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Command Center, Inc.

Form: 10QSB

Date Filed: 2002-05-13

Corporate Issuer CIK:	1140102
Symbol:	CCNI
SIC Code:	7363
Fiscal Year End:	12/26

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2002

❑ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHNAGE ACT**

For the transition period from to .

Commission File Number: 333-60326

TEMPORARY FINANCIAL SERVICES, INC.

(Exact name of small business issuer as specified in its charter)

Washington	**91-2079472**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

200 North Mullan Road, Suite 213, Spokane, Washington 99206
(Address of principal executive offices)

(509) 340-0273
(Issuer's telephone number)

N.A.
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all documents and reports required to be filed by Section 13, or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period as the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days.

Yes ý No ❑

The number of shares of common stock outstanding on April 25, 2002 was: 737,280

Transitional Small Business Disclosure Format. Yes ❑ No ý

FORM 10-QSB
PART I

Item 1. Financial Statements.

Temporary Financial Services, Inc. and Subsidiary

Contents

Management Statement

CONSOLIDATED FINANCIAL STATEMENTS (Unaudited):

Consolidated balance sheets

Consolidated statements of income

Consolidated statements of stockholders' equity

Consolidated statements of cash flows

Notes to consolidated financial statements

MANAGEMENT STATEMENT

The accompanying (unaudited) consolidated balance sheets of Temporary Financial Services, Inc. and Subsidiary as of March 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for the three month periods ended March 31, 2002 and 2001, were prepared by Management of the Company.

In the opinion of Management of the Company, all adjustments necessary to a fair statement of results for the interim periods presented have been made.

Management has elected to include Footnotes with these unaudited interim financial statements.

Management
Temporary Financial Services, Inc.
May 2, 2002

Temporary Financial Services, Inc. and Subsidiary

Consolidated Balance Sheets

	March 31	
	2002	**2001**
Assets		
CURRENT ASSETS		
Cash	$ 153,351	$ 635,821
Accounts receivable	500	—
Federal income taxes	297	147
Prepaid expenses	1,876	—
Deferred offering costs	62,081	9,493
Loans receivable:		
Affiliates	308,887	—
Other	334,860	—
Total current assets	861,852	645,461
OTHER ASSETS		
Investment in affiliated companies	406,479	23,250
FURNITURE AND EQUIPMENT, less accumulated depreciation of $2,958	27,997	—
	$ 1,296,328	$ 668,711

Liabilities and Stockholders' Equity

CURRENT LIABILITIES		
Line of credit, officer/stockholder	$ 510,877	$ —
Accounts payable	2,306	605
Due to officer/stockholder	—	600
Accrued expenses	4,368	—
Total current liabilities	517,551	1,205
STOCKHOLDERS' EQUITY		
Common Stock — 100,000,000 shares, $0.001 par value, authorized 400,000 and 350,000 shares respectively, issued and outstanding	$ 400	$ 350
Preferred stock — 5,000,000 shares, $0.001 par value, authorized; none issued	—	—
Additional paid in capital	999,600	749,650
Notes receivable for stock purchase	—	(75,000)
Retained earnings (deficit)	(221,223)	(7,494)
Total stockholders' equity	778,777	667,506
	$ 1,296,328	$ 668,711

See accompanying notes to consolidated financial statements.

Temporary Financial Services, Inc. and Subsidiary

Consolidated Statements of Income

	Three Months Ended	
	March 31, 2002	**March 31, 2001**
REVENUE:		
Loan and related fees:		
Affiliates	$ 12,084	$ —
Other	14,728	—
Interest and investment income	9,720	6,069
Accounting fees	5,500	—
	42,032	6,069
OPERATING EXPENSES:		
Advertising	5,085	—
Compensation and related expenses	20,659	—
Rent	5,332	600
Legal and professional	42,335	11,309
Office expense	9,927	—
Interest Expense	10,326	—
Other	8,344	2,031
	102,008	13,940
OTHER EXPENSE:		
Equity in losses of affiliates	45,577	—
(LOSS) BEFORE INCOME TAX	(105,553)	(7,871)
Income tax benefit	—	100
NET INCOME (LOSS)	$ (105,553)	$ (7,771)

BASIC EARNINGS (LOSS) PER SHARE	$ (0.28)	$ (0.02)
WEIGHTED AVERAGE SHARES OUTSTANDING	383,333	350,000

See accompanying notes to consolidated financial statements.

Temporary Financial Services, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity

Inception (October 4, 2000) through March 31, 2002

	Common Stock Issued	Additional Paid-in Capital	Common Stock Subscribed	Notes Receivable for Stock Purchase	Retained Earnings (Deficit)	Total
BALANCES ON OCTOBER 4, 2000 (INCEPTION)	$ —	$ —	$ —	$ —	$ —	$ —
ADD (DEDUCT):						
100,000 common shares issued to officers and consultant at $1 per share for:						
Cash	25	24,975	—	—	—	25,000
Notes receivable	75	74,925	—	(75,000)	—	—
Common stock issued for cash:						
50,000 shares at $1 per share	50	49,950	—	—	—	50,000
160,000 shares at $3 per share	160	479,840	—	—	—	480,000
40,000 common shares subscribed at $3 per share	—	—	120,000	—	—	120,000
Net income for the period	—	—	—	—	277	277
BALANCES, DECEMBER 31, 2000	310	629,690	120,000	(75,000)	277	675,277
Issuance of common stock subscribed	40	119,960	(120,000)	—	—	—
Collection of note receivable for stock purchase	—	—	—	75,000	—	75,000
Net loss for the year	—	—	—	—	(115,947)	(115,947)
BALANCES, DECEMBER 31, 2001	$ 350	$ 749,650	$ —	$ —	$ (115,670)	$ 634,330
Issuance of common stock for stock	50	249,950	—	—	—	250,000
Net Loss for the three months ended March 31, 2002	—	—	—	—	(105,553)	(105,553)
BALANCES, MARCH 31, 2002	$ 400	$ 999,600	$ —	$ —	$ (221,223)	$ 778,777

See accompanying notes to consolidated financial statements.

Temporary Financial Services, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	For the Three Months Ended	
	March 31, 2002	March 31, 2001
Increase (Decrease) in Cash		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (105,553)	$ (7,771)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	975	—
Equity losses of affiliates	45,577	—
(Increase) in receivables	15	—
Increase in deferred offering costs	(8,036)	(550)
(Decrease) in accounts payable	(8,644)	(95)
Increase in accrued expenses	480	600
Increase (decrease) in income taxes payable	—	(247)
Total adjustments	30,367	(292)
Net cash used in operating activities	(75,186)	(8,063)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in affiliates	(200,350)	(23,250)
Increase in loans receivable, net	(237,667)	—
Additions to equipment and furniture	(5,436)	—
Net cash used in investing activities	(443,453)	(23,250)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of stock subscriptions	—	120,800
Proceeds from line of credit	409,918	—
Net cash from financing activities	409,918	120,800
NET INCREASE (DECREASE) IN CASH	(108,721)	89,487
CASH, BEGINNING OF PERIOD	262,072	546,334
CASH, END OF PERIOD	$ 153,351	$ 635,821

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Exchange of 50,000 shares of common stock for 250,000 shares of Genesis Financial	$ 250,000	$ —

See accompanying notes to consolidated financial statements.

