAL REGULATION

Commercial real estate lending does not require special licensing, and is not subject to governmental regulation. Genesis does not originate residential loans, and therefore is not subject to governmental regulation as a lender, bank, mortgage broker, or other regulated financial institution. Our business focuses on transactions that are not subject to governmental regulation and we intend to maintain this business focus for the foreseeable future.

EMPLOYEES

On January 1, 2009, all day-to-day processing and servicing operations of the Company were out-sourced to Genesis Finance Corporation, a company owned by Michael A. Kirk. As of December 31, 2009, the Company had no full time or part time employees.

REPORTS TO SECURITY HOLDERS. The Company is currently obligated to file periodic reports with the United States Securities and Exchange Commission in accordance with the requirements of Section 15(d) of the Securities Exchange Act of 1934. The Company is required to file quarterly reports on Form 10-Q and annual reports on Form 10-K. The Company is currently delinquent in its filings and is in the process of becoming current. The Company is currently a Smaller Reporting Company under applicable SEC regulations.

Copies of all materials that we file with the SEC may be inspected and read without charge at the Public Reference Room of the SEC, 100 "F" Street NE, Washington, D.C. 20549. Interested persons may obtain information regarding the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Copies of this material may be obtained at prescribed rates from the Public Reference Section of the Commission at 100 "F" Street NE, Washington, DC. 20549. The Securities and Exchange Commission also maintains a Web site (<http://www.sec.gov>) through which the information we file with the SEC can be retrieved.

ITEM 1A. Risk Factors

Not applicable to Smaller Reporting Companies.

ITEM 1B. Unresolved Staff Comments

Not applicable to Smaller Reporting Companies.

ITEM 2. Properties

Genesis leases approximately 2,700 square feet of space in a professional office building located at 12314 E. Broadway Ave., Spokane Valley, WA 99216. The Company moved to this location November, 2009 from 1,700 square feet of leased space located at 200 N. Mullan Rd., Spokane Valley, WA 99206, where we had been since formation of the Company in 2002. The move resulted in a 75% reduction in lease expense. We believe this space will be adequate to meet our needs for several years.

ITEM 3. Legal Proceedings

In the normal course of business, Genesis is the initiator of foreclosure and judgment litigation to protect and retrieve its investments in seller financed real estate receivables and commercial loans.

Genesis was the Defendant in two lawsuits since its formation in 2002, both related to the same transaction.

In September, 2003, Genesis made a \$500,000 first lien position loan to Cherry Grove Golf & Tennis Club, Inc., secured by a 295 acre tract of land that was to be developed into a golf course. Soon after the loan was made, Cherry Grove decided to turn the property into a wetlands mitigation bank, and approached Genesis for additional funding to pursue that conversion. Because the additional funds would have to be in the form of an equity investment, Genesis was unable, and unwilling, to invest the funds. However, Michael Kirk felt the wetlands bank concept was solid, and an investment could be quite lucrative, so he formed an LLC made up of accredited private investors called Valencia LLC. Valencia LLC invested \$250,000 for a 50% interest in the net profits generated from the wetlands bank. Valencia had no ownership interest in the land, nor any liability for any debts owed by Cherry Grove. Kirk was the Co-Manager of the LLC. Brad Herr, the CFO of Genesis, was the other Co-Manager.

Within 6 months, Cherry Grove had expended the funds from Valencia, and was in need of additional funding to complete the wetlands bank conversion. Valencia was under no obligation, and was unwilling, to invest additional funds. However, Kirk was convinced the project was viable, and additional funding was necessary to bring the venture to fruition, so he approved a second lien position loan to Cherry Grove in the amount of \$500,000. Although this put Genesis in a 100% loan-to-value position on the collateral land by itself, completion of the wetlands mitigation bank would increase the property/project value to from \$14,000,000 to upwards of \$60,000,000.

In late 2004, Cherry Grove and Valencia were in a dispute over how Cherry Grove was managing the project, and both loans to Genesis were seriously delinquent, as Cherry Grove refused to make the payments. Genesis initiated a foreclosure action on the second mortgage in the district courts of the State of Idaho. Cherry Grove filed a counter-suit against Genesis and Valencia, claiming collusion, and a conflict of interest, because Kirk was President of Genesis, Herr was the CFO of Genesis, and both were also the Co-Managers of Valencia (full disclosure had been made at the outset). Because of the complexity of the case, and the potential dollars involved, the case was moved to the federal courts. Genesis funded the litigation for the foreclosure portion, and the Valencia members funded their portion of the litigation. Kirk was the lead representing Genesis, and Herr took the lead representing Valencia.

In January, 2006, all participants entered into Federal mediation. That mediation resulted in Genesis being paid all their principle and interest on both loans, and small portion of their legal expenses reimbursed. The Valencia LLC members received all of their initial investment back, plus all their legal fees, plus a continued 47.5% profit participation in the bank, in an amount that would be worth between \$3,000,000 and \$7,500,000, depending on the success of the wetlands mitigation bank. Genesis received a 52.5% interest in that profit participation as compensation for their legal expense, and not pursuing the foreclosure, which would have resulted in wiping out all of Cherry Grove's and Valencia's interest in the mitigation bank. The settlement was signed off by all parties in January, 2006, and funded and implemented in April, 2006.

In the third quarter of 2007, a distribution of credit sale proceeds was made to the Valencia LLC members, and three members (a father and his two sons) of the 17 Valencia LLC members expressed their disagreement with Kirk's and Herr's handling of the settlement with Cherry Grove (a two-thirds majority approval from the LLC members was acquired prior to Kirk and Herr signing the settlement). They felt that Kirk and Herr should have been tougher, and held out for more, and that Genesis should not have received any part of the settlement.

In June, 2008, those three members filed suit against Genesis, Valencia LLC, Kirk, and Herr. The suit alleged that although Kirk and Herr had acquired a majority approval of the settlement, the magnitude of the settlement required a unanimous approval of the members, not simply a majority. The language of the LLC Operating Agreement was vague, and a ruling in favor of the plaintiffs would have resulted in an unwinding of the settlement with Cherry Grove. That result would not have been beneficial to either the Genesis shareholders, or the Valencia LLC members. A settlement was reached January, 2009, whereas Genesis agreed to re-distribute their 52.5% interest amongst the Valencia LLC members. In addition, Genesis was reimbursed for \$25,000 of their legal expenses. Valencia agreed to pay a settlement amount of \$95,000 to the plaintiffs from future credit sales. That debt was paid in full September 23, 2009.

ITEM 4. Removed and Reserved

PART II

ITEM 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market For Common Equity And Related Stockholder Matters

Our common stock is quoted on the OTC Pinksheets. The following table sets forth the high and low bid prices of our common stock for the quarters ending December 31, 2009 and 2008 and interim periods. The quotations set forth below reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Table No. 1

Quarter Ended:		
Fiscal 2009	High	Low
March 31	.50	.35
June 30	.50	.35
September 30	.50	.35
December 31	.62	.35
Fiscal 2008	High	Low
March 31	.50	.35
June 30	.50	.32
September 30	.50	.15
December 31	.25	.05

(a) Holders

Our company has approximately 100 shareholders of its common stock as of December 31, 2009 holding 6,707,108 common shares.

(b) Dividends

There are no restrictions imposed on the Company which limit its ability to declare or pay dividends on its common stock, except for corporate state law limitations. No cash dividends have been declared or paid to date and none are expected to be paid in the foreseeable future.

(c) Recent Sales of Unregistered Securities. None.

(d) Securities Authorized for Issuance under Equity Compensation Plans

Equity Compensation Plan Information

The following table summarizes our equity compensation plan information as of December 31, 2009. Information is included for equity compensation plans not approved by our security holders.

Table No. 2

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average Exercise price of outstanding options, warrants, and rights (b)	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity Compensation Plans approved by security holders	1,300,000(1)		261,000
Equity Compensation Plans not approved by security holders	-0-	-0-	-0-
Total	1,300,000		261,000

(1) Original stock option plan was 650,000 shares, but has been adjusted for a 2 for 1 forward stock split which occurred on January 2, 2007.

During fiscal year ending December 31, 2009 no options were exercised or issued.

ITEM 6. Selected Financial Data

Smaller Reporting Companies are not required to provide this data.

ITEM 7. Managements Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the financial information included elsewhere in this Annual Report on Form 10-K.

The purpose of this section is to discuss and analyze our financial condition, liquidity and capital resources and results of operations. You should read this analysis in conjunction with the financial statements and notes that appear elsewhere in this Annual Report on Form 10-K. This section contains certain "forward-looking statements" within the meaning of federal securities laws that involve risks and uncertainties, including statements regarding our plans, objectives, goals, strategies and financial performance. The Company's actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors set forth under "Disclosure Regarding Forward-Looking Statements" in this Annual Report on Form 10-K.

Genesis Financial, Inc. is engaged in the business of buying and selling seller financed real estate contracts ("contracts"), and originating commercial real estate hard money loans. We purchase contracts at a discount and hold them in inventory for a relatively short period to provide seasoning and value appreciation. After the holding period, we sell the contracts. We expect to derive operating revenues from resales of contracts at a profit, and from interest income derived from contracts during the holding period. We originate commercial real estate loans and sell the loan, or participations in those loans, to accredited private investors. From time to time, we also consider other forms of cash flow instruments when warranted.

PLAN OF OPERATIONS.

Over the course of the next twelve months, we will continue to develop our operations along the lines of our growth since inception, but will also concentrate on reducing overhead expense, and resolving delinquencies and repossession situations. We are not capitalized at a level that allows holding of significant amounts of contracts and loans for investment and as a result, we will continue to work toward short term inventory turnover. We originally anticipated holding most of our contracts and loans between three and six months, and then selling them in the secondary markets. Through the first six months of 2003, we were averaging one pool sale every two months. That trend has declined to the point that, as of the end of 2007, we were not actively pursuing pool sales, due to the slow-down and turmoil in the secondary markets, and that trend continues through 2009. We are either holding these contracts in inventory, or selling them individually as opportunities arise. We expect that the number and dollar volume of all sales will continue to decline over the next twelve months, and longer, especially if financial market conditions continue to deteriorate. Until conditions improve, we will continue to focus our efforts towards developing relationships with investors who are interested in the

individual contracts and loans, versus the pools. In order to achieve our targeted growth, we will require additional investors and capital. If additional investors and capital are not available, our growth plans will be delayed further and profitability will continue to be negatively impacted.

Over the past couple years, we have seen a dramatic increase in delinquencies, resulting in increased costs of collection and litigation. The increase in delinquencies has also resulted in a dramatic increase in repossessions. These repossessions tie up capital until the collateral properties can be resold, and require additional capital to maintain the properties during the holding period until a sale can be achieved. In addition, if property values continue to decline, our ability to recoup our investment through a resale of the property will be adversely affected. If real estate market values continue to decline, our growth plans will be delayed further and profitability will continue to be negatively impacted.

RESULTS OF OPERATIONS

Revenues

Fiscal Year ended December 31, 2009 compared to year ended December 31, 2008.

Our beginning inventory on January 1, 2009 and 2008 consisted of contracts and real estate properties, respectively, with a cost of \$7,149,407 and \$8,080,449, respectively.

During the year ended December 31, 2009 we did not have any gross profits from contract sales. During the year ended December 31, 2008 we had \$10,696 in gross profits.

Our ending inventory consisted of contracts and real estate properties with a cost basis of \$4,841,021 and \$7,149,407, respectively.

We also earned \$146,916 and \$1,003,764, respectively of interest, processing fee and other income and \$55,202 and \$344,405, respectively, in broker and contract extension fees during the years ended December 31, 2009 and 2008.

Net aggregate total revenues for the fiscal years were \$201,157 and \$1,129,004, respectively, resulting in a net loss from operations of (\$1,744,195) and (\$1,650,647), respectively for each year. The primary reasons for the losses were provision for losses.

Of the contracts held in inventory at December 31, 2009 and 2008 with aggregate values of \$3,154,238 and \$5,413,396, respectively, 71.4% and 24.7% contracts, respectively, with aggregate values of \$2,319,727 and \$1,338,739, respectively, were in payment default.

During 2009 and 2008, we repossessed 1 and 11, respectively, properties which represented real property collateral under our purchased contracts.

During 2009 and 2008, these properties have a cost basis of \$1,686,783 and \$1,736,011, respectively. These properties were listed for sale.

In each instance of payment default, it is Genesis' policy to stop accruing interest income when delinquency status is reached. Genesis also performs a review of the adequacy of collateral on each default and records a write-down to market value if the collateral value is less than the contract balance due to Genesis on an aggregate basis by contract type. For this purpose, Genesis categorizes contracts as residential, commercial, land, and other.

As of December 31, 2009 and 2008, write-downs of \$1,403,988 and \$1,882,589 were taken respectively.

General and Administrative Expenses

General and administrative expenses ("G&A") fiscal years ended December 31, 2009 and 2008, were \$236,155 and \$500,415, respectively. G&A primarily consists of executive and director compensation, rent and professional fees for legal, accounting and public relations, utilities, depreciation and maintenance. The year over year increases and (decreases) for the fiscal years ended December 31, 2009 and 2008 were (\$264,260) and (\$76,489), respectively. The primary reasons for the changes were as follows:

Fiscal year ended December 31,	Increase (decrease)	Primary reasons for change
2009	(\$264,260)	Decrease in executive compensation.
2008	(\$76,489)	Decrease in provision for losses net of increased professional fees.

Interest Expense

For the years December 31, 2009 and 2008, interest expense amounted to \$166,764 and \$261,581, respectively.

Interest expense was/is incurred on borrowings under lines of credit with RiverBank, an unaffiliated lender, and Coghlan Family Corporation, an affiliated company.

We are currently operating under a primary \$1,000,000 line of credit with RiverBank, an unaffiliated lender, with a variable interest rate equal to the prime rate index rate (as published in the Wall Street Journal) plus 1%. The line of credit also includes a one percent origination fee.

We also are currently operating under a secondary \$2,500,000 line of credit with Coghlan Family Corporation, an affiliated company, with a variable interest rate equal to the prime index rate (as published in the Wall Street Journal) plus 1%. The line of credit also includes a one-half percent origination fee.

We consider the terms of the lines of credit to be acceptable. As of December 31, 2009 and 2008, the balance on the lines of credit were \$2,989,000 and \$3,500,000, respectively. Interest expense on the lines of credit will fluctuate in future periods with inventory levels and loan paydowns. The decrease for the lines of credit for the years December 31, 2009 and 2008, were (\$511,000) and \$350,000, respectively.

At December 31, 2009 and 2008, the Company recognized a gain (loss) on the sale of investment securities of (\$41,721) and (\$19,681), respectively. In addition, the Company wrote down the carrying value of its investment securities during the year ended December 31, 2008 because the decline in market value of the underlying securities was deemed to be other than temporary. A loss of \$315,754 was recognized for this writedown.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of cash are from equity financing, related party loans, unaffiliated party loans, funding agreements and common stock private placements. The Company anticipates that our primary uses of cash will need to be supplemented in order to meet the demands upon its current operations, and the need for additional funds to finance ongoing acquisitions of seller financed real estate receivables and originations of commercial real estate hard money loans, and the expense of the litigating of delinquent contracts and loans, and the maintenance and resale costs of repossessed properties.

Fiscal Year ended December 31, 2009 compared to year ended December 31, 2008.

At December 31, 2009 and 2008, we had cash available of \$64,406 and \$117,387, respectively, and our credit lines were fully expended.

At December 31, 2009 and 2008, we were holding contracts and real estate properties in inventory with an aggregate cost of \$4,841,021 and \$7,149,407, respectively.

At December 31, 2009, we operated under two lines of credit:

The primary line of credit with RiverBank, an unaffiliated lender, bearing interest at a variable rate equal to the prime rate index rate plus 1%. The line of credit requires a one percent origination fee that is payable in cash. The line is for a 12 month term, and expires on August 24, 2009. On June 29, 2009, the Company reestablished an \$850,000 line of credit with RiverBank, bearing interest at a variable rate equal to the prime rate index (as published in the Wall Street Journal) plus 1%, plus a minimum principle payment of \$25,000 per month. This line is for a 12 month term, and expires on July 1, 2010. We believed the terms of the line of credit were acceptable. The Note is attached as Exhibit 10.1.

