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

FORM 10-K

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

For the fiscal year ending December 31, 2008

[ ] 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	**03-0377717**
(State of Incorporation)	(IRS Employer Identification No.)
12314 E. Broadway, Spokane Valley, WA	**99216**
(Address of principal executive offices)	(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 [X]**

Indicate by check mark of the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] **No [X]**

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 [X]**

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 **[X]**

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 [X]**

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter, based on the last reported trading price of the registrant's common stock on the Over the Counter Pink Sheets was $2,817,732. The sum excludes the shares held by officers, directors, and stockholders whose ownership exceeded 10% of the outstanding shares at June 30, 2007, 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 December 31, 2008 there were 6,707,108 common shares issued and outstanding.

Genesis Financial, Inc.
FORM 10-K

December 31, 2008

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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. We will continue to purchase contracts from holders at a discount to the face amount, and, provided the market conditions are favorable, will resell the contracts to institutional or private accredited investors, at a profit. We add value to the process by acquiring individual contracts, seasoning the contracts for a relatively short period of time, and then assembling individual contracts into a larger pool of contracts that can be offered to larger private, public and institutional investors. A detailed description of the seller financed real estate receivables industry, and the commercial real estate lending industry, follows.

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 2008. 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 feel we can 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.

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 late 2007 and early 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, 2007, both of these companies were moving away from an active present in 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 the last quarter of 2007, and the first quarter 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, and as of December 31, 2008, we continue those efforts.

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, 2008 is somewhat unusual 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 on 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 mortgage 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 15 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 and secondary market 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 a 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, 2008, the elimination of the “sub-prime” market buyers 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, 2008, 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 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, 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 virtually nil during the first quarter of 2008, and didn’t see much improvement throughout the year.

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 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, 2008, 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, 2008, 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 30%-50%. As of December 31, 2008, these values continue to decline, and the Company does not see and 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 2008, a large percentage of the lenders had 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 down-turn 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 a write-down of $1,719,778 was taken. Management expects this trend to continue and get worse, and has made the determination that some major adjustments in the way the Company operates going forward are necessary. The decision has been 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 and 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.

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 is 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 and Douglas Greybill collectively have 63 years experience in all aspects of the finance business and 48 years experience in underwriting seller financed paper and hard money loans, and they perform the 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 the underwriters have completed the 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 and Doug Greybill are primarily responsible for all underwriting details, including coordinating the information flow among the various participants, and working together 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 by adding qualified personnel as business volumes grow. 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 regentrification? 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 and Doug Greybill perform 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 in house underwriting 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 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 granting 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.

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, 2008, 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

Throughout fiscal year 2008, we were staffed with four full time employees. We had no 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. 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 it’s investments in seller financed real estate receivables and commercial loans.

Genesis was the Defendant in two lawsuits since it’s 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 paid a settlement amount of $95,000 to the plaintiffs from future credit sales.

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, 2008 and 2007and 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 2008	High	Low
March 31	0.50	0.35
June 30	0.50	0.32
September 30	0.50	0.15
December 31	0.25	0.05

Quarter Ended:

Fiscal 2007	High	Low
March 31	2.00	1.70
June 30	1.70	1.50
September 30	1.55	1.20
December 31	1.20	0.75

(a) Holders

Our company has approximately 100 shareholders of its common stock as of December 31, 2008 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

<u>Equity Compensation Plan Information</u>

The following table summarizes our equity compensation plan information as of December 31, 2008. 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, 2008 no options were exercised.

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 consolidated financial condition, liquidity and capital resources and results of operations. You should read this analysis in conjunction with the consolidated 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. 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, 2008 compared to year ended December 31, 2007.

Our beginning inventory on January 1, 2008 and 2007 consisted of contracts and real estate properties, respectively, with a cost of $$8,080,449 and $7,399,068, respectively.

During the years ended December 31, 2008 and 2007, we sold contracts, for $10,696 and $929,198, respectively, resulting in gross profits from contract sales of $10,696, and $126,596, respectively.

During the years ended December 31, 2008 and 2007, we sold real estate, for $1,554,081 and $101,953, respectively, resulting in gross loss from the sale of real estate of $229,861 and $214,709, respectively.