Temporary Financial Services, Inc. and Subsidiary

Notes to Consolidated Financial Statements

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles

generally accepted in the United States of America for interim information and with the instructions to Form 10-QSB and Regulation S-B. Accordingly, they do not include all of the information and disclosures required for complete financial statements. In the opinion of management, all adjustments consisting of a normal and recurring nature considered necessary for a fair presentation have been included. Operating results in the 2002 interim periods may not necessarily be indicative of the results that may be expected for the year ending December 31, 2002.   This report should be read in conjunction with the financial statements included in the Company's 2001 Form 10-KSB as filed with the Securities and Exchange Commission on March 29, 2002.

Organization:

The accompanying financial statements are those of Temporary Financial Services, Inc., incorporated in Washington State on October 4, 2000, and its wholly-owned subsidiary, Temps Unlimited, Incorporated, which was incorporated in Washington State on October 31, 2000 (collectively referred to herein as the Company). Both companies have established their fiscal year end to be December 31.

The Company had no significant operations from inception (October 4, 2000) through March 31, 2001, and was considered to be a development stage company until late 2001. In late 2001, the Company evolved from the development stage to the operating stage and is no longer considered to be a development stage company. The Company's operations consist of two segments: financing and other services for businesses (including businesses engaged in the temporary employment services industry and businesses engaged in the seller financed real estate receivables secondary markets), and minority ownership of businesses. As of March 31, 2002, the Company owned minority interests in two temporary labor businesses, and a business engaged in purchasing and reselling real estate contract receivables.

Summary of Significant Accounting Policies:

Principles of consolidation — The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All material intercompany accounts and transactions are eliminated in consolidation.

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. Actual results could differ from those estimates.

Cash — Cash consists of demand deposits, including interest-bearing accounts, held in three local banks.

Deferred stock offering costs — Legal and other fees and costs incurred in connection with the Company's public stock offering have been deferred as of March 31, 2002 and 2001, and are presented as current assets. The Company's public offering terminated on March 31, 2002 and was successfully closed on April 18, 2002. As a result of the successful completion of the public offering, in the quarter ending June

30, 2002, all deferred offering costs will be deducted from the gross offering proceeds and will reduce additional paid-in capital.

Office furniture and equipment — Office furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over an estimated useful life of seven years.

Investment Recoverability - The Company periodically evaluates the recoverability of its equity investments, in accordance with APB No. 18, "The Equity Method of Accounting for Investments in Common Stock," and if circumstances arise where a loss in value is considered to be other than temporary, the Company will record a write-down of excess investment cost. As indicated in Note 4, in the first quarter, 2002, the Company invested $450,350 ($200,350 cash plus 50,000 shares of the Company's common stock valued at $5.00 per share) for a 42% equity interest in Genesis Financial, Inc., and loaned Genesis an additional $200,000 on a convertible note. The Company subsequently agreed to provide up to $2,000,000 under a secured warehousing line of credit. At March 31, 2002, the Company considered its investment to be fairly valued at original cost ($450,350) less the Company's share of "Equity Losses in Affiliates" ($42,776). The net investment carrying value of the Genesis investment at March 31, 2002 was $407,574.

Revenue recognition - The Company generates revenues from loan fees, loan administration fees, and fee based accounting services.

For short term loans to temporary labor businesses, the Company recognizes loan fees at the time the loan amounts are advanced to borrowers. Loan administration fees are set at a weekly fixed amount and are recognized as earned at the end of the week to which the loan administration fee applies. Loan advances are typically made on a weekly basis, and the amount of the advance is netted against the applicable loan fees and loan administration fees.

In the seller financed real estate receivables business, the Company advances loan proceeds to borrowers to finance the purchase of the real estate contracts. The Company's loans are then repaid at the time that the borrower resells the real estate receivable contract. Interest will be charged monthly on line of credit advances from the date of the advance until repaid.

Fee based accounting services are typically charged at a monthly fixed rate, and are invoiced as income at the end of the month in which the services are performed.

Allowance for loan losses — The Company provides for estimated loan losses on loans receivable at a level which, in management's opinion, is adequate to absorb credit losses on such loans. The amount of the allowance is based on management's evaluation of the collectibility of the loans receivable, including the nature of the loans, adequacy of collateral, credit concentrations, trends in loss experience, specific impaired loans, economic conditions, and other risks inherent in the loans. At March 31, 2002, management determined that no allowance for loan losses was necessary.

Investments in affiliates —The Company's minority investments in affiliated companies are reported using the equity method. The Company's share of earnings and losses of the affiliates is reported as income or expense in the period in which the earnings or losses are incurred.

Notes receivable for stock purchase -Notes receivable from officers/directors and a consultant in connection with the sale and issuance of common stock was reported as a reduction to stockholders equity until payment was received on June 26, 2001. See Note 3.

Income tax — The Company files a consolidated federal income tax return with its subsidiary. 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. There were no material temporary differences for the periods presented. Deferred tax assets, subject to a valuation allowance, are recognized for future benefits of net operating losses being carried forward.

Earnings per share— Earnings (loss) per common share has been computed on the basis of the weighted-average number of common shares outstanding during the period presented.

NOTE 2 — RELATED-PARTY TRANSACTIONS:

Beginning June 1, 2001, the Company provided an officer/stockholder with office space and support staff under an informal arrangement. The officer/stockholder reimburses the Company at the rate of $500 per month for rent and personnel costs.

In the three months ended March 31, 2002 and 2001, the Company purchased professional services of an officer/director at a cost of $35,679 and -0-, respectively.

As discussed in note 3, the Company had loans receivable from affiliates totaling $308,887 at March 31, 2002.

At March 31, 2002, the Company had a $1,000,000 line of credit with an officer/stockholder (see note 5) on which interest expense of $9,918 was incurred in the quarter ending March 31, 2002.