The secondary line of credit with Coghlan Family Corporation, an affiliated company, bearing interest at a variable rate equal to the prime rate index (as published in the Wall Street Journal) plus 1%. The line of credit requires a ½% origination fee that is payable in cash. The line is for a 12 month term, and expires on December 31, 2009. The line of credit was renewed for 2010. We believed the terms of the line of credit were at least as favorable as those available to us from an unaffiliated lender.

At December 31, 2009 and 2008, the Company had a \$2,500,000 and \$2,500,000 respectively Line of Credit, (“LOC”) Agreement with the Coghlan Family Corporation, Inc. (“CFC”). CFC is an affiliated company controlled by John Coghlan, a director and principal shareholder of the Company. The interest rate on the line is a variable interest rate equal to the prime rate index (as published in the Wall Street Journal) plus 1%, a term of twelve months, and an origination fee of ½% or \$12,500 and \$12,500. The outstanding balance at December 31, 2009 and 2008 was \$2,390,000 and \$2,500,000 respectively. The credit line is secured by all of Genesis’ assets but is subordinate to the RiverBank line of credit. The line of credit agreement requires that the Company maintain a debt to equity ratio of no greater than 3.0. The line of credit has been renewed for \$2,500,000 with the same terms through December 2010. Borrowings under the line are personally guaranteed by Michael A. Kirk.

At December 31, 2009 and 2008 the Company had a \$850,000 and \$1,000,000, respectively, Line of Credit with RiverBank with a variable interest rate equal to the prime rate index rate (as published in the Wall Street Journal) plus 1%. The interest rate on the line at December 31, 2008 is 6% per annum. The line has a term of twelve months, and an origination fee of 1%, or \$10,000. The outstanding balance at December 31, 2009 and 2008 was \$599,000 and \$1,000,000, respectively. The RiverBank line of credit is senior to the CFC line of credit and is collateralized by the assets of Genesis. The RiverBank line requires that the CFC line may not be paid down lower than the amount owing to RiverBank at any time during the term of the loan. The line is payable on demand and is personally guaranteed by John and Wendy Coghlan. John Coghlan is Co-President, Chief Financial Officer, Chairman of the board of directors, and principal shareholder of the Company.

Subsequent to June 2009, the Company reestablished the line of credit with RiverBank, bearing interest at a variable rate equal to the prime rate index rate plus 1%, plus a minimum of \$25,000 principle per month. The line of credit requires a one percent origination fee that is payable in cash. The line is for a 12 month term, and expires on July 1, 2010. We believed the terms of the line of credit were acceptable.

The following table presents changes in cash flow data for the periods indicated.

CASH FLOW DATA:	2009	2008
Net cash used in operating activities	\$393,907	(\$89,476)
Net cash provided by (used in) investing activities	\$64,112	(\$41,676)
Net cash provided by financing activities	(\$511,000)	\$83,365

The primary reasons for the changes in cash used in operating activities were as follows:

Fiscal year ended December 31,	Increase (decrease)	Primary reason for change
2009	\$483,383	Increase in contract real estate inventories.
2008	(\$1,246,932)	Provision for losses on inventory, net of decrease in liabilities.

The primary reasons for the changes in cash (used in) provided by investing activities were as follows:

Fiscal year ended December 31,	Increase (decrease)	Primary reason for change
2009	\$105,788	Sale of all remaining investment securities
2008	(\$115,574)	Purchase of investment securities greater than proceeds received from the sale of investment securities

The primary reasons for the changes in cash provided by (used in) financing activities were as follows:

Fiscal year ended December 31,	Increase (decrease)	Primary reason for change
2009	(\$594,365)	Pay down on the line of credit
2008	(\$342,611)	Increase in borrowing on lines of credit off-set by redemption of common stock, net of common stock redemption

Our capital resources have occasionally been strained, but were adequate to fund our operations at a reasonable level during the fiscal years covered by this Annual Report. We have paid close attention to our contract purchases and loans and maintained our funding requirements within our available resources. We were able to control our funding rate by adjusting our pricing, tightening our underwriting, and/or discontinuing certain product lines. The strains on our capital have been largely caused by increased litigation expenses, as well as increased repossession maintenance, holding and resale costs, coupled with lower resale values. We received interest and principle reductions (typically monthly) on contracts and loans we held in inventory pending sale, and the interest rate spread between the cost of our lines of credit, or the participation sales to private investors, and our weighted average contract yield provided operating capital which sustained our operations during the reported periods. The origination fees generated from the commercial loans contributed additional operating capital. We would require an increase in our capital base, and an improvement in the real estate markets, in order to grow the company, and improve profitability. Until such time as that happens, we expect to see our asset base continue to decline in both size and value, and capital resources to remain strained.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Not applicable to small reporting companies.

ITEM 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Genesis Financial, Inc.

We have audited the accompanying balance sheets of Genesis Financial, Inc. (“the Company”) as of December 31, 2009 and 2008, and the related statements of operations, changes in stockholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Genesis Financial, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "DeCoria, Maichel & Teague, A.S.".

DeCoria, Maichel & Teague P.S.
Spokane, Washington

July 27, 2010

Genesis Financial, Inc.

Balance Sheets

	Year Ended December 31, 2009	Year Ended December 31, 2008
<i>Assets</i>		
<i>CURRENT ASSETS:</i>		
Cash and cash equivalents	\$ 64,406	\$ 117,387
Interest and other receivables	194,913	247,904
Inventories:		
Contracts	3,154,238	5,413,396
Real estate	1,686,783	1,736,011
Subtotal	4,841,021	7,149,407
Less: loss allowance	(1,471,553)	(1,738,254)
Net inventories	3,369,468	5,411,153
Income taxes receivable	-	10,000
Total current assets	3,628,787	5,786,444
Investment in securities available for sale	-	105,833
Other assets	20	2,680
	<u>\$ 3,628,807</u>	<u>\$ 5,894,957</u>
<i>Liabilities and Stockholders' Equity</i>		
<i>CURRENT LIABILITIES:</i>		
Line of credit, affiliated company	\$ 2,390,000	\$ 2,500,000
Line of credit, bank	599,000	1,000,000
Accrued interest, affiliated company	79,176	10,616
Other current liabilities	183,972	221,766
Total current liabilities	<u>3,252,148</u>	<u>3,732,382</u>
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.001 par value; 10,000,000 authorized	-	-
Common stock, \$.001 par value, 100,000,000 authorized, 6,707,108 issued and outstanding	6,708	6,708
Additional paid-in capital	3,969,401	3,969,401
Accumulated deficit	(3,599,450)	(1,813,534)
Total stockholders' equity	<u>376,659</u>	<u>2,162,575</u>
	<u>\$ 3,628,807</u>	<u>\$ 5,894,957</u>

See accompanying notes to financial statements.

Genesis Financial, Inc.

Statements of Operations

	Year Ended December 31, 2009	Year Ended December 31, 2008
<i>REVENUE:</i>		
Contract sales revenues	\$ -	\$ 10,696
Cost of contracts sold	-	-
Net gain on sales of contracts	-	10,696
Real estate sales revenues	-	1,554,081
Carrying value of real estate sold	961	1,783,942
Net gain (loss) on sales of real estate	(961)	(229,861)
Interest, processing fee and other income	146,916	1,003,764
Broker fee income	55,202	344,405
	201,157	1,129,004
<i>EXPENSES:</i>		
Provision for losses	1,542,433	2,017,655
Compensation and related expenses	-	327,363
Management fee - affiliate	72,000	-
Interest expense, related party	105,374	163,000
Interest expense, other	61,390	98,581
Office occupancy	10,549	39,005
Other operating expenses	153,606	134,047
	1,945,352	2,779,651
<i>NET OPERATING LOSS</i>	(1,744,195)	(1,650,647)
<i>OTHER INCOME (LOSS):</i>		
Gain (loss) on sale of investment securities	(41,721)	(19,681)
Writedown of carrying value of investment securities	-	(315,754)
	(41,721)	(335,435)
<i>NET LOSS BEFORE INCOME TAXES</i>	(1,785,916)	(1,986,082)
<i>INCOME TAX BENEFIT (EXPENSE):</i>		
Current	-	10,000
Deferred	-	(5,260)
	-	4,740
<i>NET LOSS</i>	\$ (1,785,916)	\$ (1,981,342)
<i>BASIC AND DILUTED EARNINGS</i>		
<i>LOSS PER SHARE</i>	\$ (0.27)	\$ (0.28)
<i>WEIGHTED AVERAGE COMMON</i>		
<i>SHARES OUTSTANDING</i>	6,707,108	6,804,778

See accompanying notes to financial statements.

Genesis Financial, Inc.

Statement of Changes in Stockholders' Equity

For the Years Ended December 31, 2008 and 2009

	Common Stock		Additional	Retained	Accumulated	
	Shares	Amount	Paid-in	Earnings	Other	
			Capital	(Deficit)	Comprehensive	Total
					Income (Loss)	
BALANCE, DECEMBER 31, 2007	7,094,800	\$ 7,095	\$4,235,649	\$ 167,808	\$ 18,331	\$ 4,428,883
Common stock redeemed and cancelled	(387,692)	(387)	(266,248)			(266,635)
Net loss				(1,981,342)		(1,981,342)
Reclassification of gains/losses to earnings					(6,340)	(6,340)
Unrealized loss on securities available for sale	-	-	-	-	(11,991)	(11,991)
Comprehensive loss						(1,999,673)
BALANCE, DECEMBER 31, 2008	6,707,108	6,708	3,969,401	(1,813,534)	-	2,162,575
Net loss				(1,785,916)		(1,785,916)
BALANCE, DECEMBER 31, 2009	6,707,108	\$ 6,708	\$3,969,401	\$(3,599,450)	\$ -	\$ 376,659

See accompanying notes to financial statements.

Genesis Financial, Inc.

Statements of Cash Flows

	Year Ended December 31, 2009	Year Ended December 31, 2008
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Net loss	\$ (1,785,916)	\$ (1,981,342)
Noncash items included in net loss:		
Provision for losses	1,542,433	2,017,655
Loss (gain) on sales investment securities	41,721	19,681
Writedown of carrying value of investment securities	-	315,754
Deferred income taxes	-	5,260
Changes in assets and liabilities:		
Interest and other receivables	52,991	10,545
Contract inventories	596,813	(99,757)
Real estate inventories	(97,561)	(44,502)
Other assets	2,660	-
Income taxes receivable	10,000	124,694
Accrued interest, affiliated company	68,560	10,616
Other current liabilities	(37,794)	(468,080)
Net cash provided by operating activities	393,907	(89,476)
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchase of investment securities	-	(93,205)
Sales of investment securities	64,112	51,529
Net cash provided (used) by investing activities	64,112	(41,676)
<i>CASH FLOWS FROM FINANCING ACTIVITIES</i>		
Redemption of common stock	-	(266,635)
Borrowings (repayment) line of credit with affiliate, net	(110,000)	500,000
Borrowings (repayment) from line of credit from bank, net	(401,000)	(150,000)
Net cash provided (used) by financing activities	(511,000)	83,365
<i>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i>		
	(52,981)	(47,787)
<i>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</i>	117,387	165,174
<i>CASH AND CASH EQUIVALENTS, END OF PERIOD</i>	\$ 64,406	\$ 117,387

SUPPLEMENTAL DISCLOSURE OF CASH FLOW ACTIVITIES

Interest paid in cash	\$ 96,377	\$ 264,494
<i>NONCASH INVESTING AND FINANCING ACTIVITIES:</i>		
Contract inventory transferred to real estate inventory	\$ 1,662,345	\$ 1,064,727

See accompanying notes to financial statements.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization:

Genesis Financial, Inc. (“the Company” or “Genesis”) was incorporated in Washington State on January 24, 2002. The Company is primarily engaged in the business of purchasing and selling real estate receivable contracts, initiating new real estate loans and periodically providing bridge capital funding. These receivables contracts consist of real estate contracts and mortgage notes collateralized by primarily first position liens on residential and commercial real estate. The receivables collateralized by real estate are typically non-conventional either because they are originated as a result of seller financing, or the underlying property is non-conventional.

The Company invests in receivables contracts using investor funds, equity funds and funds generated from external borrowings including a line of credit facility from an affiliated shareholder.

The nation-wide economic recession, coupled with a devastated real estate market, has forced the Company to make adjustments in their organizational and operational structure. Effective January 1, 2009, all day-to-day management and servicing functions were out-sourced, dramatically reducing overhead expenses. At the same time, underwriting parameters were tightened, and additional approval procedures were established.

Summary of Significant Accounting Policies:

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates used herein include those relating to management’s estimate of market value of contracts and real estate held in inventory. It is reasonably possible that actual results could differ from those and other estimates used in preparing these financial statements and such differences could be material.

Cash and cash equivalents – Cash and cash equivalents consist of demand deposits, including interest-bearing accounts, held in a local bank. The Company maintains cash balances in various depository institutions that periodically exceed federally insured limits. Management periodically evaluates the creditworthiness of such institutions. The Company considers all highly liquid investments purchased, with an original maturity of three months or less, to be a cash equivalent.

Investments – The Company’s investments are considered available for sale instruments. The cost of securities sold is determined by the specific identification method. Net unrealized holding gains and losses are reported as accumulated other comprehensive income, a separate component of stockholders’ equity. Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in a write-down of the individual security to its fair market value; write-downs are reflected in earnings as a realized loss on available-for-sale securities. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the intent or ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Inventories -

Contracts receivable

Real estate contracts held in inventory for resale are carried at the lower of cost (outstanding principal adjusted for net discounts, deferred origination fees and capitalized acquisition costs) or market value,

determined on an aggregate basis by major type of receivable. Interest on these receivables is included in interest income during the period held for sale. Until the contract is sold, contract origination fees received from borrowers are deferred and amortized into income over the established average life of related loan under a method which approximates the effective interest rate method.

The Company holds contracts in inventory pending sale. Typically, the Company attempts to sell contracts three to twelve months after acquisition. It is the policy of the Company not to hold any contracts for investment purposes.

Real Estate

Real estate owned represents property acquired by foreclosure, deed in lieu of foreclosure or purchase and is initially recorded at the lower of cost or fair value minus estimated selling costs at the date of acquisition. Fair market value is determined via (1) appraisal provided by a certified appraiser, (2) BPO (Broker's Pricing Opinion) provided by a qualified real estate broker, (3) site inspection by qualified management of the Company, or (4) a combination of all of the above. Costs relating to the improvements of the property are capitalized. Holding costs are charged to expense as incurred. Subsequent to the foreclosure the property is advertised for rent or sale. Management makes the determination of whether to rent or to sell the property on a case-by-case basis. Real estate owned is not depreciated. Impairment changes are recognized when the fair value of the property falls below its carrying value.

Allowance for Losses

The Company evaluates the estimated market value of its contracts and real estate held in inventory at the end of each financial reporting period and adjusts the carrying values to reflect decreases in fair market value below cost. Fair market value is determined via (1) appraisal provided by a certified appraiser, (2) BPO (Broker's Pricing Opinion) provided by a qualified real estate broker, (3) site inspection by qualified management of the Company, or (4) a combination of all of the above. Currently the Company breaks its properties into the following categories: residential properties, commercial properties, and land.

Processing fees – Genesis earns fees for processing contracts that it has sold. Genesis collects processing fees, generally expressed as a percent of the unpaid principal balances, from the borrowers' payments. Such fees also include late fees, prepayment penalties, and other ancillary fees and are recognized as servicing fee income when the fees are collected. During any period in which the borrower is not making payments, Genesis generally will advance its own funds to pay property taxes and insurance premiums and process foreclosures. Genesis also advances funds to maintain, repair and market foreclosed real estate properties on behalf of investors. We are entitled to recover advances from borrowers for reinstated and performing loans and from investors for foreclosed loans. We record a charge to earnings to the extent that advances are uncollectible, taking into consideration historical loss and delinquency experience, length of delinquency and the amount of the advance.