Our ending inventory consisted of contracts and real estate properties with a cost basis of $7,149,407 and $8,080,449, respectively.

We also earned $1,003,764 and $1,470,251, respectively of interest, processing fee and other income and $344,405 and $768,753, respectively, in broker and contract extension fees during the years ended December 31, 2008 and 2007.

Net aggregate total revenues for the fiscal years were $1,129,004 and $2,150,891, respectively, generating net income (loss) from operations of ($1,650,647) and $48,978, respectively for each year. The primary reasons for the changes were as follows:

Fiscal year ended December 31	**Increase (decrease)**	**Primary reasons for change**
2008	($1,699,625)	Decreased revenues; increased expenses; losses increased
2007	($482,310)	Revenues flat; expenses increased; losses increased

Of the contracts held in inventory at December 31, 2008 and 2007 with aggregate values of $5,413,396 and $5,313,639, respectively, 24.7% and 45.71% contracts, respectively, with aggregate values of $1,338,739 and $2,428,750, respectively, were in payment default.

During 2008 and 2007, we repossessed 11 and 9, respectively, properties which represented real property collateral under our purchased contracts.

During 2008 and 2007, these properties have a cost basis of $1,672,450 and $173,895, 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, 2008 and 2007, write-downs of $1,882,589 and $1,158,894 were taken respectively.

General and Administrative Expenses

General and administrative expenses ("G&A") fiscal years ended December 31, 2008 and 2007, were $635,481 and $576,904, respectively. G&A primarily consists of executive and director salaries, 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, 2008 and 2007 were $58,577 and ($43,281), respectively. The primary reasons for the changes were as follows:

Fiscal year ended December 31,	Increase (decrease)	Primary reasons for change
2008	$58,577	Increase in professional fees and advertising
2007	($43,281)	Decrease in other operating expenses

Interest Expense

For the years December 31, 2008 and 2007, interest expense amounted to $261,581 and $366,115, 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, bearing interest at the rate of eight percent (8%). 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, 2008 and 2007, the balance on the lines of credit were $3,500,000 and $3,150,000, respectively. Interest expense on the lines of credit will fluctuate in future periods with inventory levels. The increase for the lines of credit for the years December 31, 2008 and 2007, were $350,000 and $150,062, respectively.

At December 31, 2008 and 2007, the Company recognized a gain (loss) on the sale of investment securities of $(19,681) and $134,224, 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, 2008 compared to year ended December 31, 2007.

At December 31, 2008 and 2007, we had cash available of $117,387 and $165,174, respectively, and our credit lines were fully expended.

At December 31, 2008 and 2007, we were holding contracts and real estate properties in inventory with an aggregate cost of $7,149,407 and $8,080,449, respectively.

At December 31, 2008, 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, 2008. The line of credit was renewed for 2008. We believed the terms of the line of credit were acceptable.

The secondary line of credit with Coghlan Family Corporation, an affiliated company, bearing interest at the rate of eight (8%) per annum. The line of credit requires a $20,000 origination fee that is payable in cash. The line is for a 12 month term, and expires on 12/31/08. The line of credit was renewed for 2009. 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, 2008 and 2007, the Company had a $2,500,000 and $2,000,000 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 8% per annum, a term of twelve months, and an origination fee of 1% or $25,000 and $20,000. The outstanding balance at December 31, 2008 and 2007 was $2,500,000 and $2,000,000 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 2009. Borrowings under the line are personally guaranteed by Mr. John Coghlan.

At December 31, 2008 and 2007 the Company had a $1,500,000 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 $15,000. The outstanding balance at December 31, 2008 and 2007 was $1,000,000 and $1,150,000, 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 principal shareholder 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.