NOTE 3 — LOANS RECEIVABLE:

The Company provides short-term financing for temporary staffing businesses, including affiliates. The financing consists of notes receivable that are generally collateralized by the borrower's accounts receivable, all assets of the borrower, and the use of personal guarantees and pledges where appropriate. Lending criteria established to minimize credit risk include, among other things, assessment of the operators capabilities, minimum business capitalization requirements, maintenance of an adequate accounts receivable borrowing base, and a requirement for timely reporting of financial information to demonstrate ongoing compliance with loan covenants. For the three months ended March 31, 2002, the Company incurred no loan losses and there were no impaired loans outstanding at March 31, 2002.

In addition, at March 31, 2002, the Company had loaned Genesis Financial, Inc. (see Note 4) $200,000 on a two year convertible note bearing interest at 6%, and has an outstanding commitment for an undisbursed loan in the amount of $2,000,000 to Genesis financial under its secured warehousing line of credit.

NOTE 4 — INVESTMENTS IN AFFILIATES:

In 2001, the Company's wholly owned subsidiary, Temps Unlimited, Inc., made minority (18%) investments in two start-up temporary labor dispatch offices. Temps Unlimited of Minnesota, LLC doing business as Staffing on Demand, and Temps Unlimited of Nebraska, LLC, doing business as ValuStaff, are formed as limited liability companies. These businesses provide unskilled and semi-skilled temporary workers to customer businesses as requested. In the three months ended March 31, 2002, the Company reported unrealized losses from its investment in Staffing on Demand of $3,769, and unrealized gains from its investment in Valustaff of $969.

On January 25, 2002, the Company acquired a 42% equity interest in Genesis Financial, Inc., a newly formed Washington corporation engaged in the business of brokering, purchasing and reselling seller financed real estate receivable contracts. The investment consisted of $200,350 cash plus 50,000 shares of restricted Temporary Financial Services, Inc. common stock (valued at $250,000), for which the Company received 800,000 shares of Genesis Common Stock. After the Company's investment, Genesis has 1,900,000 shares issued and outstanding. From inception (January 2, 2002) through March 31, 2002, the Company's share of unrealized losses amounted to $42,776. For that period, Genesis generated no revenues or gross profit, and incurred a net loss of $96,843.

In addition, the Company loaned Genesis $200,000 on a convertible note, and agreed to provide a $2,000,000 secured warehousing line of credit for the acquisition of seller financed real estate receivable contracts. The $2,000,000 line of credit expires on February 15, 2003, carries a ¼ % commitment fee, and bears interest at the rate of 2% over the Sterling Savings Bank Prime Rate.

NOTE 5 — LINE OF CREDIT:

At March 31, 2002, the Company had an outstanding balance of $510,877 against a $1,000,000 line-of-credit with an officer/stockholder. The line-of-credit is unsecured and bears interest at 10%. The line-of-credit agreement expires on August 15, 2002 and any outstanding balance is due on that date.

NOTE 6 — CAPITAL STOCK:

Shares Issued to Officers/Directors and Consultant:

Upon incorporation, the Company entered into stock subscription agreements with three officers/directors and a consultant officer for a total of 100,000 common shares. Each of the four agreements provided for the sale and issuance of 25,000 shares at $1 per share. The agreements called for an initial payment of $6,250 in cash and an $18,750 note receivable from each of the individuals. The notes receivable, totaling $75,000 at March 31, 2001, were unsecured and bore interest at 6.3%. The notes receivable were reflected as a reduction of stockholders' equity until collected in full on June 26, 2001.

Private Placements:

Through March 31, 2001, the Company completed two series of unregistered private placements of common stock. A total of 250,000 shares were subscribed and payment had been received in full by March 31, 2001. The gross proceeds for the two private placements totaled $650,000.

Preferred Stock:

Shares of the Company's authorized but unissued preferred stock, if issued, are entitled preference over common shares in distribution of assets upon the Company's liquidation or dissolution. Preferred shares have no stated dividend rate. As of March 31, 2002, no shares of preferred stock had been issued.

Public Stock Offering:

Effective January 9, 2002, the Company initiated an initial public offering of 200,000 to 800,000 shares of its common stock at $5 per share. In connection with the initial public offering, the Company previously filed a registration statement with the Securities and Exchange Commission and the registration statement was declared effective by the Commission on January 8, 2002. The offering terminated on March 31, 2002, and was subsequently closed on April 18, 2002. See Note 9.

NOTE 7 — INCOME TAX:

The Company generated a tax-basis net operating loss of approximately $105,000 for the three months ended March 31, 2002, which is available for carryover to offset future taxable income through 2022. Total tax-basis net operating losses available for carryover as of March 31, 2002 amounted to approximately $220,000 (from inception of the Company on October 4, 2000).

At March 31, 2002, the Company estimates that it has a $55,000 deferred tax asset relating to the operating loss carryovers. The deferred tax asset was fully offset by a valuation allowance because of uncertainties if the Company will generate sufficient future taxable income to realize the tax benefit. At March 31, 2002, the income tax benefit differed from the $55,000 expected amount because of the impact of recognizing the deferred tax asset valuation allowance.

NOTE 8 — OPERATING LEASES:

In June, 2001, the Company entered into an operating lease of its office premises. Also in 2001, the Company leased certain office equipment under an operating lease agreement. Following are the future commitments under the leases for the calendar periods presented:

2002	$	17,000
2003		17,000
2004		8,000

NOTE 9 — SUBSEQUENT EVENTS:

On April 18, 2002, the Company closed its initial public offering after sale of 337,280 shares. Gross offering proceeds of $1,686,400 were received and distributed in accordance with the terms of the offering. As of March 31, 2002, the Company had incurred and recorded $62,081 in deferred offering costs. Additional offering costs incurred from April 1 through April 18, 2002 amounting to $124,270 were paid at or prior to closing. After payment of all offering costs and underwriting discounts, aggregating $186,350, the Company received net offering proceeds of $1,500,050. This amount will be recorded as additional equity in the quarter ended June 30, 2002.

In connection with the initial public offering, the Company entered into an underwriting agreement with Public Securities of Spokane, Washington. Underwriting discounts and non-accountable expense allowances paid to the Underwriter at closing amounted to $116,864. The Underwriter also received common stock purchase warrants entitling the Underwriter to purchase up to 33,728 shares of the Company's common stock at an exercise price of $7.00 per share. The Warrants and underlying shares were registered in the initial public offering and are exercisable beginning one year after the effective date of the offering. The Underwriter's warrants expire on the March 31, 2007.

FORM 10-QSB

Part I, Item 2. **Managements Discussion and Analysis of financial condition and results of operations.**

Temporary Financial Services, Inc. and its wholly owned subsidiary, Temps Unlimited, Inc. are engaged in the business of lending to, investing in, and providing services to businesses. We generate revenues from lending activities and fee based services. Our investing activities will yield returns through current distributions of earnings from the businesses we invest in and through realization of value appreciation when the investment asset is sold or transferred. After payment of operating expenses, we anticipate that profits and surplus cash flows will be reinvested in the growth of the Company for the foreseeable future. We do not expect to pay cash dividends.