Contract sales – Contracts are considered sold when the Company surrenders control over the transferred contract to the investors, with standard representations and warranties, and when the risks and rewards inherent in owning the contracts have been transferred to the buyer. At such time, the contract is removed from inventory and a gain or loss is recorded on the sale. Gains and losses on contract sales are determined based on the difference between the allocated cost basis of the assets sold and the proceeds. Losses related to recourse provisions, if any, are accrued as a liability at the time such additional losses are determined, and recorded as part of non-interest expense.

Customer advances – From time-to-time, customers deposit funds with the Company for general purposes pending real estate receivable contract purchase or loan closing. The Company records these customer

advances as a liability when received and the amounts are offset against the contract or loan delivered to the customer when the purchase is closed. The closings generally occur within a relatively short time after receipt of the advance from the customer.

Income tax – Deferred taxes are provided, when material, on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets, subject to a valuation allowance, are recognized for future benefits of net operating losses being carried forward.

Earnings per share – Basic earnings per common share have been computed on the basis of the weighted-average number of common shares outstanding during the period presented. Diluted earnings per common share are computed on the basis of the number of shares that are currently outstanding plus the number of shares that would be issued pursuant to outstanding warrants, stock options and common stock issuable on conversion of preferred stock, if any.

NOTE 2 — INVENTORIES:

Contracts Receivable:

The Company's contract receivables balances consisted of the following:

	December 31,	
	2009	2008
Unpaid principal balances	\$ 3,155,658	\$ 5,424,733
Deferred origination costs	(1,420)	(11,337)
Totals	<u>\$ 3,154,238</u>	<u>\$ 5,413,396</u>

Real Estate:

The Company's real estate inventory balances consisted of the following:

	December 31,	
	2009	2008
Residential properties	\$ 370,685	\$ 267,051
Commercial properties	40,136	25,000
Land properties	1,129,117	1,341,453
Acquisition costs	146,845	102,507
Total	<u>\$ 1,686,783</u>	<u>\$ 1,736,011</u>

The Company recognized loss on the sale of real estate as follows:

	December 31,	
	2009	2008
Real estate sales revenues	\$ -	\$ 1,554,081
Cost of real estate sold	961	1,783,942
Total loss on sale of real estate	<u>\$ (961)</u>	<u>\$ (229,861)</u>

Loss Allowance:

The activity in the Company's loss allowance account consisted of the following:

	December 31,	
	2009	2008
Beginning balances	\$ 1,738,254	\$ 795,900
Additions	1,542,433	2,017,655
Writeoffs to real estate	(1,809,134)	(1,075,301)
Ending balances	<u>\$ 1,471,553</u>	<u>\$ 1,738,254</u>

NOTE 3 — INVESTMENT IN SECURITIES AVAILABLE FOR SALE:

Investment in securities available for sale consisted of the following at the end December 31, 2009 and 2008 respectively: The carrying cost, gross unrealized gains (losses) and fair value of available-for-sale securities at the end of each year is as follows:

	December 31,	
	2009	2008
Original Cost	\$ -	\$ 421,587
Other than temporary decline adjustment to original	-	(315,754)
Adjusted Cost	-	105,833
Gross unrealized gains	-	-
Gross unrealized losses	-	-
Fair value	<u>\$ -</u>	<u>\$ 105,833</u>

During the year ended December 31, 2009, the Company sold shares of securities for gross proceeds of \$64,112 and recognized a loss of \$41,721. During the year ended December 31, 2008, the Company sold shares of securities for gross proceeds of \$51,529 and recognized a loss of \$19,681.

During the year ended December 31, 2008, the Company wrote down the value of certain investment securities because management believed their decline in market value was other than temporary. These writedowns resulted in a realized loss of \$315,754. There were no writedowns during the year ended December 31, 2009.

NOTE 4 — LINE OF CREDIT:

At December 31, 2009 and 2008, the Company had a \$2,390,000 and \$2,500,000, respectively, Line of Credit, ("LOC") Agreement with the Coghlan Family Corporation, Inc. ("CFC"). CFC is an affiliated company controlled by John Coghlan, a director and principal shareholder of the Company. The interest rate on the line is a variable interest rate equal to the prime rate index (as published in the Wall Street Journal) plus 1%, a term of twelve months, and an origination fee of ½%, or \$12,500. The credit line is collateralized by all of Genesis' assets but is subordinate to the RiverBank line of credit. The line of credit agreement requires that the Company maintain a certain debt to equity ratio. The line of credit has been renewed for \$2,500,000 with the same terms through December 2010. Borrowings under the line are personally guaranteed by Michael A. Kirk, Co-President of the Company.

At December 31, 2009 and 2008, the Company had a \$1,000,000 and \$1,000,000, respectively, Line of Credit with RiverBank with a variable interest rate equal to the prime rate index rate (as published in the Wall Street Journal) plus 1%. The line has a term of twelve months, and an origination fee of 1%, or \$10,000. The outstanding balance at December 31, 2009 and 2008 was \$599,000 and \$1,000,000, respectively. The

RiverBank line of credit is senior to the CFC line of credit and is collateralized by the assets of Genesis. The RiverBank line requires that the CFC line may not be paid down lower than the amount owing to RiverBank at any time during the term of the loan. The line is payable on demand and is personally guaranteed by John and Wendy Coghlan. John Coghlan is a director and officer of the Company.

Subsequent to June 2009, the Company reestablished the expired line of credit with RiverBank, bearing interest at a variable rate equal to the prime rate index rate plus 1%, plus a minimum of \$25,000 principle per month. The line of credit requires a one percent origination fee that is payable in cash. The line is for a 12 month term, and expires on July 1, 2010. We believed the terms of the line of credit were acceptable.

NOTE 5 – COMMON STOCK:

During the year ended December 31, 2008 the Company redeemed and cancelled 387,692 shares of common stock for \$266,635 from various shareholders of the Company. There were no such redemptions during 2009.

NOTE 6 – STOCK OPTION PLAN

On April 10, 2002, the Board of Directors approved the Genesis Financial, Inc. Stock Option Plan (the Plan), and the Plan was subsequently approved by the Shareholders of the Company on May 2, 2002. The plan allows for issuance of Incentive Stock Options (ISOs) and Non-statutory Stock Options (NSOs). The maximum number of shares that may be subject to option and exercised under the Plan is 1,300,000 shares (adjusted for the two for one stock split that occurred in 2007). The ISOs and NSOs expire 30 days after the recipient ceases to be an employee for the Company, or one year after the recipient's death. There were no grants during the years ended December 31, 2009 and 2008. At December 31, 2009 and 2008 the Company had no outstanding options and 261,000 options available for future grants.

NOTE 7 – INCOME TAX:

Components of the Company's deferred income taxes are as follows:

	2009	2008
Net operating loss carryover	\$ 297,924	\$ 191,041
Loan and REO loss allowance	500,328	598,276
Excess capital losses	0	1,114
Other	4,146	4,146
Deferred tax asset	802,398	794,577
Less: Valuation allowance	(802,398)	(794,577)
Net deferred tax asset	\$ 0	\$ 0

The deferred tax assets were calculated assuming a 34% federal marginal tax rate at December 31, 2009 and December 31, 2008. The annual tax provision (benefit) is different from the amount that would be provided by applying the statutory federal income tax rate to our pretax income (loss) primarily due to net operating loss carryovers.

At December 31, 2009, the Company had a federal net operating loss carry forward available for income tax purposes of approximately \$876,000. Because management does not believe it is more likely than not that the carry forward will be utilized, the related deferred tax asset has been fully reserved.

We have determined that we are subject to examination of our income tax filings in the United States for the 2007 through 2009 tax years. In the event that the Company is assessed penalties and or interest, penalties will be charged to other operating expense and interest will be charged to interest expense.

NOTE 8 – LEGAL PROCEEDINGS:

In June, 2008 three members of Valencia, LLC filed suit against Genesis Financial, Inc., Valencia LLC and both LLC managers Michael A. Kirk and Brad E. Herr. The suit alleged that although Kirk and Herr, (the Company's former CFO) had acquired a majority approval of a settlement, the magnitude of the settlement that occurred during 2007 required a unanimous approval of the members, not simply a majority. The language of the LLC Operating Agreement was vague, and a ruling in favor of the plaintiffs would have resulted in an unwinding of a settlement with Cherry Grove. That result would not have been beneficial to either the Genesis shareholders, or the Valencia LLC members. A settlement was reached January, 2009, whereas Genesis agreed to re-distribute their 52.5% interest; which had no carrying value, amongst the Valencia LLC members. In addition, Genesis was reimbursed for \$25,000 of their legal expenses. Valencia paid a settlement amount of \$95,000 to the plaintiffs from future credit sales. That debt was paid in full September 23, 2009.

NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amounts of cash and cash equivalents, inventories – contracts, investments in securities available for sale, and lines of credits approximate their fair value because of the short maturity or holding period of these instruments.

Effective January 1, 2008, accounting principles require an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The new accounting principles establish a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level input that is significant to the fair value measurement. Inputs are prioritized into three levels that may be used to measure fair value:

Level 1: applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2: applies to assets or liabilities for which there are inputs other than quoted prices that are observed for the asset to liability such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active market); or model-derived valuation in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3: applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

At December 31, 2008, our financial instrument measured at fair value on a recurring basis consists of investments in securities available for sale which is measured using Level 1 inputs. There were no such financial instruments at December 31, 2009.

NOTE 10 – FUNDS HELD IN ESCROW:

In the normal course of business Genesis purchases real estate receivable contracts for its own account and brokers transactions for others. To facilitate the closing of brokered transactions, Genesis often receives funds pending disbursement to a closing agent. Genesis has no interest in these funds and deposits them into a separate bank account designated the Genesis Financial, Inc. Trust Account. In certain instances Genesis also collects prepaid loan advances, which are accounted for in the Trust Account. These amounts are not included in the financial statements.

	December 31,	
	2009	2008
Funds held in escrow	\$ <u>(23,326)</u>	\$ <u>(102,446)</u>

NOTE 11— RELATED-PARTY TRANSACTIONS:

Affiliates and related parties are defined as Officers, Directors, and/or those Shareholders owning or controlling more than 5% of the common stock of Genesis, or any entities that are owned or controlled by Officers, Directors, and/or those Shareholders owning or controlling more than 5% of the common stock of Genesis.

Coghlan Family Corporation and Coghlan, LLC are controlled by John R. Coghlan, a Company director, CFO and majority shareholder. Coghlan Family Corporation is owned 100% by Coghlan, LLC, which is owned by the Coghlan family members. John and Wendy Coghlan collectively own 35.65% of Coghlan, LLC and are co-managers. Genesis Holdings, Inc. is a Washington Corporation, which is managed by John Coghlan. Mr. Coghlan is the President and Director of Genesis Holdings, Inc. Genesis Holdings II, Inc. is a Washington Corporation, which is managed by Michael Kirk. Mr. Kirk is the President and Director of Genesis Holdings II, Inc. JM Growth Enterprises, LLC is a company owned and controlled by Michael Kirk and John Coghlan.

Genesis Financial, Inc. had the following related party transactions the years ended December 31, 2008 and 2009.

Years Ended December 31, 2009 and 2008:

Mike Kirk and Genesis Finance Corporation

On January 2, 2008, the Company repurchased 200,000 common shares from Mike Kirk for a purchase price of \$150,000 in connection with a corporate stock repurchase plan.

On January 1, 2009, the Company entered into a Management and Servicing Agreement with Genesis Finance Corporation, a Washington Corporation. Mike Kirk, Genesis Financial, Inc.'s president is the president Genesis Finance Corporation. The Company agrees to pay Genesis Finance Corporation a monthly fee of \$6000 per the Management and Servicing Agreement.

John R. Coghlan "JRC"

On July 6, 2009, JRC purchased \$104,158 in royalties.

On October 2, 2009, JRC resold an REO interest in a land contract for \$95,445.

Coghlan Family Corporation "CFC"

On January 1, 2008, the Company entered into a Warehousing Line of Credit Agreement Promissory Note Agreement with Coghlan Family Corporation. The Agreement provided for a \$2.5 million line of credit (see note 4). The rate of interest was one (1%) percent over the Prime Rate of interest quoted on the first day of the month prior to the payment date. Interest is payable monthly. The Company paid a commitment fee of One Half of One Percent (1/2%) aggregating \$12,500. The Company was permitted to request advances from time to time. The note is secured by a second lien position on all Company assets, behind the primary bank credit line. Michael Kirk personally guaranteed the note. If the Company defaults on the Agreement, default interest rate will be Twelve (12%) per annum. The line was renewed for 12 months on December 31, 2009.

On April 11, 2008, CFC purchased from the Company interests in two commercial property notes receivable totaling \$75,000.

On January 20, 2009, CFC purchased from the Company a \$100,000 interest in a contract secured by land.

On June 19, 2009, CFC resold an REO residential contract for \$23,700.

Coghlan, LLC

On February 27, 2008, C,LLC purchased from the Company an interest in one commercial property note receivable for \$100,000.

On July 27, 2009, C,LLC purchased from the Company a \$30,000 interest in a land contract.

On September 17, 2009, C,LLC purchased from the Company a \$50,000 interest in a residential contract.

On October 14, 2009, C,LLC purchased from the Company a \$50,000 interest in a residential contract

On December 2, 2009, C,LLC purchased from the Company a \$50,000 interest in a residential contract

On December 23, 2009, CFC purchased from the Company an interest in a land contract for \$120,000.

Genesis Holdings, Inc.

On June 19, 2008, Genesis Holdings, Inc. purchased from the Company an interest in a land sale contract for \$50,000.

On August 28, 2008, Genesis Holdings, Inc. purchased from the Company interests in residential receivables totaling \$166,996.

On October 27, 2008, Genesis Holdings, Inc. purchased from the Company an interest in a land sale contract for \$43,913.

On May 26, 2009, Genesis Holdings, Inc. purchased from the Company a \$7,000 interest in a residential contract

Genesis Holdings II, Inc.

On July 15, 2008, the Company entered into a Management and Loan Servicing Agreement with Genesis Holdings II, Inc., a Washington corporation. Mike Kirk, Genesis Financial, Inc.'s president is the president of Genesis Holdings II, Inc. Genesis Holdings is a privately held corporation which purchases real estate receivables from Genesis Financial from time to time for cash. On January 1, 2009 the Company assigned its interest in this agreement over to Genesis Finance Corporation.

On August 20, 2008, Genesis Holdings II, Inc. purchased from the Company an interest in a residential receivable for \$73,522.

On August 25, 2008, Genesis Holdings II, Inc. purchased from the Company an interest in a residential receivable for \$34,647.

On October 23, 2008, Genesis Holdings II, Inc. purchased from the Company interests in three residential receivables totaling \$125,216.

On January 20, 2009, Genesis Holdings II purchased from the Company a \$25,000 interest in a contract secured by land.

On April 1, 2009, Genesis Holding II purchased from the Company an interest in a land sale contract for \$47,500.

On October 22, 2009, Genesis Holding II purchased from the Company an interest in a commercial contract for \$9,000.

JM Growth Enterprises, LLC

On April 30, 2009, JM Growth Enterprise, LLC purchased from the Company an interest in a commercial contract for \$165,000.

NOTE 12 – SUBSEQUENT EVENTS

The country's economic environment since December 31, 2007 has steadily worsened, having a dramatic affect not only on the Company's profitability, but also on the Company's business focus and organizational structure.

Throughout 2008, the nation's financial markets continued to tighten. The two big national players in the seller financed real estate receivables, Bayview and C-Bass, both retracted from the market due to the disintegration of the securitization markets. Many of the big players in the commercial hard money lending market (i.e. PointCenter, Premier, Scripps) either discontinued their lending programs, or shut their doors all together.