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

CASH FLOW DATA:	**2008**	**2007**
Net cash used in operating activities	$89,476	$1,336,408
Net cash provided by (used in) investing activities	$(41,529)	$73,899
Net cash provided by financing activities	$83,365	$425,976

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**
2008	$(1,246,932)	Substantial increase in net loss, in particular the provision for losses.
2007	($695,666)	Increase in receivables and material reductions in current 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
2008	$(115,575)	Purchase of investment securities greater than proceeds received from the sale of investment securities
2007	$103,899	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
2008	$342,611	Net increase in borrowing on lines of credit less redemption of common stock
2007	$$1,246,473	Material reduction of borrowings and limited sales of common stock

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 consolidated balance sheets of Genesis Financial, Inc. ("the Company") as of December 31, 2008 and 2007, 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, 2008 and 2007, 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.

/s/ DeCoria, Maichel & Teague, P.S.

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

June 4, 2010

Genesis Financial, Inc.

Balance Sheets

	Year Ended December 31, 2008	Year Ended December 31, 2007
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	$ 117,387	$ 165,174
Interest and other receivables	247,904	258,449
Inventories:		
Contracts	5,413,396	5,313,639
Real estate	1,736,011	2,766,810
Subtotal	7,149,407	8,080,449
Less: loss allowance	(1,738,254)	(795,900)
Net inventories	5,411,153	7,284,549
Income taxes receivable	10,000	134,694
Total current assets	5,786,444	7,842,866
Deferred income taxes	-	5,260
Investment in securities available for sale	105,833	417,923
Other assets	2,680	2,680
	$ 5,894,957	$ 8,268,729
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Line of credit, affiliated company	$ 2,500,000	$ 2,000,000
Line of credit, bank	1,000,000	1,150,000
Other current liabilities	232,382	689,846
Total current liabilities	3,732,382	3,839,846
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $.001 par value; 10,000,000 authorized	-	-
Common stock, $.001 par value, 100,000.000 authorized, 6,707,108 and 7,094,800 issued and outstanding , respectively	6,708	7,095
Additional paid-in capital	3,969,401	4,235,649
Retained earnings (accumulated deficit)	(1,813,534)	167,808
Accumulated other comprehensive income (loss)	-	18,331
Total stockholders' equity	2,162,575	4,428,883
	$ 5,894,957	$ 8,268,729

See accompanying notes to financial statements.

Genesis Financial, Inc.

Statements of Operations

		Year Ended December 31, 2008		Year Ended December 31, 2007
REVENUE:				
Contract sales revenues	$	10,696	$	929,198
Cost of contracts sold		-		802,602
Net gain on sales of contracts		10,696		126,596
Real estate sales revenues		1,554,081		101,953
Carrying value of real estate sold		1,783,942		316,662
Net gain (loss) on sales of real estate		(229,861)		(214,709)
Interest, processing fee and other income		1,003,764		1,470,251
Broker fee income		344,405		768,753
		1,129,004		2,150,891
EXPENSES:				
Provision for losses		1,882,589		1,158,894
Compensation and related expenses		327,363		387,549
Interest expense, related party		163,000		158,694
Interest expense, other		98,581		207,421
Office occupancy		39,005		38,512
Other operating expenses		269,113		150,843
		2,779,651		2,101,913
NET OPERATING INCOME (LOSS)		(1,650,647)		48,978
OTHER INCOME(LOSS):				
Gain (loss) on sale of investment securities		(19,681)		134,224
Writedown of carrying value of investment securities		(315,754)		-
		(335,435)		134,224
NET INCOME (LOSS) BEFORE INCOME TAXES		(1,986,082)		183,202
INCOME TAX BENEFIT (EXPENSE):				
Current		10,000		(7,885)
Deferred		(5,260)		(45,636)
		4,740		(53,521)
NET INCOME (LOSS)	$	(1,981,342)	$	129,681
BASIC AND DILUTED EARNINGS INCOME (LOSS) PER SHARE	$	(0.29)	$	0.02
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		6,804,778		6,903,683

See accompanying notes to financial statements.

Genesis Financial, Inc.