The Company was organized in October, 2000, and began operations in the second quarter of 2001. In the three months ended March 31, 2001, our efforts were focused on initial fundraising activities and the development of our business plan and operational procedures. Consequently, the results of operations for the three months ended March 31, 2001 are not comparable to the three months ended March 31, 2002. This quarterly report focuses on the three month period ended March 31, 2002. Limited analysis of the period ending on March 31, 2001 is provided where such analysis aids in understanding the current financial condition of the business.

Results of Operations

As of March 31, 2002, we had loans outstanding of $643,747, with five businesses in two distinct industry segments. The

following table provides borrower information, affiliate status and outstanding balances as of March 31, 2002.

Temporary Staffing Businesses

Business Name	Affiliate Status	Loan Balance
Valustaff	Affiliated (18%)	$ 16,780
Staffing on Demand	Affiliated (18%)	89,970
Everyday Staffing	Independent	224,619
Ozark Labor	Independent	110,241
Total temporary staffing loans		***441,610***
Seller Financed Real Estate Receivables Businesses		
Genesis Financial, Inc.	Affiliated (42%)	202,137
Total seller financed real estate receivables loans		***202,137***
Total loans outstanding all segments.		**$ 643,747**

In the quarter ending March 31, 2002, the Company generated loan related revenues of $26,812 on its lending business.

Revenues from funds loaned to businesses in the temporary staffing industry are derived from loan fees and loan set-up and administration costs. Loans to temporary labor businesses are made weekly based on sales and collection reports provided by the temporary labor office, and require significant monitoring and review of accounts receivable collateral and weekly

operations reports. We also consider loans to temporary labor businesses to entail more than an average amount of risk and have based our loan rates on our assessment of effort and risk. Our existing temporary labor business borrowers have been in our loan programs for more than six months, and at present, loan set-up fees included in loan revenues are scheduled to end after twelve months in the program. We currently charge $100 per week for set-up fees. When the set-up fees end on our existing borrowers, the aggregate loan revenues will decrease. This may impact our business in future periods if new borrowers are not added to replace this lost revenue.

We have also loaned $200,000 to Genesis on a convertible note bearing interest at 6%. The interest rate on the Genesis loan reflects the conversion feature included in the note and a lower servicing cost for a two year fixed term loan. The company expects to obtain a higher yield on this note over the term by converting the note when the underlying shares have appreciated in value. We have no assurances that the underlying shares will actually appreciate in value, and, if not converted to Genesis common stock, the loan will yield 6% to maturity on January 4, 2004.

In the first quarter 2002, we generated $5,500 in accounting fee service income by providing monthly accounting services to three temporary staffing businesses and Genesis Financial, Inc. Our temporary labor business accounting customers are located long distances from our offices, making onsite accounting assistance impracticable, and we have found that the local operators require regular monitoring to assure that the proper procedures are being followed in the local offices. Some of this problem is related to the temporary labor business software that our customers use, and we continue our search for more effective procedures to streamline the accounting services. In the meantime, however, we have found that we cannot charge a fair amount for the effort we must expend to provide accounting services. Accordingly, accounting services in the temporary staffing industry is not considered a viable business for the Company in the long term, and we expect that we will phase out much of our temporary labor accounting services business by the end of 2002.

We also hold minority investments in two temporary labor businesses through Temps Unlimited, Inc., a wholly owned subsidiary corporation. Investments of $12,000 for 18% of Temps Unlimited of Minnesota, LLC (dba Staffing on Demand), and of $11,250 for 18% of Temps unlimited of Nebraska, LLC (dba ValuStaff), were made in the second quarter 2001.

We account for our investments in Staffing on Demand and ValuStaff under the equity method of accounting. Unrealized profits and losses on the investments are recorded as income or loss on the books of Temps Unlimited, Inc. and are then consolidated with the results of Temporary Financial Services, Inc. During the three months ended March 31, 2002, we recorded an unrealized loss on investments of $3,769 from our investment in Staffing on Demand, and an unrealized gain of $969 from our investment in ValuStaff.

Staffing on Demand commenced operations on June 15, 2001, and since its inception has incurred total losses of $84,606. Our share of losses from Staffing on Demand total $15,229, exceeding our original investment of $12,000 by $3,229. While we currently have negative capital account in Staffing on Demand, we expect that this business will continue to grow in the coming months as the weather in Minnesota improves. We are exploring alternatives to reorganize the business to further improve operating results, and we remain optimistic about the long term prospects for Staffing on Demand.

ValuStaff opened for business on May 7, 2001 and since inception has incurred total losses of $50,876. During the three months ended March 31, 2002, Valustaff generated a net profit of $5,383, and its business appears to be turning the corner to profitability. Now that the warmer spring season is at hand, we expect the business of ValuStaff to pick up and we anticipate additional growth in revenues and profits.

On January 25, 2002, we funded Genesis Financial, Inc. (Genesis). Genesis is engaged in the business of brokering, buying and reselling seller financed real estate receivables. We invested $200,350 and 50,000 shares of Temporary Financial Services Inc. common stock into Genesis in exchange for 800,000 shares of Genesis Financial, Inc. common stock, representing a 42% interest in the company. We also loaned Genesis $200,000 on a 6% convertible note, and agreed to provide Genesis with a $2,000,000 secured warehousing line of credit. The Genesis secured line of credit bears expires February 15, 2003, carries a ¼ % loan commitment fee, and bears interest at 2% over the Sterling Savings Bank Prime Rate.

From January 25 through March 31, 2002, Genesis focused on setting up its offices and developing its operating procedures and business models. Genesis also got the word out to the seller financed real estate receivables community that it was open for business. As a result of these efforts, in the quarter ending March 31, 2002, Genesis attracted a significant amount of interest and tendered bids on approximately 160 real estate contracts with an aggregate face value exceeding $6,000,000. The Company expects to close approximately one in three transactions that it bids on. At March 31, 2002, the Company was working to close its first transaction, and expects to increase transaction closings to one a day in the near future.

Start-up expenses incurred by Genesis in the quarter ended March 31, 2002, resulted in an unrealized loss to Temporary Financial Services of $42,776. This amount is reflected as Equity in Losses of Affiliates on the income statement and as a reduction in the Genesis investment on the balance sheet. The losses incurred by Genesis in the first quarter were expected and are consistent with the Genesis business plan. Revenue from operations will commence in the second quarter 2002.