The Company experienced increased delinquencies and repossessions due to the inability of our borrowers to refinance their loans, or sell their property. The void left by the exit of Bayview and C-Bass from the seller financed markets, coupled with the poor performance of the commercial loans, dictated that the Company re-focus their business direction from hard money lending to acquiring seller financed real estate receivables. The increase in delinquencies and repossessions resulted in decreased revenues and profitability. The Company was forced to reevaluate not only the operational structure going forward, but also the corporate structure itself.

Effective January 1, 2009, Genesis Financial, Inc. outsourced its' day-to-day management and servicing operations to Genesis Finance Corporation (GFC), an affiliated company solely owned by Michael A. Kirk. GFI pays a combination management and servicing fee of \$6,000 per month to GFC for these services. This arrangement resulted in material monthly savings to GFI in operational expenses. In addition to the monthly management fee, GFC will retain any spread income generated from those investor-owned deals they assumed the management of. The Company's forward focus is to keep expenses to a minimum, while reducing debt as they work through the problem delinquencies and repossessions. Their business focus has shifted from the commercial hard money loans to the acquisitions of seller financed real estate receivables.

Effective January 1, 2009, Director and majority shareholder, John R. Coghlan, was appointed Co-President and Chairman of the Board of Genesis Financial, Inc. Michael A. Kirk was appointed Co-President, CEO, and Director of the Company, and James Bjorklund resigned as a Director. Douglas Greybill resigned December 31, 2008.

In May 2010 the Company sold 1,050,000 common shares of stock in a private placement for \$105,000.

ITEM 8B. Other Information.

Throughout fiscal years 2008 and 2009, the nation's financial markets continued to tighten. The two big national competitors in the seller financed real estate receivables market, Bayview and C-Bass, both retracted from the market due to the disintegration of the receivables securitization markets. Many of the large companies in the commercial hard money lending market (i.e. PointCenter, Premier, Scripps) either discontinued their lending programs, or discontinued operations.

The Company has experienced increased contract receivables delinquencies and repossessions due to the inability of our borrowers (receivables payors) to refinance their loans or sell the property (our security interest). The void left by the exit of Bayview and C-Bass from the seller financed markets, coupled with the poor performance of the commercial loans, has caused GFI re-focus its business direction from hard money lending to acquiring seller financed real estate receivables. The corresponding increase in our receivables delinquencies and repossessions has resulted in decreased revenues and profitability. As a result of these significant market changes, GFI has implemented a new corporate management strategy.

On December 27, 2008, GFI entered into a Corporate Restructuring Agreement with Genesis Finance Corporation (GFC) whereby it outsourced its day-to-day management and servicing operations to GFC, an affiliated company, effective January 1, 2009. GFC is owned and controlled by Michael Kirk, GFI's Co-President, Chief Executive Officer and member of its board of directors. GFI will pay a combination management and servicing fee of \$6,000 per month to GFC for these services. We believe that his arrangement will result in a material monthly savings to GFI in operational expenses. Additionally, GFI assigned its interest in the July 15, 2008 Genesis Holdings II, Inc. Management and Loan Servicing Agreement to GFC. As a part of this outsourcing agreement, GFC will be entitled to earn any spread income generated from the sale of investor-owned GFC managed receivables. The Company's forward focus will be to minimize expenses, while reducing debt as they work through the problem delinquencies and repossessions. Their business focus has shifted from the commercial hard money loans to the acquisitions of seller financed real estate receivables. (See Exhibit 10.3)

ITEM 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

We have had no disagreements on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures with any of our accountants for the years ended December 31, 2008 and 2009, or any interim periods. We have not had any other changes in, nor have we had an disagreements, whether or not resolved, with our accountants on accounting and financial disclosures during our recent fiscal year or any later interim period.

ITEM 9A(T). Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") that are designed to be effective in providing reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "SEC"), and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute assurance of achieving the desired objectives. Also, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Principal Financial Officer Chairman of the Board), of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that

evaluation, management concluded that our disclosure controls and procedures are effective as of December 31, 2009 to cause the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by SEC, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Principal Financial Officer (Chairman of the Board), as appropriate, to allow timely decisions regarding required disclosure.

Evaluation of and Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Management, with the participation of our Chief Executive Officer and Principal Financial Officer (Chairman of the Board), has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2009 based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, because of the Company's limited resources and limited number of employees, management concluded that, as of December 31, 2008, and 2009, our internal control over financial reporting is not effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

To mitigate the current limited resources, no employees, and out-sourced operations, we rely heavily on direct management oversight of transactions, along with the use of legal and accounting professionals. We expect to continue this structure for the foreseeable future.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the SEC that permit the company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There was no change in our internal controls over financial reporting identified in connection with the requisite evaluation that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations

Our management, including our Chief Executive Officer and Principal Financial Officer (Chairman of the Board), does not expect that our disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART III

ITEM 10. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(A) of the Exchange Act.

The following sets forth information concerning our Management and key personnel:

DIRECTORS AND EXECUTIVE OFFICERS

As of December 31, 2009, the Directors and Executive officers were as follows:

Name	Age	Position
Michael A. Kirk	57	Co-President, CEO, Member Board of Directors
John R. Coghlan	66	Co-President, CFO, Chairman of the Board
Jim Bjorklund	52	Member of the Board of Directors

As of December 31, 2009, Genesis operated with zero full-time and part-time employees, and a two member Board of Directors. Additional employees will be added only if activity levels warrant the addition. The following are brief biographical descriptions of the current Executive Officers and Directors of Genesis.

MICHAEL A. KIRK, Co-President, Chief Executive Officer and Member of the Board of Directors, age 57, is responsible for the overall management of operations. Mr. Kirk has held these positions since inception of the company. He will oversee and be directly involved with buying, underwriting, and secondary marketing. He will also oversee the processing, closing and servicing functions. Mr. Kirk is a founder of Genesis and has served as President and Director since inception in January, 2002. Mr. Kirk devotes his full time and energy to the business.

Prior to founding Genesis, Mr. Kirk was the Senior Vice President of Metropolitan Mortgage & Securities Co., Inc. ("Metropolitan"). In that capacity, Mr. Kirk managed a staff of 155 and was responsible for all corporate production units, including real estate receivable acquisition, commercial real estate lending, wholesale residential lending, retail residential lending, correspondent lending, secondary markets, alternative cash flow acquisitions, and equipment leasing. In Metropolitan's fiscal year ending in 2000, his operations produced \$634 million in transaction volume, involved \$900+ million in total assets and contributed \$97 million in revenues. Mr. Kirk joined Metropolitan in 1982 as a contract buyer and a member of the underwriting committee. He was a contract buyer and senior underwriter for 12 years. During his tenure with Metropolitan, Mr. Kirk was a member of a team that moved the company from a retail focus to the wholesale market, and increased production ranging between 20% and 55% annually 5 years in a row. He was instrumental in turning Metropolitan into a diverse, full-service financial institution and personally designed and implemented many of the products available at Metropolitan. He also coordinated Metropolitan's securitization business.

Mr. Kirk was a Founding Director of the National Association of Settlement Purchasers; served as an Advisor to the National Association of Private Mortgage Purchasers; was voted one of the "Pioneers of the Cash Flow Industry" by a cash flow industry trade publication; received an Honorary Doctorate of Presentations, presented by the Benscheidt Communications Group; and has been a past Keynote Speaker at American Cash Flow Association and the Noteworthy Organization annual conventions.

JOHN R. COGHLAN, Co-President, Chief Financial Officer, Member of the Board of Directors and Chairman of the Board, age 66, became a Director on January 2, 2006. Mr. Coghlan is a retired C.P.A. Prior to that time, he acted in an advisory capacity to the Board of Directors. Mr. Coghlan graduated from the University of Montana with a degree in Business Administration and has held the designation of Certified Public Accountant since 1966. Mr. Coghlan was a founder of Labor Ready, Inc., a New York Stock Exchange traded company, and served as Chief Financial Officer and Director of Labor Ready from 1987 through 1996, when he retired. Since his retirement, Mr. Coghlan has been employed by the Coghlan Family Corporation, a privately held family business that manages family investment accounts. Coghlan Family Corporation is 100% owned by the Coghlan Family LLC. John and Wendy Coghlan, husband and wife, own minority interests in Coghlan, LLC and control both the LLC and the Corporation through the LLC management agreement. The remaining interests in the Coghlan, LLC are owned by Mr. Coghlan's children and grandchildren.

At the time Mr. Coghlan retired from Labor Ready in 1996, it operated 200 locations and generated \$163 million in annual revenues.

JIM BJORKLUND, age 52, has been a Director of Genesis since January 2, 2006. Mr. Bjorklund is a licensed realtor in the State of Washington, primarily involved in the residential real estate market. His expertise is working directly with builders and developers in the marketing and selling of their homes. Mr. Bjorklund is a life-long resident of Spokane, Washington. Mr. Bjorklund resigned his position as a member of the board of directors effective January 1, 2009.

AUDIT COMMITTEE, AUDIT COMMITTEE FINANCIAL EXPERT, AND INDEPENDENT DIRECTORS.

At this time, the full board of directors of Genesis serves as the audit committee.

Currently, John R. Coghlan is the Audit Committee Financial Expert. Mr. Coghlan is a retired CPA and is familiar with generally accepted accounting principles, financial reporting requirements, and internal control procedures. Mr. Coghlan is also familiar with the functions of the audit committee, and has experience in preparing, analyzing, and evaluating the financial statements of Genesis.

POLICY REGARDING TRANSACTIONS WITH AFFILIATES AND CONFLICTS OF INTEREST.

In all transactions between the Company and an affiliated party, the transaction will be presented to the Board of Directors and may only be approved if (1) if the transaction is on terms that are no less favorable to the Company than those that can be obtained from unaffiliated third parties and, (2) all of the directors who do not have an interest in the transaction must unanimously approve of the action. We will pay for legal counsel to the independent directors if they want to consult with counsel on the matter. We believe that the requirement for approval of affiliated transactions by disinterested independent directors will assure that all activities of the Company are in the best interest of the Company and its shareholders. As noted above, the Company currently has only one independent director.

We intend to consider investment in other businesses from time to time. When presented with an investment opportunity, we may decline the investment because of the timing, other commitments, size, suitability standards, or any number of other sound business reasons. In such circumstances, it is possible that some or all of our officers and directors may choose to make the investment from personal funds. In order to fulfill their fiduciary responsibilities to the Company and our shareholders, each officer and director is aware that he or she must make business opportunities that are consistent with our business plan available to the company first. If we decline to participate, the individual officers and directors may then participate individually. Beyond the obligation to present opportunities to the Company first, there are no restrictions on participation in business opportunities by our officers and directors.

ITEM 11. Executive Compensation

Compensation Discussion and Analysis

Our compensation program is designed to attract and retain top quality executive talent, to tie annual and long-term cash and equity incentive compensation to the achievement of measurable Company and individual performance objectives, and to align compensation incentives available to our executives with the goal of creating shareholder value. Due to economic conditions, effective January 1, 2009, all day-to-day operations and servicing functions were out-sourced by the Company, eliminating all employees. In 2009, none of the Executive Officers or Directors received any compensation from the Company. Compensation expenses for 2009, and 2008, were \$0 and \$327,363, respectively.

Our board of directors has responsibility for approving the compensation arrangements for our executives. We do not have a standing compensation committee so our board acts in the capacity of a compensation committee. The principal responsibilities of the board of directors in the area of compensation are to establish policies and periodically determine matters involving executive compensation, recommend changes in employee benefit programs, grant or recommend the grant of stock options and stock awards under our individual compensation agreements with employees and provide counsel regarding key personnel selection.

Objectives of our compensation program

The compensation program for our executives is designed to attract, retain and reward talented executives who can contribute to our long-term success and thereby build value for our shareholders. The program is organized around the following fundamental principles:

Genesis has no employment agreements in place with any employee, including executive officers. All employment is “at will”.

The Company has discontinued the previously active employee bonus program.

As of December 31, 2009, the Company expects to continue to out-source all day-to-day functions, and remain employee less, until such time as market conditions warrant a change.

The following table set forth the compensation information on executive officers Michael A. Kirk and Douglas Greybill for the fiscal years ending December 31, 2009 and 2008.

Name and Principal Position	Year	Salary(\$)	Bonus(\$)	Stock Awards(\$)	Option Awards(\$)	Non-Equity Incentive Comp (\$)	All other Compensation	Total
Michael Kirk	2009	\$ -0-	\$ -0-	-0-	-0-	-0-	-0-	\$ -0-
	2008	\$96,000	-0-	-0-	-0-	-0-	-0-	\$ 96,000
Douglas Greybill	2009 ¹	\$ -0-	\$ -0-	-0-	-0-	-0-	-0-	\$ -0-
	2008	\$72,000	\$ 4,186	-0	-0-	-0-	-0-	\$ 82,186

Note: 1. Douglas Greybill was not employed by the Company during fiscal year 2009.

Grants of Plan-Based Awards

There were no grants of plan based awards to any executive officer or director during the fiscal year ended December 31, 2009.

Outstanding Equity Awards at Fiscal Year-End

There was no outstanding equity awards to any executive officer at the end of the fiscal year ended December 31, 2009.

Director Compensation

There was no compensation to any Director during the fiscal year ended December 31, 2009.

Meetings and Committees of The Board Of Directors

We presently have no formal independent Board committees. Until further determination, the full Board of Directors will undertake the duties of the audit committee, compensation committee and nominating and governance committee. The members of the board of directors performing these functions as of December 31, 2009, are Michael A. Kirk and John R. Coghlan.

Compensation Committee

The board of directors, in its Compensation Committee role, has discontinued all compensation for the remaining officers and directors for the foreseeable future.

Audit Committee

The board of directors, in its Audit Committee role, will be responsible for selecting the Company’s independent auditors, approve the scope of audit and related fees, and review financial reports, audit results, internal accounting procedures, related-party transactions, when appropriate, and programs to comply with applicable requirements relating to financial accountability. The Audit Committees function will include the development of policies and procedures for compliance by the Company and its officers and directors with applicable laws and regulations. The audit committee has reviewed and discussed the attached audited financial statements with management. The audit committee has received written disclosures from the independent accountant required by Independence Standard Board Standard No. 1, as amended, as adopted by the PCAOB in Rule 3600T and has discussed the independence of the company’s certifying accountant. Based on this review and discussion, the board of directors, in its audit committee role, recommended that the audited financial statements be included in this Annual Report.

Nomination and Governance Committee

The board of directors, in its Nomination and Governance Committee role, will be responsible for recommendations to the Board of Directors respecting corporate governance principles; prospective nominees for director; Board member performance and composition; function, composition and performance of Board committees; succession planning; director and officer liability insurance coverage; and director's responsibilities.

Audit Committee Financial Expert

John R. Coghlan, a retired Certified Public Accountant, is the Company's audit committee financial expert.

Shareholder Communications

The Company does not currently have a process for security holders to send communications to the Board.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following tables set forth the ownership of our common stock by each person known by us to be the beneficial owner of more than 5% of our outstanding common stock, our directors, and our executive officers and directors as a group. To the best of our knowledge, the persons named have sole voting and investment power with respect to such shares, except as otherwise noted. There are not any pending arrangements that may cause a change in control. However, it is anticipated that there will be one or more changes of control, including adding members of management, possibly involving the private sale or redemption of our principal shareholder's securities or our issuance of additional securities, at or prior to the closing of a business combination.

The information presented below regarding beneficial ownership of our voting securities has been presented in accordance with the rules of the U.S. Securities and Exchange Commission and is not necessarily indicative of ownership for any other purpose. Under these rules, person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of the security or the power to dispose or direct the disposition of the security. A person is deemed to own beneficially any security as to which such person has the right to acquire sole or shared voting or investment power within 60 days through the conversion or exercise of any convertible security, warrant, option or other right. More than one person may be deemed to be a beneficial owner of the same securities. The percentage of beneficial ownership by any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person, which includes the number of shares as to which such person has the right to acquire voting or investment power within 60 days, by the sum of the number of shares outstanding as of such date plus the number of shares as to which such person has the right to acquire voting or investment power within 60 days. Consequently, the denominator used for calculating such percentage may be different for each beneficial owner. Except as otherwise indicated below, we believe that the beneficial owners of our common stock listed below have sole voting and investment power with respect to the shares shown.