Statement of Changes in Stockholders' Equity

For the Years Ended December 31, 2007 and 2008

	Common Stock		Additional Paid-in	Retained Earnings	Accumulated Other Comprehensive	
	Shares	Amount	Capital	(Deficit)	Income (Loss)	Total
BALANCE, DECEMBER 31, 2006	3,255,530	$ 3,255	$ 3,963,575	$ 38,127	$ 345,550	$ 4,350,507
Common stock redeemed and cancelled	(116,260)	(116)	(161,970)			(162,086)
Common stock issued for cash						
Private placement at $3.00 per share	10,000	10	29,990			30,000
Two for one stock split	3,265,530	3,266	(3,266)			-
Exercise of stock options at $.60 per share	680,000	680	407,320			408,000
Net income	-	-	-	129,681		129,681
Reclassification of loss on securities to earnings					(153,939)	(153,939)
Unrealized loss on securities						-
available for sale	-	-	-	-	(173,280)	(173,280)
Comprehensive loss						(197,538)
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 loss on securities to earnings					(18,331)	(18,331)
Comprehensive loss						(1,999,673)
BALANCE, DECEMBER 31,2008	6,707,108	$ 6,708	$ 3,969,401	$ (1,813,534)	$ -	$ 2,162,575

See accompanying notes to financial statements.

Genesis Financial, Inc.

Statement of Cash Flows

	Year Ended December 31, 2008	Year Ended December 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (1,981,342)	$ 129,681
Noncash items included in net income (loss):		
Provision for losses	1,882,589	1,158,894
Loss (gain) on sales investment securities	19,681	(134,224)
Writedown of carrying value of investment securities	315,754	
Deferred income taxes	5,260	45,636
Changes in assets and liabilities:		
Interest and other receivables	10,545	(132,172)
Contract inventories	(1,164,484)	(752,531)
Real estate inventories	1,155,291	(546,901)
Income taxes receivable	124,694	(134,694)
Other assets	-	(20)
Other current liabilities	(457,464)	(970,077)
Net cash used in operating activities	(89,476)	(1,336,408)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(93,205)	(100,000)
Sales of investment securities	51,529	173,899
Net cash provided (used) by investing activities	(41,676)	73,899
CASH FLOWS FROM FINANCING ACTIVITIES		
Sale of common stock		30,000
Proceeds from exercise of stock option		408,000
Redemption of common stock	(266,635)	(162,086)
Borrowings (repayment) line of credit with affiliate, net	500,000	62
Borrowings (repayment) from line of credit from bank, net	(150,000)	150,000
Net cash provided by financing activities	83,365	425,976
NET INCREASE (DECREASE) IN CASH		
AND CASH EQUIVALENTS	(47,787)	(836,533)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	165,174	1,001,707
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 117,387	$ 165,174
SUPPLEMENTAL DISCLOSURE OF CASH FLOW ACTIVITIES		
Interest paid in cash	$ 264,494	$ 366,115
Income taxes paid in cash		$ 84,000
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Contract inventory transferred to real estate inventory	$ 1,064,727	$ 1,482,500

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.

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

<u>Contracts receivable</u>
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 not 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 recognize 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 has been computed on the basis of the weighted-average number of common shares outstanding during the period presented. Diluted earnings per common share is 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.

NOTE 2 — INVENTORIES:

Contracts Receivable:

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

	December 31,	
	2008	**2007**
Unpaid principal balances	$ 5,424,733	$ 5,521,853
Deferred origination costs	(11,337)	(208,214)
Totals	$ 5,413,396	$ 5,313,639

The Company recognized gain (loss) on the sale of contract receivables as follows:

	December 31,	
	2008	**2007**
Gain (loss) on sale - Non Affiliate	$ -	$ 126,596
Gain on sale - Affiliate	10,696	-
Total gain on sale of contracts	$ 10,696	$ 126,596

Real Estate:

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

	December 31,	
	2008	**2007**
Residential properties	$ 267,051	$ 479,329
Commercial properties	25,000	745,222
Land properties	1,341,453	1,321,744
Acquisition costs	102,507	220,515
Total	$ 1,736,011	$ 2,766,810

Loss Allowance:

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

	December 31,	
	2008	**2007**
Beginning balances	$ 795,900	$ 255,057
Additions	1,882,589	1,158,894
Writeoffs to real estate	(940,235)	(576,741)
Writeoffs to contracts		(41,310)
Ending balances	$ 1,738,254	$ 795,900

Serviced Contracts:

The unpaid principal balances of contracts serviced for others consisted of the following:

	December 31, 2008	December 31, 2007
Unpaid balances - Non Affiliate	$ 16,404,443	$ 17,289,340
Unpaid balances - Affiliate	11,262,532	11,107,816
Total unpaid principal balances	$ 27,666,975	$ 28,397,156

NOTE 3 — INVESTMENT IN SECURITIES AVAILABLE FOR SALE:

Investment in securities available for sale consisted of the following at the end December 31, 2008 and 2007 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, 2008	December 31, 2007
Original Cost	$ 421,587	$ 399,592
Writedown of carrying value	(315,754)	
Adjusted Cost	105,833	399,592
Gross unrealized gains	-	84,213
Gross unrealized losses	-	(65,882)
Fair value	$ 105,833	$ 417,923

During the year ended December 31, 2008, the Company sold shares of two securities for gross proceeds of $51,529 and recognized a loss of $19,681. During the year ended December 31, 2008, the Company sold shares of one security for gross proceeds of $173,899 and recognized a gain of $134,224.

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, 2007.

NOTE 4 — LINE OF CREDIT:

At December 31, 2008 and 2007, the Company had a $2,500,000 and $2,000,000, 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 8% per annum, a term of twelve months, and an origination fee of 1% or $25,000 and $20,000. The outstanding balance at December 31, 2008 and 2007 was $2,500,000 and $2,000,000 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 2009. Borrowings under the line are personally guaranteed by Mr. Coghlan.

At December 31, 2008 and 2007, the Company had a $1,500,000 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 $15,000. The outstanding balance at December 31, 2008 and 2007 was $1,000,000 and $1,150,000, 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:

In January of 2007, the Company issued 10,000 shares of common stock in consideration of $30,000. Commissions or expenses were not incurred in connection with this private placement.

On January 2, 2007, the Company affected a two for one stock split that increased the existing number of outstanding common shares by 3,265,530.

During the years ended December 31, 2008 and 2007, the Company redeemed and cancelled 387,692 shares of common stock for $266,635 and 116,260 shares of common stock for $162,086, respectively, from various shareholders of the Company.

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.

Activity and information about the stock options for each of the years ending December 31, is as follows:

	December 31,	
	2008	**2007**
Balance at beginning of year	-	494,000
Adjusted two for one split		494,000
Issued	-	-
Exercised	-	(680,000)
Expired or forfeited	-	(308,000)
Stock options, end of year	-	-
Available for future grants	261,000	261,000

NOTE 7 – INCOME TAX:

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

		2008		2007
Net operating loss carryover	$	191,041	$	
Loan and REO loss allowance		598,276		
Excess capital losses		1,114		1,114
Other		4,146		4,146
Deferred tax asset		794,577		5,260
Less: Valuation allowance		(794,577)		-
Net deferred tax asset	$	0	$	5,260

The deferred tax assets were calculated assuming a 34% federal marginal tax rate at December 31, 2008 and December 31, 2007. 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, 2008, the Company had a federal net operating loss carry forward available for income tax purposes of approximately $561,000. 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 2006 through 2008 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.

NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amounts 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.

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, 2008	December 31, 2007
Funds held in escrow	$ 102,446	$ 565,945

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 shares 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 Michael Kirk. Mr. Kirk is the President and director of Genesis Holdings, Inc.

In addition to the related party information disclosed in note 2 and 4, Genesis has the following related party transactions:

In April 2004, Genesis Financial, Inc. entered into a management and servicing agreement to manage the funds of Genesis Holdings, Inc., a Washington corporation. Genesis Financial, Inc. was to receive a fee equal to one and one-half percent of the assets managed; which are the assets owned by Genesis Holdings, Inc. Genesis Financial, Inc. does not own any of the outstanding stock of Genesis Holdings, Inc, but the officers of Genesis Financial, Inc. are the same officers of Genesis Holdings, Inc. Genesis Financial, Inc. earned fees under this agreement totaling $53,533 and $53,466 during the years ended December 31, 2008 and 2007, respectively.

The following related party transaction occurred in the years ending December 31, 2008 and December 31, 2007.