Overall, the Company generated gross revenues of $42,032 during the three months ended March 31, 2002. Expenses totaled $147,585, resulting in a net operating loss of $105,553 for the period. Significant efforts were devoted to completing the Company's initial public offering in the first quarter of 2002. Consistent with our business plan, we did not actively solicit new loan business in the first quarter. The capital provided from the initial public offering will now allow a more aggressive business development effort, and we expect that our business base will continue to grow in the coming periods. We expect that operating results for the remainder of the year will continue to reflect operating losses, but the level of losses will decrease. We anticipate breakeven operating results by the end of 2002.

We believe that the losses incurred to date are consistent with the stage of development of the company and are in line with the business plan. We will continue to monitor progress throughout 2002 and will adjust our business plan to address any operational issues as they arise. As noted, we are currently exploring a reorganization of our Minneapolis temporary labor affiliate to improve operating results in the Staffing on Demand stores, and we expect that we will phase out our temporary labor business accounting services over the remainder of the year. This will allow us more time to review and evaluate other business opportunities.

Evolving Operations.

Since we began active operations in mid 2001, we have gained additional insights into the business of lending to temporary labor businesses. We have also monitored a group of temporary labor business entrepreneurs with whom we expected to do substantial amounts of business. The entrepreneurial group has proceeded more slowly and cautiously to develop new temporary labor offices, and this has affected the number and quality of borrowers that we are seeing. As a result, our business of lending to temporary labor businesses is proceeding more slowly than we originally anticipated.

Our initial public offering raised net offering proceeds of $1,500,000 and this amount coupled with our prior private equity placements leave us with total invested capital to date of $2,500,000. As noted above, this amount is sufficient to meet our anticipated needs for twelve to eighteen months. We now believe, however, that we can build additional value for our shareholders by expanding the focus of our business. During the remainder of 2002, we will evaluate other business opportunities and continue to refine the business plan to accommodate value building activities. We anticipate that the funds from our public offering will be applied in a manner consistent with the Use of Proceeds in our Prospectus, but as additional opportunities arise, we may seek additional funding through private placements, follow-on public offerings, preferred stock or debt financings, or other appropriate sources, in order to pursue the additional opportunities. When warranted, we may also redirect our existing capital structure to new business opportunities where we believe the benefits to our shareholders exceed the returns from the existing plan.

Liquidity and Capital Resources.

At March 31, 2002, we have loans to temporary labor businesses outstanding in the amount of $441,610, a term loan of $200,000 to Genesis, and a secured warehousing line of credit commitment to Genesis in the amount of $2,000,000. We expect the amount of loaned funds to continue to increase as the borrowers' businesses grow and their borrowing needs increase.

At March 31, 2002, cash and cash equivalents amounted to $153,351 and our unused line of credit with an officer and director amounted to $489,000. In anticipation of increasing loans to Genesis under the secured warehousing line of credit, and increasing loans to temporary labor businesses as business grows during the spring and summer, we have discussed back-up financing with our primary bank and an officer and director should additional financing be needed. In addition, we closed our public offering on April 18, 2002 and received over $1,500,000 in net offering proceeds. Consequently, we believe that our cash position will be adequate to support our business operations for the next twelve to eighteen months. If necessary, we believe that additional leverage is available to supplement our cash position if our borrowers require more funds than we are able to cover with our internal capital position.

Pending use of free cash for loans, investments, or operations, we will place the funds in accessible interest or dividend bearing accounts and will manage our surplus working capital position to provide current earnings.

FORM 10-QSB
PART II

Part II, Item 1. Legal proceedings. None

Part II, Item 2. Changes in securities.

On March 31, 2002, Temporary Financial Services, Inc. terminated its initial public offering. On April 18, 2002, a closing was held for the offering and the offering proceeds were distributed in accordance with the terms of the offering. The following information is provided.

- The effective date of the Registration Statement on Form SB-2 was January 8, 2002.
- The Registration Statement file number with the Securities & Exchange Commission is 333-60326. 800,000 shares of common stock were registered for sale at $5.00 per share.
- The offering Prospectus was dated January 9, 2002 and the offering commenced on January 15, 2002.
- In accordance with the terms set forth in the Prospectus, the offering terminated on March 31, 2002.
- As of the offering the termination date, a total of 337,280 shares had been sold at $5.00 per share, raising an aggregate of $1,686,400.
- The Underwriting was conducted by Public Securities Corporation as lead underwriter.
- The offering consisted of 200,000 shares (minimum), 800,000 shares (maximum) of Temporary Financial Services, Inc. common stock, $0.001 par value per share.
- Offering proceeds, offering costs, and net offering proceeds were as follows:

• Gross offering proceeds	$ 1,686,400
• Transfer agent fees	2,032
• EDGAR filing services	2,073
• Audit fees	3,434
• Printing costs	25,874
• Underwriter's non-accountable expense allowance	16,864
• Underwriter's discounts	100,000
• State blue sky filing fees	7,785
• Legal fees	28,289
• Total Offering Costs	186,352
• Net Offering Proceeds	$ 1,500,048

As of March 31, 2002, none of the net offering proceeds had been applied to the business purposes of the Company. Until the Closing of the offering on April 18, 2002, the gross offering proceeds were held in the Fund Impound Account at Sterling Savings Bank. Application of the net offering proceeds will be reported in the Form 10-QSB for the quarter ended June 30, 2002.

Part II, Item 3. Defaults upon senior securities. None

Part II, Item 4. Submission of matters to a vote of security holders. None

Part II, Item 5. Other information. None

Part II Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Exhibit No.	Description
10.1	Genesis Financial, Inc. Stock Investment Agreement dated January 25, 2002
10.2	Genesis Financial, Inc. Convertible Note dated January 25, 2002
10.3	Option to Acquire Shares from a Shareholder dated January 25, 2002.
10.4	Warehousing Line of Credit dated February 20, 2002.
10.5	Exhibit B to Warehousing Line of Credit — Financial Covenants
10.6	Security Agreement dated February 20, 2002
10.7	Guaranty dated February 20, 2002.

(b) Reports on Form 8-K. None

SIGNATURES

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

TEMPORARY FINANCIAL SERVICES, INC.

/s/John R. Coghlan	President	John R. Coghlan	May 9, 2002
Signature	Title	Printed Name	Date
/s/Brad E. Herr	Secretary, Principal Financial Officer	Brad E. Herr	May 9, 2002
Signature	Title	Printed Name	Date

Form 10-QSB Exhibits Index

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GENESIS FINANCIAL, INC.
STOCK INVESTMENT AGREEMENT

This Agreement is made as of January 25, 2002, among GENESIS FINANCIAL, INC., a Washington corporation (the "GENESIS"), and the Purchasers listed in Section 1.1.2, below (the "Purchasers").

1. Authorization and Sale of Common Stock and Convertible Debt.

1.1. Common Stock.

1.1.1. Authorization. GENESIS will authorize the sale and issuance of up to 500,000 shares (the "Shares") of its common stock (the "Common Stock").