This table is based upon information derived from our stock records. We believe that each of the shareholders named in this table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned; except as set forth above, applicable percentages are based upon 6,707,108 shares of common stock outstanding as of December 31, 2009 and 2008.

Directors, Executive Officers and 5% Shareholders of our Company

	December 31, 2009 and 2008	
	Number	%
Michael Kirk	500,000(1)	7.45%
John R. Coghlan	3,650,420(2)	54.40%
Jim Bjorklund	133,200	1.99%
Directors and executive officers as a group(2)	4,283,620	63.84%

(1) 250,000 shares have been pledged in favor of Coghlan Family Corporation.

(2) Represents 2,465,282 owned by Coghlan Family Corporation, 411,440 owned by Coghlan, LLC and 773,700 owned by John R. Coghlan. Mr. Coghlan has voting and dispositive control over Coghlan Family Corporation and Coghlan, LLC.

ITEM 13. Certain Relationships and Related Transactions and Director Independence

Coghlan Family Corporation and Coghlan, LLC are controlled by John R. Coghlan, a Company director, CFO and majority shareholder. Coghlan Family Corporation is owned 100% by Coghlan, LLC, which is owned by the Coghlan family members. John and Wendy Coghlan collectively own 35.65% of Coghlan, LLC and are co-managers. Genesis Finance Corporation (GFC) is a company owned 100% and controlled by Michael Kirk. JM Growth Enterprises, LLC is a company owned and controlled by Michael Kirk and John Coghlan.

On April 16, 2004, Genesis Financial, Inc. (“GFI”) entered into a management and servicing agreement to manage the funds of Genesis Holdings, Inc., a Washington corporation. GFI manages the business functions and receivables portfolio, services portfolio loans for Genesis Holdings, Inc. Genesis Holdings, Inc. pays GFI a One (1%) fee for management and a half (0.5%) fee for loan servicing. GFI does not own any of the outstanding stock of Genesis Holdings, Inc, however, John Coghlan, Co-President of GFI is the President of Genesis Holdings, Inc. GFI earned fees under this agreement totaling \$51,403 and \$53,533 during the years ended December 31, 2009 and 2008, respectively. Effective January 1, 2009, Michael Kirk resigned his position as President with Genesis Holdings, Inc. and John Coghlan replaced him as President.

On July 15, 2008, Genesis Holdings II, Inc., a Washington corporation, entered into a Management and Loan Servicing Agreement with GFI. Genesis Holdings II, Inc. was formed to acquire interests in real estate receivable contracts which it intended to purchase from GFI. Michael Kirk, Co-President of GFI, and President of Genesis Finance Corporation, acts as the President of Genesis Holdings II, Inc. GFC manages the business functions and services portfolio loans of Genesis Holdings II, Inc. Genesis Holdings II, Inc. pays GFC a One (1%) fee for management and a half (0.5%) fee for loan servicing. A copy of the Agreement is attached to this report as Exhibit 10.5. Effective January 1, 2009, Genesis Finance Corporation took over the management of Genesis Holdings II, Inc. from Genesis Financial, Inc.

On December 27, 2008, GFI entered into a Corporate Restructuring Agreement with Genesis Finance Corporation (GFC) whereby it outsourced its day-to-day management and servicing operations to GFC, an affiliated company, effective January 1, 2009. GFC is owned and controlled by Michael Kirk, GFI’s Co-President, Chief Executive Officer and member of its board of directors. GFI will pay a combination management and servicing fee of \$6,000 per month to GFC for these services. We believe that his arrangement will result in a material monthly savings to GFI in operational expenses. See Exhibit 10.2, attached to this Annual Report. As a result of these affiliations, there are interrelationships between these entities and persons which could create potential conflicts of interest. The Company may see deals from time to time that it may choose not to pursue. The Company may refer or broker these deals to others, including officers, directors, and key employees for funding. This may create real or perceived conflicts of interest if deals funded by officers and directors are also deals that could have been funded by the Company. Management will attempt to deal with such conflicts as they arise but no assurances can be given that the resolution, if any, will be acceptable to the parties involved or, if acceptable, that it will be in the best interests of the shareholders. When appropriate, the Company may bring in outside advisors to assist with conflict resolution to attempt to develop a resolution that is fair to the stakeholders involved.

Years Ended December 31, 2009 and 2008

Michael Kirk and Genesis Finance Corporation

On January 2, 2008, the Company repurchased 200,000 common shares from Michael Kirk for a purchase price of \$150,000 in connection with a corporate stock repurchase plan.

On December 27, 2008, GFI entered into a Corporate Restructuring Agreement with Genesis Finance Corporation (GFC) whereby it outsourced its day-to-day management and servicing operations to GFC, an affiliated company, effective January 1, 2009. GFC is owned and controlled by Michael Kirk, GFI’s President and member of its board of directors. GFI will pay a combination management and servicing fee of \$6,000 per month to GFC for these services. We believe that his arrangement will result in a material monthly savings to GFI in operational expenses. Additionally, GFI assigned its interest in the July 15, 2008 Genesis Holdings II, Inc. Management and Loan Servicing Agreement to GFC. As a part of this outsourcing agreement, GFC will be entitled to earn any spread income generated from the sale of investor-owned GFC managed receivables. The Company’s forward focus will be to minimize expenses, while reducing debt as they work through the problem delinquencies and repossessions. Their business focus has shifted from the commercial hard money loans to the acquisitions of seller financed real estate receivables. Office furniture and equipment owned by Genesis Financial or Michael Kirk was transferred to GFC. (See Exhibit 10.2)

Coghlan Family Corporation “CFC”

On January 1, 2008, the Company entered into a Warehousing Line of Credit Agreement Promissory Note Agreement with Coghlan Family Corporation. The Agreement provided for a \$2.5 Million Dollar line of credit. The rate of interest was One (1%) percent over the Prime Rate of interest quoted on the first day of the month prior to the payment date. Interest is payable monthly. The company paid a commitment fee of One Half of One Percent (1/2%) aggregating \$12,500. The company was permitted to request advances from time to time. The note is secured by a first lien position on all Company assets. Michael Kirk personally guaranteed the note. If the Company defaults on the Agreement, default interest rate will be Twelve (12%) per annum. A copy of the Agreement is attached as Exhibit 10.4.

On April 11, 2008 CFC purchased interests in two commercial property notes receivable totaling \$75,000.

On January 20, 2009 CFC purchased a \$100,000 interest in a contract secured by land.

On June 19, 2009 CFC resold an REO residential contract for \$23,700.

On January 1, 2010, the Company entered into a Warehousing Line of Credit Agreement Promissory Note Agreement with Coghlan Family Corporation. The Agreement provided for a \$2.5 Million Dollar line of credit. The rate of interest was One (1%) percent over the Prime Rate of interest quoted on the first day of the month prior to the payment date. Interest is payable monthly. The company paid a commitment fee of One Half of One Percent (1/2%) aggregating \$12,500. The company was permitted to request advances from time to time. The note is secured by a first lien position on all Company assets. Michael Kirk personally guaranteed the note. If the Company defaults on the Agreement, default interest rate will be Twelve (12%) per annum. A copy of the Agreement is attached as Exhibit 10.3.

Coghlan, LLC

On February 27, 2008 C, LLC purchased interests in one commercial property note receivable for \$100,000.

On July 27, 2009 C, LLC purchased a \$30,000 interest in a land contract.

On September 17, 2009 C, LLC purchased a \$50,000 interest in a residential contract.

On October 14, 2009 C, LLC purchased a \$50,000 interest in a residential contract.

On December 2, 2009 C, LLC purchased a \$50,000 interest in a residential contract.

On December 23, 2009 C, LLC purchased and interest in a land contract for \$120,000.

John R. Coghlan

On July 6, 2009 JRC purchased \$104,158 in royalties.

On October 2, 2009 JRC resold an interest in a land contract for \$95,445.

Genesis Holdings, Inc.

On June 19, 2008, Genesis Holdings, Inc. purchased interests in a land sale contract for \$50,000.

On August 28, 2008, Genesis Holdings, Inc. purchased interests in residential receivables totaling \$166,996.

On October 27, 2008, Genesis Holdings, Inc. purchased an interest in a land sale contract receivable totaling \$43,913.

On May 26, 2009, Genesis Holdings, Inc. purchased a \$7,000 interest in a residential contract.

Genesis Holdings II, Inc.

On July 15, 2008, the Company entered into a Management and Loan Servicing Agreement with Genesis Holdings II, Inc., a Washington corporation. Michael Kirk, Genesis Financial, Inc.’s Co-President, and Genesis Finance Corporation President, is the President of Genesis Holdings II, Inc. Genesis Holdings II, Inc. is a privately held corporation which purchases real estate receivables from Genesis Financial Inc. and Genesis Finance Corporation from time to time for cash.

A copy of the Agreement is attached as Exhibit 10.5. Effective January 1, 2009, GFI transferred the management and servicing responsibilities of Genesis Holdings II, Inc. to Genesis Finance Corporation.

On August 20, 2008, Genesis Holdings II, Inc. purchased interests in a residential notes receivable totaling \$73,522.

On August 25, 2008, Genesis Holdings II, Inc. purchased an interest in a residential receivable totaling \$34,647.

On October 23, 2008, Genesis Holdings II, Inc. purchased interests in three residential contracts receivable totaling \$125,216.

On January 20, 2009 Genesis Holdings II purchased a \$25,000 interest in a contract secured by land.

On April 1, 2009, Genesis Holdings II, Inc. purchased an interest in a land sale for \$47,500.

JM Growth Enterprises, LLC

On April 30, 2009 JM Growth Enterprises, LLC purchased an interest in a commercial contract for \$165,000.

Director Independence

The Board has determined that we do not have a majority of independent directors as that term is defined under Rule 4200(a) (15) of the NASDAQ Marketplace Rules, even though such definition does not currently apply to us, because we are not listed on NASDAQ.

ITEM 14. Principal Accounting Fees and Services.

DeCoria, Maichel & Teague, P.S. serves as our registered independent accountant and has audited our financial statements for the years ending December 31, 2009 and 2008.

The following table presents fees for professional audit services rendered by DeCoria, Maichel & Teague, P.S. for the audit or review of Genesis' financial statements for the years ended December 31, 2009 and 2008, and fees billed for other services rendered by DeCoria, Maichel & Teague, P.S.

Fiscal Year	2009	2008
Audit Fees	\$20,000	\$20,000
Audit Related		
Tax Fees		
All other Fees		
Total Fees	\$20,000	\$20,000

(1) Audit fees include fees for services rendered for the audit of our annual financial statements and reviews of our quarterly financial statements. Above fees are estimates and may vary.

The Board of Directors acts as the Audit Committee.

To our knowledge, the Company's principal accountant during the fiscal years ending December 31, 2009 and December 31, 2008 did not engage any other persons or firms other than the principal accountant's full-time, permanent employees.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) List Financial Statements filed as a part of this Annual Report

Description	Page No.
Report of Independent Registered Public Accounting Firm	21
Balance Sheets	22
Statements of Operations	23
Statement of Changes in Stockholders' Equity	24
Statements of Cash Flows	25
Notes to Financial Statements	26

List all Exhibits Required by Item 601

Exhibit No.	Description
10.1	Promissory Note Riverbank Line of Credit dated June 29, 2009.
10.2	Corporate Restructuring Agreement with Genesis Financial Corporation dated December 27, 2008
10.3	Warehousing Line of Credit Coghlan Family Corporation dated January 1, 2010
10.4	Warehousing Line of Credit Coghlan Family Corporation dated January 1, 2008
10.5	Management and Loan Servicing Agreement Genesis Holdings II dated July 15, 2008.
31.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 5, 2010

Genesis Financial, Inc.
(Registrant)

/s/ Michael A. Kirk

By: Michael A. Kirk
Title: Co-President and Chief Executive Officer

/s/ John R. Coghlan

By: John R. Coghlan
Title: Co-President and Chief Financial Officer

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

Dated: August 5, 2010

/s/ Michael A. Kirk

By: Michael A. Kirk
Title: Co-President, CEO, Director

/s/ John R. Coghlan

By: John R. Coghlan
Title: Co-President, CFO, Chairman of the Board of Directors

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael A. Kirk, certify that:

- (1) I have reviewed this annual report on Form 10-K of Genesis Financial, Inc., (Registrant).
- (2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- (3) Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, if any, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information ; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ Michael A. Kirk, CEO

By: _____
Michael A. Kirk, CEO

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John Coghlan, certify that:

- (1) I have reviewed this Comprehensive annual report on Form 10-K of Genesis Financial, Inc., (ARegistrant@).
- (2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- (3) Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, if any, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information ; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ John R. Coghlan

By: _____
John R. Coghlan, CFO

Exhibit 32.1 - Chief Executive Officer Certification (Section 906)

CERTIFICATION PURSUANT TO
U.S.C., SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), I, Michael A. Kirk, the undersigned Chief Executive Officer of Genesis Financial, Inc., (the "Company"), hereby certify that, to the best of my knowledge, the Comprehensive Annual Report on Form 10-K of the Company for the period ended December 31, 2009 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company. A signed original of this written statement required by Section 906 has been provided to the registrant and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: August 5, 2010

/s/ Michael A. Kirk

By: _____
Michael A. Kirk, CEO

Exhibit 32.2 - Chief Financial Officer Certification (Section 906)

CERTIFICATION PURSUANT TO
U.S.C., SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), I, John Coghlan, the undersigned Chief Financial Officer of Genesis Financial, Inc., (the "Company"), herby certify that, to the best of my knowledge, the Comprehensive Annual Report on Form 10-K of the Company for the periods ended December 31, 2009, (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company. A signed original of this written statement required by Section 906 has been provided to the registrant and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: August 5, 2010

/s/ John R. Coghlan

By: _____
John R. Coghlan, CFO

PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$850,000.00	06-29-2009	07-01-2010	049	73 / 16,19	304	SLU	
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

Borrower: Genesis Financial, Inc.
200 N. Mullan Road Ste. 213
Spokane, WA 99206

Lender: RiverBank
202 E. Spokane Falls Blvd.
Suite 500
Spokane, WA 99202

Principal Amount: \$850,000.00

Date of Note: June 29, 2009

PROMISE TO PAY. Genesis Financial, Inc. ("Borrower") promises to pay to RiverBank ("Lender"), or order, in lawful money of the United States of America, the principal amount of Eight Hundred Fifty Thousand & 00/100 Dollars (\$850,000.00), together with interest on the unpaid principal balance from June 29, 2009, until paid in full.