2008:

Coghlan Family Corporation “CFC”

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

Coghlan, LLC

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

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.

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 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.

2007

On February 17, 2006, Jim Bjorklund, a company director, exercised 4,000 common stock options and purchased 4,000 common shares for $4,800.

On April 18, 2007, Michael Kirk, Company President, CEO and director exercised common stock options and purchased 300,000 common shares for $180,000.

On April 18, 2007, Douglas Greybill, a Company Vice President, exercised common stock options and purchased 230,000 common shares for $138,000.

On April 18, 2007, John Coghlan, a Company director and affiliate shareholder, exercised common stock options and purchased 100,000 common shares for $60,000.

Coghlan Family Corporation

During fiscal year ending December 31, 2007, the Company sold Coghlan Family Corporation interests in two land sale contract notes receivable totaling $300,000, two residential property notes receivable totaling $119,600 and one commercial property note receivable totaling $220,000.

During fiscal year ending December 31, 2007, the Company sold Coghlan Family Corporation an interest in a business loan originated by Genesis Financial and an interest in a personal loan totaling $125,000.

Coghlan, LLC

During fiscal year ending December 31, 2007, the Company sold Coghlan, LLC interests in two land contract receivable for $800,000.

John R. Coghlan

During fiscal year ending December 31, 2007, the Company sold John Coghlan an interest in two land sale contract note receivable for $180,000 and an interest in one commercial property note receivable totaling $50,000.

Genesis Holdings, Inc.

During fiscal year ending December 31, 2007, the Company sold Genesis Holdings, Inc. interests in three land sale contract receivable totaling $320,000, two residential property notes receivable totaling $214,273, and an interest in one personal loan totaling $50,000.

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 remained a Director. Douglas Greybill left the Company.

In May 2010 the Company sold 1,000,000 common shares of stock in a private placement for $100,000.

ITEM 8B. Other Information.

Throughout fiscal year 2008, 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 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. (See Exhibit 10.3)

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

There have been disagreements between the Company and its accountants on accounting and financial disclosure, and no changes in our financial statement presentation were required by our accountants during the fiscal year ending December 31, 2008.

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, 2008 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, 2007 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, 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 and limited employees, we rely heavily on direct management oversight of transactions, along with the use of legal and accounting professionals. As we grow, we expect to increase our number of employees, which will enable us to implement adequate segregation of duties within the internal control framework.

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, 2008, the Directors and Executive officers were as follows:

Fiscal Year Ended December	Name	Age	Position
2008			
	Michael A. Kirk	56	President, CEO, Director
	Douglas Greybill	56	Vice President
	Jim Bjorklund	51	Director
	John R. Coghlan	65	Director, CFO, Chairman

As of December 31, 2008, Genesis operated with four full-time employees, and a three member Board of Directors. Additional employees will be added as activity levels warrant the addition. The following are brief biographical descriptions of the current Executive Officers and Directors of Genesis.

MICHAEL A. KIRK, President, Chief Executive Officer and Director, age 56, 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.

DOUGLAS GREYBILL, Vice President, age 56, is primarily responsible for the closing and collection operations of the Company, as well as coordinating the sales of the asset pools to secondary investors. Mr. Greybill is a full-time employee of the Company, having joined Genesis on March 1, 2002, and served in the capacity of Vice President commencing March 26, 2003. He is also actively involved in receivable buying and marketing to brokers, and assists in underwriting the receivables and loans, to assure compliance with the requirements of the secondary market investors.

Until joining Genesis in March, 2002, Mr. Greybill served as Vice President of Acquisitions and Secondary Markets for FSB Mortgage, a Little Rock, Arkansas based secondary market investor in seller financed receivables. FSB hired Mr. Greybill in early 2000 to significantly expend FSB’s presence in the direct purchasing of seller receivables. Prior to joining FSB, Mr. Greybill was Metropolitan’s Vice President of Capital Markets, responsible for correspondence lending and secondary market sales for three years. Prior to joining Metropolitan, he was Executive Vice President and Chief

Credit Officer for Willamette Savings and Loan, a billion dollar thrift headquartered in Portland, Oregon. On December 31, 2008, Douglas Greybill resigned his executive officer position as Vice President.