1.1.2. Sale of Common Stock. Subject to the terms and conditions hereof, GENESIS will severally issue and sell to each of such Purchasers, and the Purchasers will severally buy from GENESIS, the total number of shares of Common Stock at the aggregate purchase price set forth in the following table. References to "Purchaser" in the remainder of this Stock Investment Agreement (this "Agreement") will be to the individual listed purchasers set forth in the Table, or all of the listed purchasers, as the context requires.

Name	Shares	Consideration
Michael A. Kirk ("Kirk")	25,000	$ 25,000
Douglas B. Durham ("Durham")	25,000	$ 25,000
Temporary Financial Services, Inc. ("TFS")	200,000	$ 200,000
Temporary Financial Services, Inc. ("TFS")	250,000	50,000 shares of TFS Common Stock valued at $5.00 per share or $250,000 in the aggregate.
Totals	500,000	$ 500,000

1.2. Convertible Debt. In addition to the Common Stock being purchased pursuant to Section 1.1, TFS will also loan Genesis $200,000 in the form of Convertible Debt, evidenced by a Convertible Note (the "Convertible Note"), incorporating the following terms and conditions is attached as Exhibit A.

1.2.1. The Convertible Note will mature on January 4, 2004.

1.2.2. The interest rate will be 6%, and interest shall accrue from the date the principal amount is advanced to GENESIS.

1.2.3. TFS will enter into appropriate subordination agreements with GENESIS' senior lender if required by Genesis' senior secured lender or if necessary to facilitate favorable terms on the senior secured debt.

1.2.4. The Convertible Note will contain loan covenants and default provisions that mirror the default provisions of any senior secured debt.

1.2.5. The Convertible Note will be convertible into additional shares of Genesis' common stock at the rate of $1.00 per share for the principal at the date of conversion (up to a maximum of 200,000 shares). If the holder of the Convertible Note elects to convert, the interest accrued to the date of conversion may be converted into stock at the rate of $1.00 per share, or paid in cash, at the election

of Genesis. The Convertible Debt may be converted into Common Stock at any time after January 1, 2003.

1.2.6. The common stock underlying the conversion feature of the Convertible Note is hereafter referred to as the Conversion Stock.

2. Closing Dates: Delivery

2.1. Closing Dates. The closing of the purchase and sale of the Common hereunder shall be held at the offices of

Temporary Financial Services, Inc. at 1:00 p.m., on January 25, 2002 (the “Closing”), or at such other time and place that GENESIS and the Purchasers shall agree (the date of the Closing is hereinafter referred to as the “Closing Date”).

2.2. Delivery.

2.2.1. At the Closing, GENESIS will deliver to each Purchaser a certificate or certificates, registered in such Purchaser’s name and in the amount as set forth on the Section 1.1.2, against payment of the purchase price.

2.2.2. At the Closing, GENESIS will deliver to TFS, the executed Convertible Note against payment of the face amount.

2.2.3. At Closing, TFS will deliver payment for the Common Stock, the Convertible Note, and a Certificate for 50,000 shares of TFS Common Stock.

3. Representations and Warranties of GENESIS

3.1. Organization and Standing; Articles and Bylaws. GENESIS is a corporation duly organized and existing under, and by virtue of, the laws of the State of Washington and is in good standing under such laws. GENESIS has requisite corporate power and authority to own and operate its properties and assets, and to carry on its business as presently conducted and as proposed to be conducted. GENESIS is not presently qualified to do business as a foreign corporation in any jurisdiction, and the failure to be so qualified will not have a materially adverse affect on GENESIS’ business as now conducted or as now proposed to be conducted.

3.2. Corporate Power. GENESIS will have at the Closing Date all requisite legal and corporate power and authority to execute and deliver this agreement, to sell and issue the Common Stock hereunder, and to carry out and perform its obligations under the terms of this Agreement.

3.3. Subsidiaries. GENESIS has no subsidiaries or affiliated companies and does not otherwise own or control, directly or indirectly, any equity interest in any corporation, association or business entity.

3.4. Capitalization. The authorized capital stock of GENESIS consists, or at the Closing Date will consist, of 100,000,000 shares of common stock, of which 1,400,000 shares are issued and outstanding, and 10,000,000 shares of Preferred Stock, none of which

is issued and outstanding. The outstanding shares have been duly authorized and validly issued, and are fully paid and nonassessable. GENESIS has reserved shares of Common Stock for issuance hereunder, 224,000 shares of common stock for issuance upon conversion of the Convertible Note, and 650,000 shares of common stock for issuance to employees, consultants, or directors under stock plans or arrangements approved by its Board of Directors. No options to purchase shares of common stock are currently issued and outstanding. All outstanding securities of GENESIS were issued in compliance with applicable federal and state securities laws.

3.5. Authorization. All corporate action on the part of GENESIS, its directors and shareholders necessary for the authorization, execution, delivery and performance of this Agreement by GENESIS, the authorization, sale, issuance and delivery of the Common Stock, the Convertible Note and the Conversion Stock and the performance of all of GENESIS’ obligations hereunder has been taken or will be taken prior to the Closing. This Agreement, when executed and delivered by GENESIS, shall constitute a valid and binding obligation of GENESIS, enforceable in accordance with its terms. The Shares, when issued in compliance with the provisions of this Agreement, will be validly issued, fully paid and nonassessable.

3.6. Financial Statements. GENESIS is a newly formed company and all of the company’s initial capitalization will be the result of the transactions described in this Agreement. Accordingly, financial statements will not be required prior to the Closing Date.

3.7. Material Liabilities. GENESIS has no material liabilities or obligations, except the liabilities and obligations incurred in connection with the organization of the corporation and the preparation of documentation for this transaction.

3.8. Litigation, etc. There are no actions, suits, proceedings or investigations pending against GENESIS or its properties before any court or governmental agency (nor, to the best of GENESIS’ knowledge, is there any reasonable basis for or threat of such litigation).

3.9. Employees. To the best of GENESIS’ knowledge, no employee of GENESIS is in violation of any term of any

employment contract or any other contract or agreement relating to the relationship of such employee with GENESIS or any other party as a result of the business conducted or to be conducted by GENESIS.

3.10. Certain Transactions. GENESIS is not indebted, directly or indirectly, to any of its officers, directors or shareholders or to their respective spouses or children, and none of its officers, directors or, to the best of GENESIS' knowledge, shareholders, or any members of their immediate families, are indebted to GENESIS.

3.11. Material Contracts and Obligations. Except as noted on Exhibit B (attached), GENESIS is not subject to any material contracts or obligations.