PAYMENT. Borrower will pay this loan in full immediately upon Lender's demand. If no demand is made, subject to any payment changes resulting from changes in the Index, Borrower will pay this loan in accordance with the following payment schedule, which calculates interest on the unpaid principal balances as described in the "INTEREST CALCULATION METHOD" paragraph using the interest rates described in this paragraph: 11 monthly consecutive principal payments of \$25,000.00 each, beginning August 1, 2009, during which interest continues to accrue on the unpaid principal balances using an interest rate based on the UNITED STATES PRIME RATE AS PUBLISHED IN THE WALL STREET JOURNAL (currently 3.250%), plus a margin of 1.000 percentage points, adjusted if necessary for the minimum and maximum rate limitations for this loan, resulting in an initial interest rate of 6.000% per annum based on a year of 360 days; 11 monthly consecutive interest payments, beginning August 1, 2009, with interest calculated on the unpaid principal balances using an interest rate based on the UNITED STATES PRIME RATE AS PUBLISHED IN THE WALL STREET JOURNAL (currently 3.250%), plus a margin of 1.000 percentage points, adjusted if necessary for the minimum and maximum rate limitations for this loan, resulting in an initial interest rate of 6.000% per annum based on a year of 360 days; and one principal and interest payment of \$577,875.00 on July 1, 2010, with interest calculated on the unpaid principal balances using an interest rate based on the UNITED STATES PRIME RATE AS PUBLISHED IN THE WALL STREET JOURNAL (currently 3.250%), plus a margin of 1.000 percentage points, adjusted if necessary for the minimum and maximum rate limitations for this loan, resulting in an initial interest rate of 6.000% per annum based on a year of 360 days. This estimated final payment is based on the assumption that all payments will be made exactly as scheduled and that the Index does not change; the actual final payment will be for all principal and accrued interest not yet paid, together with any other unpaid amounts under this Note. Notwithstanding the foregoing, the rate of interest accrual described for the principal only payment stream applies only to the extent that no other interest rate for any other payment stream applies. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; then to any late charges; and then to any unpaid collection costs. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an independent index which is the UNITED STATES PRIME RATE AS PUBLISHED IN THE WALL STREET JOURNAL (the "Index"). The Index is not necessarily the lowest rate charged by Lender on its loans. If the Index becomes unavailable during the term of this loan, Lender may designate a substitute index after notifying Borrower. Lender will tell Borrower the current Index rate upon Borrower's request. The interest rate change will not occur more often than each DAY. Borrower understands that Lender may make loans based on other rates as well. **The Index currently is 3.250% per annum.** The interest rate or rates to be applied to the unpaid principal balance during this Note will be the rate or rates set forth herein in the "Payment" section. Notwithstanding any other provision of this Note, after the first payment stream, the interest rate for each subsequent payment stream will be effective as of the last payment date of the just-ending payment stream. **NOTICE:** Under no circumstances will the interest rate on this Note be less than 6.000% per annum or more than the maximum rate allowed by applicable law. Whenever increases occur in the interest rate, Lender, at its option, may do one or more of the following: (A) increase Borrower's payments to ensure Borrower's loan will pay off by its original final maturity date, (B) increase Borrower's payments to cover accruing interest, (C) increase the number of Borrower's payments, and (D) continue Borrower's payments at the same amount and increase Borrower's final payment.

INTEREST CALCULATION METHOD. Interest on this Note is computed on a 365/360 basis; that is, by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: RiverBank, 202 E. Spokane Falls Blvd., Suite 500 Spokane, WA 99202.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 5.000% of the unpaid portion of the regularly scheduled payment or \$15.00, whichever is greater.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, the interest rate on this Note shall be increased to 21.000% per annum based on a year of 360 days ("Default Rate"). If judgment is entered in connection with this Note, interest will continue to accrue after the date of judgment at the Default Rate. However, in no event will the interest rate exceed the maximum interest rate limitations under applicable law.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or

**PROMISSORY NOTE
(Continued)**

Loan No: 049

Page 2

Borrower's ability to repay this Note or perform Borrower's obligations under this Note or any of the related documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

Change In Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Insecurity. Lender in good faith believes itself insecure.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees, expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

JURY WAIVER. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Washington without regard to its conflicts of law provisions. This Note has been accepted by Lender in the State of Washington.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Spokane County, State of Washington.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of \$27.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays is later dishonored.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

COLLATERAL. Borrower acknowledges this Note is secured by collateral described in a Commercial Security Agreement dated May 28, 2008.

ARBITRATION. Borrower and Lender agree that all disputes, claims and controversies between them whether individual, joint, or class in nature, arising from this Note or otherwise, including without limitation contract and tort disputes, shall be arbitrated pursuant to the Rules of the American Arbitration Association in effect at the time the claim is filed, upon request of either party. No act to take or dispose of any collateral securing this Note shall constitute a waiver of this arbitration agreement or be prohibited by this arbitration agreement. This includes, without limitation, obtaining injunctive relief or a temporary restraining order; invoking a power of sale under any deed of trust or mortgage; obtaining a writ of attachment or imposition of a receiver; or exercising any rights relating to personal property, including taking or disposing of such property with or without judicial process pursuant to Article 9 of the Uniform Commercial Code. Any disputes, claims, or controversies concerning the lawfulness or reasonableness of any act, or exercise of any right, concerning any collateral securing this Note, including any claim to rescind, reform, or otherwise modify any agreement relating to the collateral securing this Note, shall also be arbitrated, provided however that no arbitrator shall have the right or the power to enjoin or restrain any act of any party. Judgment upon any award rendered by any arbitrator may be entered in any court having jurisdiction. Nothing in this Note shall preclude any party from seeking equitable relief from a court of competent jurisdiction. The statute of limitations, estoppel, waiver, laches, and similar doctrines which would otherwise be applicable in an action brought by a party shall be applicable in any arbitration proceeding, and the commencement of an arbitration proceeding shall be deemed the commencement of an action for these purposes. The Federal Arbitration Act shall apply to the construction, interpretation, and enforcement of this arbitration provision.

REQUIRED DEPOSIT ACCOUNT. Borrower will maintain a primary depository relationship with Lender.

PRIOR NOTE. THIS PROMISSORY NOTE IS A REFINANCE OF THAT CERTAIN PROMISSORY NOTE DATED MAY 28, 2008 IN THE ORIGINAL FACE AMOUNT OF \$1,000,000.00.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

NOTIFY US OF INACCURATE INFORMATION WE REPORT TO CONSUMER REPORTING AGENCIES. Please notify us if we report any inaccurate information about your account(s) to a consumer reporting agency. Your written notice describing the specific inaccuracy(ies) should be sent to us at the following address: RiverBank 202 E. Spokane Falls Blvd., Suite 500 Spokane, WA 99202.

GENERAL PROVISIONS. This Note is payable on demand. The inclusion of specific default provisions or rights of Lender shall not preclude Lender's right to declare payment of this Note on its demand. If any part of this Note cannot be enforced, this fact will not affect the rest of the

Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

GENESIS FINANCIAL, INC.

By: 

Michael A. Kirk, President / CEO of Genesis
Financial, Inc.

By: 

John R. Coghlan, Chairman of the Board of Genesis
Financial, Inc.

BUSINESS LOAN AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$850,000.00	06-29-2009	07-01-2010	049	73 / 16,19	304	SLU	
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

Borrower: Genesis Financial, Inc.
200 N. Mullan Road Ste. 213
Spokane, WA 99206

Lender: RiverBank
202 E. Spokane Falls Blvd.
Suite 500
Spokane, WA 99202

THIS BUSINESS LOAN AGREEMENT dated June 29, 2009, is made and executed between Genesis Financial, Inc. ("Borrower") and RiverBank ("Lender") on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans or other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement. Borrower understands and agrees that: (A) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement; (B) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (C) all such Loans shall be and remain subject to the terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of June 29, 2009, and shall continue in full force and effect until such time as all of Borrower's Loans in favor of Lender have been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until such time as the parties may agree in writing to terminate this Agreement.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

Loan Documents. Borrower shall provide to Lender the following documents for the Loan: (1) the Note; (2) Security Agreements granting to Lender security interests in the Collateral; (3) financing statements and all other documents perfecting Lender's Security Interests; (4) evidence of insurance as required below; (5) guaranties; (6) together with all such Related Documents as Lender may require for the Loan; all in form and substance satisfactory to Lender and Lender's counsel.

Borrower's Authorization. Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents. In addition, Borrower shall have provided such other resolutions, authorizations, documents and instruments as Lender or its counsel, may require.

Payment of Fees and Expenses. Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

Representations and Warranties. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

No Event of Default. There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement or under any Related Document.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

Organization. Borrower is a corporation for profit which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the State of Washington. Borrower is duly authorized to transact business in all other states in which Borrower is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which Borrower is doing business. Specifically, Borrower is, and at all times shall be, duly qualified as a foreign corporation in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition. Borrower has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. Borrower maintains an office at 200 N. Mullan Road Ste. 213, Spokane, WA 99206. Unless Borrower has designated otherwise in writing, the principal office is the office at which Borrower keeps its books and records including its records concerning the Collateral. Borrower will notify Lender prior to any change in the location of Borrower's state of organization or any change in Borrower's name. Borrower shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to Borrower and Borrower's business activities.

Assumed Business Names. Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business: **None.**

Authorization. Borrower's execution, delivery, and performance of this Agreement and all the Related Documents have been duly authorized by all necessary action by Borrower and do not conflict with, result in a violation of, or constitute a default under (1) any provision of (a) Borrower's articles of incorporation or organization, or bylaws, or (b) any agreement or other instrument binding upon Borrower or (2) any law, governmental regulation, court decree, or order applicable to Borrower or to Borrower's properties.

Financial Information. Each of Borrower's financial statements supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

Legal Effect. This Agreement constitutes, and any instrument or agreement Borrower is required to give under this Agreement when delivered will constitute legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

Properties. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used or filed a financing statement under any other name for at least the last five (5) years.

Hazardous Substances. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (1) During

BUSINESS LOAN AGREEMENT (Continued)

Loan No: 049

Page 2

the period of Borrower's ownership of the Collateral, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance by any person on, under, about or from any of the Collateral. (2) Borrower has no knowledge of, or reason to believe that there has been (a) any breach or violation of any Environmental Laws; (b) any use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance on, under, about or from the Collateral by any prior owners or occupants of any of the Collateral; or (c) any actual or threatened litigation or claims of any kind by any person relating to such matters. (3) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the Collateral shall use, generate, manufacture, store, treat, dispose of or release any Hazardous Substance on, under, about or from any of the Collateral; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation all Environmental Laws. Borrower authorizes Lender and its agents to enter upon the Collateral to make such inspections and tests as Lender may deem appropriate to determine compliance of the Collateral with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Collateral for hazardous waste and Hazardous Substances. Borrower hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the Collateral. The provisions of this section of the Agreement, including the obligation to indemnify and defend, shall survive the payment of the Indebtedness and the termination, expiration or satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Collateral, whether by foreclosure or otherwise.

Litigation and Claims. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

Taxes. To the best of Borrower's knowledge, all of Borrower's tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

Lien Priority. Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

Binding Effect. This Agreement, the Note, all Security Agreements (if any), and all Related Documents are binding upon the signers thereof, as well as upon their successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

Notices of Claims and Litigation. Promptly inform Lender in writing of (1) all material adverse changes in Borrower's financial condition, and (2) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

Financial Records. Maintain its books and records in accordance with GAAP, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Financial Statements. Furnish Lender with the following:

Annual Statements. As soon as available after the end of each fiscal year, Borrower's balance sheet and income statement for the year ended, compiled by a certified public accountant satisfactory to Lender.

Interim Statements. As soon as available after the end of each fiscal quarter, Borrower's balance sheet and profit and loss statement for the period ended, prepared by Borrower.

Tax Returns. As soon as available after the applicable filing date for the tax reporting period ended, Federal and other governmental tax returns, prepared by Borrower.

All financial reports required to be provided under this Agreement shall be prepared in accordance with GAAP, applied on a consistent basis, and certified by Borrower as being true and correct.

Additional Information. Furnish such additional information and statements, as Lender may request from time to time.

Financial Covenants and Ratios. Comply with the following covenants and ratios:

Working Capital Requirements. Maintain Working Capital in excess of \$2,000,000.00. In addition, Borrower shall comply with the following working capital ratio requirements:

Current Ratio. Maintain a Current Ratio in excess of 2.000 to 1.000. The term "Current Ratio" means Borrower's total Current Assets divided by Borrower's total Current Liabilities. This liquidity ratio will be evaluated as of quarter-end.

Tangible Net Worth Requirements. Maintain a minimum Tangible Net Worth of not less than: \$2,500,000.00. In addition, Borrower shall comply with the following net worth ratio requirements:

Debt / Worth Ratio. Maintain a ratio of Debt / Worth not in excess of 3.000 to 1.000. The ratio "Debt / Worth" means Borrower's Total Liabilities divided by Borrower's Tangible Net Worth. This leverage ratio will be evaluated as of quarter-end.

Additional Requirements. Borrower is indebted to the Coghlan Family Corp ("Other Funding Source"). Borrower's outstanding balance of the Note must not exceed 50% of Borrower's outstanding balance of the Other Funding Source. The interests of the Other Funding Source in the Collateral will be subordinated to Lender.

Except as provided above, all computations made to determine compliance with the requirements contained in this paragraph shall be made in accordance with generally accepted accounting principles, applied on a consistent basis, and certified by Borrower as being true and correct.

Insurance. Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies acceptable to Lender. Borrower, upon

BUSINESS LOAN AGREEMENT (Continued)

Loan No: 049

Page 3

request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least thirty (30) days prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such lender's loss payable or other endorsements as Lender may require.

Insurance Reports. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the properties insured; (5) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (6) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

Guaranties. Prior to disbursement of any Loan proceeds, furnish executed guaranties of the Loans in favor of Lender, executed by the guarantors named below, on Lender's forms, and in the amounts and under the conditions set forth in those guaranties.

<u>Names of Guarantors</u>	<u>Amounts</u>
John R. Coghlan	Unlimited
Wendy B. Coghlan	Unlimited

Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

Loan Proceeds. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

Taxes, Charges and Liens. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (1) the legality of the same shall be contested in good faith by appropriate proceedings, and (2) Borrower shall have established on Borrower's books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP.

Performance. Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

Operations. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner.

Environmental Studies. Promptly conduct and complete, at Borrower's expense, all such investigations, studies, samplings and testings as may be requested by Lender or any governmental authority relative to any substance, or any waste or by-product of any substance defined as toxic or a hazardous substance under applicable federal, state, or local law, rule, regulation, order or directive, at or affecting any property or any facility owned, leased or used by Borrower.

Compliance with Governmental Requirements. Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's properties, businesses and operations, and to the use or occupancy of the Collateral, including without limitation, the Americans With Disabilities Act. Borrower may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Borrower has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Collateral are not jeopardized. Lender may require Borrower to post adequate security or a surety bond, reasonably satisfactory to Lender, to protect Lender's interest.

Inspection. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

Environmental Compliance and Reports. Borrower shall comply in all respects with any and all Environmental Laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on Borrower's part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

Additional Assurances. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, assignments, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Borrower fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Borrower's failure to discharge or pay when due any amounts Borrower is required to discharge or pay under this Agreement or any Related Documents, Lender on Borrower's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on any Collateral and paying all costs for insuring, maintaining and preserving any Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Borrower. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity.

BUSINESS LOAN AGREEMENT (Continued)

Loan No: 049

Page 4

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

Indebtedness and Liens. (1) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases, (2) sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets (except as allowed as Permitted Liens), or (3) sell with recourse any of Borrower's accounts, except to Lender.

Continuity of Operations. (1) Engage in any business activities substantially different than those in which Borrower is presently engaged, (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business, or (3) pay any dividends on Borrower's stock (other than dividends payable in its stock), provided, however that notwithstanding the foregoing, but only so long as no Event of Default has occurred and is continuing or would result from the payment of dividends, if Borrower is a "Subchapter S Corporation" (as defined in the Internal Revenue Code of 1986, as amended), Borrower may pay cash dividends on its stock to its shareholders from time to time in amounts necessary to enable the shareholders to pay income taxes and make estimated income tax payments to satisfy their liabilities under federal and state law which arise solely from their status as Shareholders of a Subchapter S Corporation because of their ownership of shares of Borrower's stock, or purchase or retire any of Borrower's outstanding shares or alter or amend Borrower's capital structure.

Loans, Acquisitions and Guaranties. (1) Loan, invest in or advance money or assets to any other person, enterprise or entity, (2) purchase, create or acquire any interest in any other enterprise or entity, or (3) incur any obligation as surety or guarantor other than in the ordinary course of business.

Agreements. Borrower will not enter into any agreement containing any provisions which would be violated or breached by the performance of Borrower's obligations under this Agreement or in connection herewith.

CESSATION OF ADVANCES. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (A) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (B) Borrower or any Guarantor dies, becomes incompetent or becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (C) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (D) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender; or (E) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Borrower fails to make any payment when due under the Loan.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's or any Grantor's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the Loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Change in Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Loan is impaired.