JOHN R. COGHLAN, Director, Chief Financial Officer, Chairman of the Board, age 65, became a Chairman of the Board of Directors 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 grand children.

Labor Ready, Inc. is an international provider of temporary labor with 769 locations as of March 28, 2003 and annual revenues of $862.7 million for the year ended December 31, 2002. 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 51, 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.

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.

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.

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". For the fiscal year ending, December 31, 2008, Michael A. Kirk, President, receives a salary of $96,000 per annum, and usual company benefits such as health insurance. Douglas Greybill, Vice President, receives a salary of $72,000 per annum, and usual company benefits such as health insurance.

The Company has in place an employee bonus program that provides for a "bonus pool" of 10% of the pre-tax net profit that is distributed as shown below. This bonus pool is computed on a monthly basis.

Michael A. Kirk	50%
Douglas Greybill	25%
Trena Hayes	12.5%
Virginia Walters	12.5%

As of December 31, 2008, the Board of Directors was reviewing the program, with the probable outcome that the program will be discontinued until the Company returns to consistent profitability.

The following table set forth the compensation information on executive officers Michael A. Kirk, Douglas Greybill, and Brad Herr.

Name and Principal Position	Year	Salary($)	Bonus($)	Stock Awards($)	Option Awards($)	Non-Equity Incentive Comp ($)	All other Compensation	Total
Michael Kirk	2007	$96,000	$31,812	-0-	-0-	-0-	-0-	$127,812
	2008	$96,000	-0-	-0-	-0-	-0-	-0-	$ 96,000
Douglas Greybill	2007	$72,000	$15,906	-0-	-0-	-0-	-0-	$ 87,906
	2008	$72,000	$ 4,186	-0	-0-	-0-	-0-	$ 82,186

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, 2008.

Outstanding Equity Awards at Fiscal Year-End

There were no outstanding equity awards to any executive officer at the end of the fiscal year ended December 31, 2008.

Director Compensation

We compensated Jim Bjorklund, a company director, $21,750 in fiscal year 2008 and $35,519 in fiscal year 2007 for his service to the Company.

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, 2008, are Michael A. Kirk, John R. Coghlan, and Jim Bjorklund.

Compensation Committee

The board of directors, in its Compensation Committee role, will be responsible for reviewing performance of senior management, recommending compensation, and developing compensation strategies and alternatives for the Company.

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, 2008.

Directors, Executive Officers and 5% Shareholders of our Company

	December 31, 2008	
	Number	%
Michael Kirk	500,000(1)	7.45%
Doug Greybill	145,000	2.16%
John R. Coghlan	3,650,420	54.40%
Jim Bjorklund	133,200	1.99%
Directors and executive officers as a group(2)	4,448,620	66.00%

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

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 is a company owned and controlled by Mike Kirk.

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, Mike Kirk, President of GFI is the President of Genesis Holdings, Inc. GFI earned fees under this agreement totaling $53,533 and $53,466 during the years ended December 31, 2008 and 2007, respectively. Effective January 1, 2009, Mike Kirk resigned his positions with Genesis Holdings, Inc. and John Coghlan replaced his positions.

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. John Coghlan, a member of the board of directors of GFI and principal shareholder acts as the President of Genesis Holdings II, Inc. GFI manages the business functions and services portfolio loans of Genesis Holdings II, Inc. Genesis Holdings, Inc. pays GFI 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 10.2. Effective January 1, 2009, Genesis Finance Corporation will manage Genesis Holdings II, Inc.

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.

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 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 Mike Kirk was transferred to GFC. (See Exhibit 10.3)

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. Mike 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 10.1.

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

Coghlan, LLC

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

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.

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. A copy of the Agreement is attached as Exhibit 10.2

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.

2007

On February 17, 2006, Jim Bjorklund, a company director, exercised 4,000 common stock options and purchased 4,000 common shares for $4,800.

On April 18, 2007, Michael Kirk, Company President, CEO and director exercised common stock options and purchased 300,000 common shares for $180,000.