3.12. Registration Rights. Except as set forth in this Agreement, GENESIS is not under any contractual obligation to register any of its presently outstanding securities or any of its securities which may hereafter be issued.

3.13. Governmental Consent, etc. No consent, approval or authorization of (or designation, declaration or filing with) any governmental authority is required in connection with the valid execution and delivery of this Agreement, or the offer, sale or issuance of the Common Stock, or the consummation of any other transaction contemplated hereby.

3.14. Offering. The offer, sale and issuance of the Common Stock and the Convertible Debt to be issued in conformity with the terms of this Agreement, constitute transactions exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended (the "Securities Act").

3.15. Brokers or Finders; Other Offers. Except as described in Exhibit C (attached), GENESIS has not incurred, and will not incur, directly or indirectly, as a result of any action taken by GENESIS, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement.

3.16. Employee Benefit Plans. GENESIS does not have any Employee Benefit Plan as defined in the Employee Retirement Income Security Act of 1974, as amended. It is understood by the parties that GENESIS intends to adopt an Employee Benefit Plan following the Closing Date. The Employee Benefit Plan will allow for grants of incentive stock options (ISO's), and for Non-qualified Stock Options (NQSO's). As described in Section 3.4., GENESIS intends to reserve up to 650,000 Common shares for distribution under the plan. Of the 650,000 shares reserved for issuance under the plan, options for 500,000 shares are reserved for key employees and/or consultants of GENESIS, and 150,000 may be directed to persons selected by TFS. The grant of options under the plan will be subject to the discretion and approval of the Board of Directors of GENESIS. Any options issued to Kirk, Durham, TFS, Coghlan, or their affiliates will include vesting at 20% per year over a five year period and an option price of 120% of the fair market value of the shares at the time of the grant.

3.17. Minute Books. The minute books of GENESIS provided to counsel for the Purchasers contain a complete summary of all meetings of directors and shareholders since the time of incorporation and reflect all transactions referred to in such minutes accurately in all material respects.

3.18. Disclosure. This Agreement with the Exhibits and GENESIS' Business Plan, when taken as a whole, do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which they were made. The Business Plan and the financial projections contained in the Business Plan were prepared in good faith; however, GENESIS does not warrant that it will achieve such financial projections.

4. SECTION 4 - Representations and Warranties of the Purchasers

Each Purchaser hereby severally represents and warrants to GENESIS with respect to the purchase of the Shares as follows:

4.1. Experience. It has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to GENESIS so that it is capable of evaluating the merits and risks of its investment in GENESIS and has the capacity to protect its own interests.

4.2. Investment Intent. It is acquiring the Common Stock for investment for its own account, not as a nominee or agent, and not with the view to, or for resale in connection with, any distribution thereof. It understands that the Shares and the

Conversion Stock have not been, and will not be, registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of such Purchaser's representations as expressed herein and in the Suitability Questionnaire.

4.3. Rule 144. It acknowledges that the Common Stock must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from such registration is available. It is aware of the provisions of Rule 144 promulgated under the Securities Act (Rule 144) which permits limited resale of shares purchased in a private placement subject to the satisfaction of certain conditions, including, among other things, the existence of a public market for the shares.

4.4. No Public Market. It understands that no public market now exists for any of the securities issued by GENESIS and that GENESIS has made no assurances that a public market will ever exist for GENESIS' securities.

4.5. Access to Data. It has had an opportunity to discuss GENESIS' business, management and financial affairs with GENESIS' management and has had the opportunity to review GENESIS' facilities and Business Plan. It has also had an opportunity to ask questions of officers of GENESIS, which questions were answered to its satisfaction. It understands that such discussions, as well as any written information issued by GENESIS, including the Business Plan, were intended to describe certain aspects of GENESIS's business and prospects but were not a thorough or exhaustive description.

4.6. Authorization. This Agreement when executed and delivered by such Purchaser will constitute a valid and legally binding obligation of the Purchaser, enforceable in accordance with its terms.

4.7. Brokers or Finders. Except as described in Exhibit C, GENESIS has not incurred and will not incur, directly or indirectly, as a result of any action taken by such Purchaser, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement.

5. Purchasers' Conditions to Closing

The Purchasers' obligations to purchase the Shares at the Closing are subject to the fulfillment of the following conditions, the waiver of which shall not be effective against any Purchaser who does not consent in writing thereto:

5.1. Representations and Warranties Correct. The representations and warranties made by GENESIS in Section 3 hereof shall be true and correct when made, and shall be true and correct on the Closing Date.

5.2. Covenants. All covenants, agreements and conditions contained in this Agreement to be performed by GENESIS on or prior to the Closing Date shall have been performed or complied with in all material respects.

5.3. Compliance with State Securities Laws. GENESIS shall have obtained all permits and qualifications required by any state for the offer and sale of the Shares and the Convertible Debt (including the underlying stock to be issued on conversion), or shall have the availability of exemptions therefrom.

5.4. Legal Matters. All material matters of a legal nature which pertain to this Agreement and the transactions contemplated hereby shall have been reasonably approved by counsel to the Purchasers.

5.5. Directors. Effective as of the Closing Date, GENESIS's Board of Directors will consist of Michael A. Kirk, Douglas B. Durham and Brad E. Herr.

6. SECTION 6 - GENESIS's Conditions to Closing

GENESIS's obligation to sell and issue the Shares at the Closing Date is, at the option of GENESIS, subject to the fulfillment as of the Closing Date of the following conditions:

6.1. Representations and Warranties Correct. The representations made by the Purchasers in Section 4 hereof shall be true and correct when made, and shall be true and correct on the Closing Date.

6.2. Compliance with State Securities Laws. GENESIS shall have obtained all permits and qualifications required by any state for the offer and sale of the Shares and the Conversion Stock, or shall have the availability of exemptions therefrom.

6.3. Legal Matters. All material matters of a legal nature which pertain to this Agreement, and the transactions contemplated

hereby, shall have been reasonably approved by counsel to GENESIS and counsel to Purchasers.

6.4. Grant of Option. At or prior to Closing, TFS shall have provided to Kirk and Durham, an option to purchase up to 200,000 shares of the Genesis Common Stock that TFS is acquiring pursuant to this Stock Investment Agreement. The form of the Option is attached as Exhibit D.

7. SECTION 7 - Affirmative Covenants of GENESIS

GENESIS hereby covenants and agrees as follows:

7.1. Financial Information. Subject to Section 7.4, GENESIS will mail the following reports to each Purchaser for so long as such Purchaser is a holder of any of the Common Stock or Convertible Note:

7.1.1. As soon as practicable after the end of each fiscal year, and in any event within 90 days thereafter, consolidated balance sheets of GENESIS and its subsidiaries, if any, as of the end of such fiscal year, and consolidated statements of operations and consolidated statements of cash flows of GENESIS and its subsidiaries, if any, for such year, prepared in accordance with generally accepted accounting principles and setting forth in each case in comparative form similar information for the previous fiscal year, all in reasonable detail and audited or reviewed by independent public accountants selected by GENESIS.