Insecurity. Lender in good faith believes itself insecure.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make further Loan Advances or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies

BUSINESS LOAN AGREEMENT (Continued)

Loan No: 049

Page 5

provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

PRIOR LOAN AGREEMENT. THIS AGREEMENT SUPERSEDES THAT CERTAIN BUSINESS LOAN AGREEMENT DATED MAY 28, 2008 BETWEEN BORROWER AND LENDER.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Arbitration. Borrower and Lender agree that all disputes, claims and controversies between them whether individual, joint, or class in nature, arising from this Agreement or otherwise, including without limitation contract and tort disputes, shall be arbitrated pursuant to the Rules of the American Arbitration Association in effect at the time the claim is filed, upon request of either party. No act to take or dispose of any Collateral shall constitute a waiver of this arbitration agreement or be prohibited by this arbitration agreement. This includes, without limitation, obtaining injunctive relief or a temporary restraining order; invoking a power of sale under any deed of trust or mortgage; obtaining a writ of attachment or imposition of a receiver; or exercising any rights relating to personal property, including taking or disposing of such property with or without judicial process pursuant to Article 9 of the Uniform Commercial Code. Any disputes, claims, or controversies concerning the lawfulness or reasonableness of any act, or exercise of any right, concerning any Collateral, including any claim to rescind, reform, or otherwise modify any agreement relating to the Collateral, shall also be arbitrated, provided however that no arbitrator shall have the right or the power to enjoin or restrain any act of any party. Judgment upon any award rendered by any arbitrator may be entered in any court having jurisdiction. Nothing in this Agreement shall preclude any party from seeking equitable relief from a court of competent jurisdiction. The statute of limitations, estoppel, waiver, laches, and similar doctrines which would otherwise be applicable in an action brought by a party shall be applicable in any arbitration proceeding, and the commencement of an arbitration proceeding shall be deemed the commencement of an action for these purposes. The Federal Arbitration Act shall apply to the construction, interpretation, and enforcement of this arbitration provision.

Attorneys' Fees; Expenses. Borrower agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Borrower shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Consent to Loan Participation. Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loan to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy Borrower may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loan irrespective of the failure or insolvency of any holder of any interest in the Loan. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Washington without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the State of Washington.

Choice of Venue. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Spokane County, State of Washington.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any of Borrower's or any Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Subject to applicable law, and except for notice required or allowed by law to be given in another manner, any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address. Subject to applicable law, and except for notice required or allowed by law to be given in another manner, if there is more than one Borrower, any notice given by Lender to any Borrower is deemed to be notice given to all Borrowers.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

BUSINESS LOAN AGREEMENT (Continued)

Loan No: 049

Page 6

Subsidiaries and Affiliates of Borrower. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used in this Agreement shall include all of Borrower's subsidiaries and affiliates. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any of Borrower's subsidiaries or affiliates.

Successors and Assigns. All covenants and agreements by or on behalf of Borrower contained in this Agreement or any Related Documents shall bind Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not, however, have the right to assign Borrower's rights under this Agreement or any interest therein, without the prior written consent of Lender.

Survival of Representations and Warranties. Borrower understands and agrees that in making the Loan, Lender is relying on all representations, warranties, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement or the Related Documents. Borrower further agrees that regardless of any investigation made by Lender, all such representations, warranties and covenants will survive the making of the Loan and delivery to Lender of the Related Documents, shall be continuing in nature, and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waive Jury. All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement:

Advance. The word "Advance" means a disbursement of Loan funds made, or to be made, to Borrower or on Borrower's behalf on a line of credit or multiple advance basis under the terms and conditions of this Agreement.

Agreement. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

Borrower. The word "Borrower" means Genesis Financial, Inc. and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, collateral mortgage, deed of trust, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

GAAP. The word "GAAP" means generally accepted accounting principles.

Grantor. The word "Grantor" means each and all of the persons or entities granting a Security Interest in any Collateral for the Loan, including without limitation all Borrowers granting such a Security Interest.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Loan.

Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means RiverBank, its successors and assigns.

Loan. The word "Loan" means any and all loans and financial accommodations from Lender to Borrower whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

Note. The word "Note" means the Note executed by Genesis Financial, Inc. in the principal amount of \$850,000.00 dated June 29, 2009, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Permitted Liens. The words "Permitted Liens" mean (1) liens and security interests securing Indebtedness owed by Borrower to Lender; (2) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (3) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (4) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the

**BUSINESS LOAN AGREEMENT
(Continued)**

Loan No: 049

Page 7

ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (5) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (6) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan.

Security Agreement. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

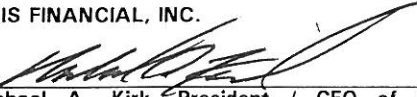
Security Interest. The words "Security Interest" mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.


Tangible Net Worth. The words "Tangible Net Worth" mean Borrower's total assets excluding all intangible assets (i.e., goodwill, trademarks, patents, copyrights, organizational expenses, and similar intangible items, but including leaseholds and leasehold improvements) less total debt.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT AND BORROWER AGREES TO ITS TERMS. THIS BUSINESS LOAN AGREEMENT IS DATED JUNE 29, 2009.

BORROWER:

GENESIS FINANCIAL, INC.

By: 
Michael A. Kirk, President / CEO of Genesis
Financial, Inc.

By: 
John R. Coghlan, Chairman of the Board of Genesis
Financial, Inc.

LENDER:

RIVERBANK

By: _____
Authorized Signer

CORPORATE RESTRUCTURING AGREEMENT

Effective January 1, 2009, Genesis Financial, Inc. will undergo a restructuring, separating the business unit from the assets. This restructuring will result in the following:

1. Michael Kirk will resign as President/CEO of Genesis Financial, Inc., and become Co-President/CEO, and Secretary/Treasurer. John Coghlan will become Co-President/Chairman of the Board. The Board of Directors will consist of Coghlan, Kirk, and Jim Bjorklund. Kirk will retain primary document signing authority on behalf of Genesis Financial, Inc.
2. Kirk has formed a new entity, Genesis Finance Corporation, which will become active January 1, 2009.
3. All operations bills prior to January 1, 2009 will remain the obligation of Genesis Financial, Inc.
4. All operations bills from January 1, 2009 forward will be the responsibility of Genesis Finance Corporation.
5. Genesis Finance Corporation will manage and service the assets of Genesis Financial Inc. for a period of one year, for the sum of \$4,000 per month, with \$2,000 paid on the first of the month, and \$2,000 paid on the fifteenth. This agreement will be reviewed annually, and if there are increases or decreases in the fees, the change will be signed off by both Coghlan and Kirk.
6. Genesis Financial, Inc. will pay Genesis Finance Corporation the sum of \$2,000 per month during the management period, to cover accounting and office expenses.
7. Genesis Finance Corporation will be entitled to the 3% override on investor contracts and loans on a cash basis. No override fee will be paid on Genesis Financial, Inc. owned contracts and loans.
8. Genesis Financial, Inc. will manage Genesis Holdings, Inc. going forward. Kirk will resign as President and Coghlan will become President. Genesis Financial, Inc. will be entitled to all management and servicing fees.
9. Genesis Finance Corporation will manage Genesis Holdings II, Inc., and retain all the management and servicing fees.

10. Genesis Finance Corporation will be responsible for all telephone expense, office rent, and all office supplies expenses after January 1, 2009. Genesis Finance Corporation will get all the current office supply inventory that Genesis Financial, Inc. owns as of that date.
11. Office furniture and equipment purchased by Genesis Financial, Inc., or Kirk, originally will belong to Genesis Finance Corporation. All office furniture and equipment purchased by Coghlan, or Coghlan Family Corporation will belong to Coghlan Family Corporation.
12. After January 1, 2009, Kirk and Coghlan will have check signing authority for Genesis Financial, Inc. Virginia Walters will be authorized to sign checks for investor disbursements as payments are received. Kirk and Coghlan will authorize and sign all other checks unless Walters is specifically authorized by Kirk or Coghlan to sign in their stead.
13. There will be no loans or advances made between Genesis Financial, Inc. and Genesis Finance Corporation.

Agreed and Approved this December 27, 2008:


John R. Coghlan, Co-President
Genesis Financial, Inc.


Michael A. Kirk, President
Genesis Finance Corporation

WAREHOUSING LINE OF CREDIT PROMISSORY NOTE

INTRODUCTION. This Warehousing Line of Credit Promissory Note (the "NOTE"), governs your line of credit (the "CREDIT LINE") with Coghlan Family Corporation. The words "BORROWER," "you," and "your," mean Genesis Financial, Inc., a Washington corporation. The words "LENDER," "we," "us," and "our," means Coghlan Family Corporation the entity that is making the loans and advances described in this NOTE. The CREDIT LINE will provide BORROWER with financing to acquire eligible real estate loans in accordance with the procedures described in this NOTE and the attached exhibits.

MAXIMUM CREDIT. The unpaid principal balance under the CREDIT LINE may not exceed Two Million Five Hundred Thousand Dollars and 00/100ths (\$2,500,000.00) outstanding at any given time during the term of the NOTE.

PROMISE TO PAY. You promise to pay LENDER the total of all loan advances and finance charges, together with all costs and expenses for which you are responsible under this NOTE. You will pay the CREDIT LINE according to the payment terms set forth below.

DUE DATE. You promise to pay the balance of this NOTE on January 1, 2012, or at the option of LENDER on demand. So long as this NOTE is in good standing, you may obtain advances on the CREDIT LINE in accordance with the procedures described in this NOTE and the attached exhibits.

INTEREST. Interest shall accrue on the daily net principal balance outstanding, and is payable on the 1st day of each month during the term of this loan. Interest will be calculated at One Percent (1.00%) over The Prime Rate quoted on the 1st day of the month prior to the payment date.

COMMITMENT FEE. BORROWER will pay LENDER annually One Half of One Percent (1/2%) of the Maximum Credit amount as a Loan commitment fee. This amount, aggregating \$12,500.00 is payable on the date of this NOTE.

ADVANCES AND REPAYMENTS. BORROWER may request advances on the CREDIT LINE from time to time, and shall make payments against the outstanding principal balance from time to time in accordance with the terms of this note.

FINANCIAL COVENANTS. So long as this CREDIT LINE is in effect, BORROWER will comply with the "Financial Covenants" and the "Reporting Obligations" described in EXHIBIT A (attached). Each month, on or before the interest payment due date, BORROWER will provide a "Compliance Certificate" in form satisfactory to LENDER, either representing that BORROWER is in compliance with the applicable financial covenants, or describing the non-compliance and the steps being taken to bring BORROWER back into compliance.

SECURITY. This NOTE is secured by a first lien on all of the assets of BORROWER. The Security Agreement is attached as EXHIBIT B (attached).


PERSONAL GUARANTEES. This NOTE is jointly and severally personally guaranteed by Michael A. Kirk, an individual residing in Spokane, Washington. The personal guarantee agreement is attached as EXHIBIT C (attached).

DEFAULT. If BORROWER defaults in timely payment of any amount due under this NOTE, including non-payment upon LENDER'S demand, or is in default as a result of non-compliance with the Financial Covenant requirements or the provisions of the Security Agreement, and such default continues without cure for ten days, LENDER may pursue any legal or equitable remedies for collection of the amounts due. BORROWER waives presentment, demand for payment, protest, and notice of nonpayment. BORROWER agrees to pay LENDER all costs and expenses of collection of the amounts due or to become due under this NOTE, including reasonable attorneys' fees. Upon Lender's declaration of a default, and Borrower's failure to cure the default within ten days, the interest rate charged on this NOTE shall be the lesser of 12% per annum, or the highest rate then allowed by law.

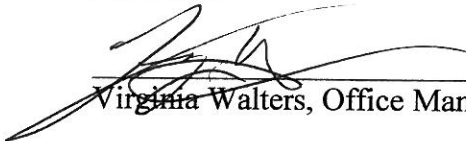
ASSIGNMENT. This NOTE, the Security Agreement and the Personal Guarantees may be assigned by LENDER to an affiliated entity, and BORROWER consents to the assignment to such an affiliated entity. Assignment to an unaffiliated entity may only be done after written consent of BORROWER.

SIGNATURES. This NOTE is executed on January 1, 2010, in Spokane, Washington.

GENESIS FINANCIAL, INC.


Michael A. Kirk, President

ATTEST:

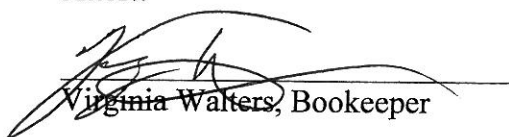

Virginia Walters, Office Manager

Accepted this 1st day of January, 2010 in Spokane, Washington.

Coghlán Family Corporation


John R. Coghlan, President

Attest:


Virginia Walters, Bookkeeper

PERSONAL GUARANTY

The undersigned, Michael A. Kirk (Guarantor), personally and unconditionally guaranties that loan made, to Genesis Financial, Inc., a Washington corporation (Borrower), by to Coghlan Family Corporation (Lender), a Washington corporation in the original amount of Two Million Five Hundred Thousand Dollars (\$2,500,000.00).

Each guarantor is primarily and independently liable for this debt.


The guarantor agrees to pay any deficiency remaining after the lender realizes on any collateral security by sale or resale, but the lender shall not be required to first proceed against such security.

This guaranty shall not cease upon sale of the collateral without the written consent of the lender.

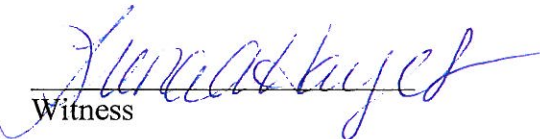
Any petition for bankruptcy by the original borrowers shall not affect this guaranty of the loan.

Guarantor and Lender hereby knowingly and voluntarily and intentionally waive the right to trial by jury of all issues related to this guaranty.

This guaranty may be executed/signed in counterparts, each of which shall be deemed an original and together shall constitute one in the same instrument

In witness whereof we have set our hands and seals this 1st day of January, 2008. ¹⁰ 


Michael A. Kirk


Witness

WAREHOUSING LINE OF CREDIT PROMISSORY NOTE

INTRODUCTION. This Warehousing Line of Credit Promissory Note (the "NOTE"), governs your line of credit (the "CREDIT LINE") with Coghlan Family Corporation. The words "BORROWER," "you," and "your," mean Genesis Financial, Inc., a Washington corporation. The words "LENDER," "we," "us," and "our," means Coghlan Family Corporation the entity that is making the loans and advances described in this NOTE. The CREDIT LINE will provide BORROWER with financing to acquire eligible real estate loans in accordance with the procedures described in this NOTE and the attached exhibits.

MAXIMUM CREDIT. The unpaid principal balance under the CREDIT LINE may not exceed Two Million Five Hundred Thousand Dollars and 00/100ths (\$2,500,000.00) outstanding at any given time during the term of the NOTE.

PROMISE TO PAY. You promise to pay LENDER the total of all loan advances and finance charges, together with all costs and expenses for which you are responsible under this NOTE. You will pay the CREDIT LINE according to the payment terms set forth below.

DUE DATE. You promise to pay the balance of this NOTE on January 1, 2010, or at the option of LENDER on demand. So long as this NOTE is in good standing, you may obtain advances on the CREDIT LINE in accordance with the procedures described in this NOTE and the attached exhibits.

INTEREST. Interest shall accrue on the daily net principal balance outstanding, and is payable on the 1st day of each month during the term of this loan. Interest will be calculated at One Percent (1.00%) over The Prime Rate quoted on the 1st day of the month prior to the payment date.

COMMITMENT FEE. BORROWER will pay LENDER annually One Half of One Percent (1/2%) of the Maximum Credit amount as a Loan commitment fee. This amount, aggregating \$12,500.00 is payable on the date of this NOTE.

ADVANCES AND REPAYMENTS. BORROWER may request advances on the CREDIT LINE from time to time, and shall make payments against the outstanding principal balance from time to time in accordance with the terms of this note.

FINANCIAL COVENANTS. So long as this CREDIT LINE is in effect, BORROWER will comply with the "Financial Covenants" and the "Reporting Obligations" described in EXHIBIT A (attached). Each month, on or before the interest payment due date, BORROWER will provide a "Compliance Certificate" in form satisfactory to LENDER, either representing that BORROWER is in compliance with the applicable financial covenants, or describing the non-compliance and the steps being taken to bring BORROWER back into compliance.