On April 18, 2007, Douglas Greybill, a Company Vice President, exercised common stock options and purchased 230,000 common shares for $138,000.

On April 18, 2007, John Coghlan, a Company director and affiliate shareholder, exercised common stock options and purchased 100,000 common shares for $60,000.

Coghlan Family Corporation

During fiscal year ending December 31, 2007, the Company sold Coghlan Family Corporation interests in two land sale contract notes receivable totaling $300,000, two residential property notes receivable totaling $119,600 and one commercial property note receivable totaling $220,000.

During fiscal year ending December 31, 2007, the Company sold Coghlan Family Corporation an interest in a business loan originated by Genesis Financial and an interest in a personal loan totaling $125,000.

Coghlan, LLC

During fiscal year ending December 31, 2007, the Company sold Coghlan, LLC interests in two land contract receivable for $800,000.

John R. Coghlan

During fiscal year ending December 31, 2007, the Company sold John Coghlan an interest in two land sale contract note receivable for $180,000 and an interest in one commercial property note receivable totaling $50,000.

Genesis Holdings, Inc.

During fiscal year ending December 31, 2007, the Company sold Genesis Holdings, Inc. interests in three land sale contract receivable totaling $320,000, two residential property notes receivable totaling $214,273, and an interest in one personal loan totaling $50,000.

2006

Coghlan Family Corporation

During fiscal year ending December 31, 2006, the Company sold Coghlan Family Corporation interests in three land sale contract notes receivables totaling $2,100,000, and one commercial property note receivable totaling $200,000.

During fiscal year ending December 31, 2006, the Company sold Coghlan Family Corporation an $85,000 interest in a business loan originated by Genesis Financial and an interest in a personal loan totaling $50,000.

Coghlan, LLC

During fiscal year ending December 31, 2006, the Company sold Coghlan, LLC an interest in one land contract receivable for $200,000, and interests in two commercial notes receivable totaling $100,000, and an interest in personal loan totaling $200,000.

John R. Coghlan

During fiscal year ending December 31, 2006, the Company sold John Coghlan an interest in one land sale contract note receivable for $80,000.

At August 24, 2006, the Company obtained a Line of Credit for $1,000,000 from RiverBank and was personally guaranteed by John and Wendy Coghlan.

Valencia LLC

On September 6, 2006, the Company received a payment of $35,027.99 from Valencia LLC. That payment represented the Company's 52.5% portion of the $66,719.99 proceeds from a wetlands bank credit sale.

Valencia LLC

On October 26, 2006, the Company received a payment of $10,602.90 from Valencia LLC. That payment represented the Company's 52.5% portion of the $20,196.00 proceeds from a wetlands bank credit sale.

Genesis Holdings, Inc.

During fiscal year ending December 31, 2006, the Company sold Genesis Holdings, Inc. interests in, four land sale contract receivable totaling $495,798, seven commercial property notes receivable totaling $1,764,926, ten residential property notes receivable totaling $425,390

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, 2008 and 2007.

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, 2007 and 2008, and fees billed for other services rendered by DeCoria, Maichel & Teague, P.S.

Fiscal Year	2008	2007
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, 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

List all Exhibits Required by Item 601

Exhibit No.	Description
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: June 8, 2010

Genesis Financial, Inc.
(Registrant)

/s/ Michael A. Kirk
____
By: Michael A. Kirk
Title: President and Chief Executive Officer

/s/ John R. Coghlan
____
By: John R. Coghlan
Title: Chairman 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: June 7, 2010

/s/ Michael A. Kirk
____
By: Michael A. Kirk
Title: President, CEO, Director

/s/ John R. Coghlan
____
By: John R. Coghlan
Title: Chairman, CFO, Director

Exhibit 31.1 - Chief Executive Officer Certification (Section 302)

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: June 7, 2010

/s/ Michael A. Kirk
By: ______________________________________
Michael A. Kirk, CEO

Exhibit 31.2 - Chief Financial Officer Certification (Section 302)

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: June 7, 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”), herby 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, 2008 (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: June 7, 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, 2008, (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: June 7, 2010

/s/ John R. Coghlan
By: ________________________________
John R. Coghlan, CFO