SECURITY. This NOTE is secured by a first lien on all of the assets of BORROWER. The Security Agreement is attached as EXHIBIT B (attached).


PERSONAL GUARANTEES. This NOTE is jointly and severally personally guaranteed by Michael A. Kirk, an individual residing in Spokane, Washington. The personal guarantee agreement is attached as EXHIBIT C (attached).

DEFAULT. If BORROWER defaults in timely payment of any amount due under this NOTE, including non-payment upon LENDER'S demand, or is in default as a result of non-compliance with the Financial Covenant requirements or the provisions of the Security Agreement, and such default continues without cure for ten days, LENDER may pursue any legal or equitable remedies for collection of the amounts due. BORROWER waives presentment, demand for payment, protest, and notice of nonpayment. BORROWER agrees to pay LENDER all costs and expenses of collection of the amounts due or to become due under this NOTE, including reasonable attorneys' fees. Upon Lender's declaration of a default, and Borrower's failure to cure the default within ten days, the interest rate charged on this NOTE shall be the lesser of 12% per annum, or the highest rate then allowed by law.

ASSIGNMENT. This NOTE, the Security Agreement and the Personal Guarantees may be assigned by LENDER to an affiliated entity, and BORROWER consents to the assignment to such an affiliated entity. Assignment to an unaffiliated entity may only be done after written consent of BORROWER.


SIGNATURES. This NOTE is executed on January 1, 2008, in Spokane, Washington.

GENESIS FINANCIAL, INC.



Michael A. Kirk, President

ATTEST:



Doug Greybill, Vice President

Accepted this 14th day of Feb, 2008 in Spokane, Washington.

Coghlan Family Corporation



John R. Coghlan, President

Attest:

Brad E. Herr, Assistant Secretary

PERSONAL GUARANTY

The undersigned, Michael A. Kirk (Guarantor), personally and unconditionally guaranties that loan made, to Genesis Financial, Inc., a Washington corporation (Borrower), by to Coghlan Family Corporation (Lender), a Washington corporation in the original amount of Two Million Five Hundred Thousand Dollars (\$2,500,000.00).

Each guarantor is primarily and independently liable for this debt.

The guarantor agrees to pay any deficiency remaining after the lender realizes on any collateral security by sale or resale, but the lender shall not be required to first proceed against such security.

This guaranty shall not cease upon sale of the collateral without the written consent of the lender.

Any petition for bankruptcy by the original borrowers shall not affect this guaranty of the loan.

Guarantor and Lender hereby knowingly and voluntarily and intentionally waive the right to trial by jury of all issues related to this guaranty.

This guaranty may be executed/signed in counterparts, each of which shall be deemed an original and together shall constitute one in the same instrument

In witness whereof we have set our hands and seals this 1st day of January, 2008.



Michael A. Kirk

Witness

WAREHOUSING LINE OF CREDIT PROMISSORY NOTE

INTRODUCTION. This Warehousing Line of Credit Promissory Note (the "NOTE"), governs your line of credit (the "CREDIT LINE") with Coghlan Family Corporation. The words "BORROWER," "you," and "your," mean Genesis Financial, Inc., a Washington corporation. The words "LENDER," "we," "us," and "our," means Coghlan Family Corporation the entity that is making the loans and advances described in this NOTE. The CREDIT LINE will provide BORROWER with financing to acquire eligible real estate loans in accordance with the procedures described in this NOTE and the attached exhibits.

MAXIMUM CREDIT. The unpaid principal balance under the CREDIT LINE may not exceed Three Million Dollars and 00/100ths (\$3,000,000.00) outstanding at any given time during the term of the NOTE.

PROMISE TO PAY. You promise to pay LENDER the total of all loan advances and finance charges, together with all costs and expenses for which you are responsible under this NOTE. You will pay the CREDIT LINE according to the payment terms set forth below.

DUE DATE. You promise to pay the balance of this NOTE on January 1, 2008, or at the option of LENDER on demand. So long as this NOTE is in good standing, you may obtain advances on the CREDIT LINE in accordance with the procedures described in this NOTE and the attached exhibits.

INTEREST. Interest shall accrue on the daily net principal balance outstanding, and is payable on the 1st day of each month during the term of this loan. Interest will be calculated at Eight (8.0%) percent per annum, beginning January 1, 2006.

COMMITMENT FEE. BORROWER will pay LENDER One Half of One Percent (1/2%) of the Maximum Credit amount as a Loan commitment fee. This amount, aggregating \$15,000.00 is payable on the date of this NOTE.

ADVANCES AND REPAYMENTS. BORROWER may request advances on the CREDIT LINE from time to time, and shall make payments against the outstanding principal balance from time to time in accordance with the terms of this note.

FINANCIAL COVENANTS. So long as this CREDIT LINE is in effect, BORROWER will comply with the "Financial Covenants" and the "Reporting Obligations" described in EXHIBIT A (attached). Each month, on or before the interest payment due date, BORROWER will provide a "Compliance Certificate" in form satisfactory to LENDER, either representing that BORROWER is in compliance with the applicable financial covenants, or describing the non-compliance and the steps being taken to bring BORROWER back into compliance.

SECURITY. This NOTE is secured by a first lien on all of the assets of BORROWER. The Security Agreement is attached as EXHIBIT B (attached).

PERSONAL GUARANTEES. This NOTE is jointly and severally personally guaranteed by Michael A. Kirk, an individual residing in Spokane, Washington. The personal guarantee agreement is attached as EXHIBIT C (attached).

DEFAULT. If BORROWER defaults in timely payment of any amount due under this NOTE, including non-payment upon LENDER'S demand, or is in default as a result of non-compliance with the Financial Covenant requirements or the provisions of the Security Agreement, and such default continues without cure for ten days, LENDER may pursue any legal or equitable remedies for collection of the amounts due. BORROWER waives presentment, demand for payment, protest, and notice of nonpayment. BORROWER agrees to pay LENDER all costs and expenses of collection of the amounts due or to become due under this NOTE, including reasonable attorneys' fees. Upon Lender's declaration of a default, and Borrower's failure to cure the default within ten days, the interest rate charged on this NOTE shall be the lesser of 12% per annum, or the highest rate then allowed by law.

ASSIGNMENT. This NOTE, the Security Agreement and the Personal Guarantees may be assigned by LENDER to an affiliated entity, and BORROWER consents to the assignment to such an affiliated entity. Assignment to an unaffiliated entity may only be done after written consent of BORROWER.

SIGNATURES. This NOTE is executed on January 1, 2006, in Spokane, Washington.

GENESIS FINANCIAL, INC.



Michael A. Kirk, President


ATTEST:



Doug Greybill, Vice President

Accepted this 18th day of April, 20 06 in Spokane, Washington.

Coghlan Family Corporation



John R. Coghlan, President

Attest:



Brad E. Herr, Assistant Secretary

Acknowledgment of Initial Financing Statement

File Number 2006-109-2316-8

File Date/Time 04/19/2006 11:13AM

Lapse Date 04/19/2011

Initial Filing Number 2006-109-2316-8

Fee Amount (\$US) 10.00

Filing Office WA DOL

File Status Accepted

Debtor Genesis Financial, Inc.
200 N. Mullan Rd Suite 217
Spokane Valley WA 99206 USA
Organizational Type: Corporation
Jurisdiction: WA
Organizational ID: 602-176-192

Secured Party Coghlan Family Corp
200 N. Mullan Rd Suite 217
Spokane Valley WA 99206 USA

Collateral All buildings, structures, appurtenances, improvements, equipment, machinery, fixtures, goods, accounts, accounts receivable, general intangibles, documents, instruments and chattel paper, and all other personal property of every kind and description, whether now existing or hereafter acquired, now or at any time hereafter attached to, erected upon, situated in or upon, forming a part of, appurtenant to, used or useful in the construction or operation of or in connection with, or arising from the use or enjoyment of all or any portion of, or from any lease or agreement pertaining to, the real property located in the County of Spokane, State of Washington, as hereinafter more particularly described, including without limitation: (A) All of the income, rents, royalties, issues, profits, revenue and other benefits of any and all of such real property; (B) All of the estate, interest or other claim or demand in and to such real property, including without limitation all deposits made with or other security given to utility companies by Debtor with respect to such real property and the improvements thereon, and all advance payments of insurance premiums made by Debtor with respect thereto and all claims or demands with respect to insurance; (C) All furniture and furnishings, buildings, service equipment, building materials, supplies, machinery, boilers, equipment (including, without limitation, all equipment for the generation or distribution of air, water, heat, electricity, light, fuel or refrigeration, or for ventilating or air conditioning purposes, or for sanitary or drainage purposes, or for the removal of dust, refuse or garbage), partitions, appliances, ranges, refrigerators, cabinets, laundry equipment, radios, televisions, awnings, window shades, venetian blinds, drapes and drapery rods and brackets, screens, carpeting and other floor coverings, lobby furnishings, games and recreational and swimming pool equipment and incinerators, all vehicles and accessories, tools, jettings and parts and all other personal property of every kind and description; (D) All proceeds and claims arising on account of any damage to or taking of such real property or any improvements thereon or any part thereof, and all causes of action and recoveries for any loss or diminution in the value of such real property or any improvements; (E) All substitutions, accessions, additions and replacements to any of the foregoing; and (F) All personal property herein acquired or to be acquired; (G) All proceeds of any of the foregoing, including without limitation, proceeds of any voluntary or involuntary disposition or claim representing any part thereof (pursuant to judgment, condemnation award or otherwise) and all goods, documents, general intangibles, chattel paper, account receivable, and accounts, wherever located, acquired with cash proceeds of any of the foregoing or proceeds thereof. The filing of this financing statement shall not be construed to derogate from or impair the lien or provisions of the Promissory Note from

Debtor to Secured Party encumbering such real property (if applicable) with respect to any property described therein which is real property or which the parties have agreed to treat as real property. The hereby-stated intention of Debtor and Secured Party is that everything used in connection with the production of income from such real property or adapted for use therein is, and at all times and for all purposes and in all proceedings both legal or equitable shall be regarded as, real property and part of the real property encumbered by such Promissory Note, irrespective of whether or not the same is physically attached to the improvements thereon. Similarly, nothing in this financing statement shall be construed to alter any of the rights of Secured Party as determined by such Promissory Note or the priority of the Secured Party as determined by such Promissory Note or the priority of the Secured Party lien created thereby, and this financing statement is declared to be for the protection of Secured Party in the event any court shall at any time hold that notice of Secured Party priority of interest in any property or interests described in such Promissory Note, in order to be effective against a particular class of persons, including but not limited to the United States Government and any agencies thereof, be filed in the office wherein this financing statement is filed. The real property (if any) referred to above is located in the County of Spokane, State of Washington, including all appurtenances and all buildings, structures, improvements and fixtures now or in the future located on such real property.

Search On NONE

This acknowledgment reflects the information that was filed with the Department of Licensing, Uniform Commercial Code office, on this date.



Elizabeth A. Luce
Elizabeth Luce, Director, Department of Licensing

4/19/2006

SECTION 3

MANAGEMENT AND LOAN SERVICING AGREEMENT

THIS MANAGEMENT AND LOAN SERVICING AGREEMENT (the "Agreement") is entered into on the 15th day of July, 2008, by and between Genesis Holdings II, Inc., a Washington corporation ("HOLDINGS"), and Genesis Financial, Inc., a Washington corporation ("GFI").

HOLDINGS was formed to acquire interests in real estate receivable contracts which it intends to purchase from GFI.

HOLDINGS has requested that GFI serve as manager of the day to day operations of HOLDINGS in accordance with the terms of this agreement.

HOLDINGS has also requested that GFI provide loan servicing on the contracts acquired by HOLDINGS.

GFI has agreed to provide the management and loan servicing services to HOLDINGS.

NOW THEREFORE, in consideration of the mutual promises and obligations contained in this Agreement, the parties agree as follows:

1. **Purchase of Contracts.** HOLDINGS will purchase real estate receivable contracts from GFI from time-to-time for cash. GFI agrees to sell contracts to HOLDINGS with target yields of between 9% and 13%. GFI's compensation for selling real estate receivable contracts to HOLDINGS will be derived from the difference between GFI's purchase price and the price at which the contracts are sold to HOLDINGS.
2. **Contract Purchase Guidelines.** GFI will acquire contracts for sale to HOLDINGS subject to the contract guidelines set forth in Exhibit 1. In the event a particular contract does not meet the guidelines established in Exhibit 1, GFI may only transfer the contract to HOLDINGS upon written approval of at least 2/3rds of the shareholders of HOLDINGS.
3. **HOLDINGS acknowledges that GFI will earn a profit on the sale of the real estate receivable contracts to HOLDINGS. So long as the annual yields on real estate receivable contracts acquired by HOLDINGS are in the target range of 9% to 13%, HOLDINGS agrees that the compensation earned by GFI is reasonable.**
4. **Management Activities.** Guidelines for management activities to be conducted by GFI are set forth in Exhibit 2 to this Agreement. The management guidelines may be modified from time to time upon approval of a majority of the shareholders of HOLDINGS.
5. **Management and Loan Servicing Compensation.** GFI will receive a management fee of 1% of the total capitalization (including debt) of HOLDINGS. In addition, GFI will receive a loan servicing fee on contracts owned by HOLDINGS. The loan servicing fee will be 0.5% of the value of the contracts owned by HOLDINGS.
6. **Transfer of Contracts.** Upon notification that cleared funds are available for closing, GFI will transfer ownership of Contracts acquired to HOLDINGS. Separate Closings will be conducted

SECTION 3

for each Contract acquired by HOLDINGS. HOLDINGS and GFI agree to utilize internal closing procedures where GFI will prepare and record the closing documentation for each Contract. Upon closing, HOLDINGS will appear as legal owner of the Contracts. Any security interests that GFI held prior to the transfer will run to the benefit of HOLDINGS after the transfer.

7. **Contract Servicing.** After transfer of Contracts to HOLDINGS, GFI will continue as servicing agent for the Contracts. GFI will receive payments on the Contracts and will disburse payments to HOLDINGS as they come in. GFI will also maintain records reflecting principal and interest allocations on payments received, as well as amortization schedules reflecting the remaining principal balances due and other relevant information as determined by GFI and HOLDINGS. GFI will deposit funds collected on the Contracts into the HOLDINGS bank account, and will disburse funds from the HOLDINGS bank account for the benefit of HOLDINGS in accordance with sound business practices. GFI will also pursue collection of delinquent Contracts and will act as agent of HOLDINGS to protect the value of the Contracts to HOLDINGS. In this regard, HOLDINGS will act in the same manner in which GFI would act were it the owner of the Contracts. To the extent necessary or desirable, GFI and HOLDINGS agree to work together to develop appropriate policies and procedures relating to contract servicing that are beneficial to both parties with the overriding goal of protecting Contract value.
8. **Agent for Sale.** In accordance with its plan of operations, after holding Contracts for a period of time, HOLDINGS may elect to sell a particular Contract. In order to facilitate the sale of the Contracts, GFI agrees to act as agent for HOLDINGS and will make decisions to sell or continue holding contracts based on market conditions and circumstances that exist at that time. GFI's activities and decisions made about holding or selling contracts will be directed at optimizing the return to the shareholders of HOLDINGS, and will be undertaken on a best efforts basis. GFI is not guaranteeing that the Contracts will be marketable at a particular time, or that any specific price will be obtained upon sale.
9. **Replacement of GFI.** At any time, in the event that a majority of the shareholders of HOLDINGS become dissatisfied with the management or loan servicing activities of GFI on behalf of HOLDINGS, HOLDINGS may replace GFI as manager and loan servicing agent under this agreement.

Executed the day and year first above written.

GENESIS HOLDINGS II, INC.

By: 

Michael A. Kirk, President

GENESIS FINANCIAL, INC.

By: 

Douglas G. Greybill, Vice President