7.1.2. As soon as practicable after the end of the first, second and third quarterly accounting periods in each fiscal year of GENESIS and in any event within 45 days thereafter, a consolidated balance sheet of GENESIS and its subsidiaries, if any, as of the end of each such quarterly period, and consolidated statements of operations and consolidated statements of cash flows of GENESIS and its subsidiaries, if any, for such period and for the current fiscal year to date, prepared in accordance with generally accepted accounting principles (other than for accompanying notes), all in reasonable detail and certified by an officer of GENESIS.

7.2. Assignment of Rights to Financial Information. The rights granted pursuant to Section 7.1 may not be assigned or otherwise conveyed by any Purchaser or by any subsequent transferee of any such rights without the prior written consent of GENESIS.

7.3. Termination of Covenants. The covenants set forth in Sections 7.1 shall terminate and be of no further force or effect at such time as GENESIS is required to file reports pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

7.4. Key Man Life Insurance. As soon as possible after the Closing Date, GENESIS shall use its best efforts to obtain and shall thereafter maintain key man life insurance on the lives of Michael A. Kirk and Douglas B. Durham in the amount of $-0- each, with all proceeds payable to GENESIS.

7.5. Employment Agreements. GENESIS will enter into employment agreements with Kirk and Durham. The form of the employment agreements are included as Exhibit E (attached).

7.6. Confidentiality Agreements. Unless otherwise determined by the Board of Directors, all future employees and consultants of GENESIS who have access to confidential information shall be required to execute and deliver Confidentiality Agreements in substantially the form of Exhibit F attached hereto. Prior to Closing, Genesis shall

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have obtained such Confidentiality Agreements from Kirk and Durham (contained in their employment agreements).

7.7. Taxes and Other Liabilities. GENESIS will pay and discharge, before the same become delinquent and before penalties accrue thereon, all undisputed taxes, assessments and governmental charges upon or against it or any of its properties, and all its other undisputed material liabilities at any time existing.

7.8. Notice of Litigation and Disputes. GENESIS will promptly notify each Purchaser that is entitled to receive financial statements pursuant to Section 7.1 of any suits or litigation instituted against it, if such suit would have a material adverse effect on GENESIS.

7.9. Election of Directors. So long as at least one-quarter of the Common Stock issued hereunder and/or upon conversion of the Convertible Note are held of record by Purchasers, (a) KIRK and DURHAM agree that in any election of a director or directors of GENESIS, they shall vote all of their shares of capital stock of GENESIS in such a manner that immediately after such election GENESIS' Board of Directors shall include at least one representative selected by Temporary Financial Services, Inc., (b) GENESIS will use its best efforts to cause such representative(s) to be elected to GENESIS's Board of Directors; and (c) in the event of any vacancy on the Board of Directors, GENESIS and KIRK and DURHAM will use their best efforts to fill the vacancy such that the Board will include the representative(s) selected by Temporary Financial Services,Inc. If GENESIS is determined to be in default under its senior credit facility, or is in default under the Convertible Note, TFS will be entitled to the number of representatives equal to a majority of the Board of Directors, and that number shall be substituted for "one" in Paragraph 7.8(a), above.

7.10. Use of Proceeds. GENESIS shall use the proceeds from the sale of the Shares and the Convertible Debt for working capital in accordance with the financial projections included in the Business Plan.

7.11. Rule 144 Reporting. With a view to making available to the Purchasers the benefits of certain rules and regulations of the Securities and Exchange Commission which may permit the sale of the Common Stock and Conversion Stock to the public without registration, after such time as a public market exists for the Common Stock of GENESIS, GENESIS agrees to use its best efforts to:

7.11.1. Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times after the date that GENESIS becomes subject to the reporting requirements of the Exchange Act;

7.11.2. Use its best efforts to file with the Securities and Exchange Commission in a timely manner all reports and other documents required of GENESIS under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

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7.11.3. So long as a Purchaser owns any Restricted Securities (as defined in Section 8.1 hereof), furnish to the Purchaser forthwith upon request a written statement by GENESIS as to its compliance with the reporting requirements of Rule 144, and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of GENESIS filed with the Securities and Exchange Commission, and such other reports and documents of GENESIS and other information in the possession of or reasonably obtainable by GENESIS as a Purchaser may reasonably request in availing itself of any rule or regulation of the Securities and Exchange Commission allowing a Purchaser to sell any such securities without registration.

8. SECTION 8 — Restrictions on Transferability of Securities; Compliance with Securities Act; Registration Rights

8.1. Restrictions on Transferability. The Common Stock and the Convertible Note and/or the Conversion Stock shall not be sold, assigned, transferred or pledged except in compliance with applicable laws and regulations governing the transfers of restricted securities.

8.2. Restrictive Legend. Each certificate representing (i) the Common Stock, (ii) the Convertible Note, (iii) the Conversion Stock and (iv) any other securities issued in respect of the Common Stock, the Convertible Note, or the Conversion Stock, upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, shall be stamped or otherwise imprinted with a legend in the following form (in addition to any legend required under applicable state securities laws):

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. SUCH SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED. COPIES OF THE AGREEMENT COVERING THE PURCHASE OF THESE SHARES AND RESTRICTING THEIR TRANSFER MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD OF THIS CERTIFICATE TO THE SECRETARY OF THE CORPORATION AT THE PRINCIPAL EXECUTIVE OFFICES OF THE CORPORATION.

8.3. Each Purchaser and Holder consents to GENESIS making a notation on its records and giving instructions to any transfer agent of the Shares or the Conversion Stock in order to implement the restrictions on transfer established in this Section 8.

8.4. Registration Rights.

8.4.1. Notice of Registration. If at any time or from time to time GENESIS shall determine to register any of its securities, either for its own account or the account of a security holder or holders, other than a registration relating solely to employee benefit plans or a registration relating solely to a Commission Rule 145 transaction, GENESIS will:

8.4.1.1. promptly give to each Purchaser under this Agreement written notice thereof; and

8.4.1.2. include in such registration (and any related qualification under blue sky laws or other compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, made within 20 days after receipt of such written notice from GENESIS, by any Purchaser.

8.4.1.3. For this purpose, the Registrable Securities include all of the Common Stock, and the Conversion Stock (if any is then outstanding), being purchased by Purchasers in accordance with the terms of this Stock Investment Agreement. In this Section 8, the owners of the Registrable Securities at the time of the proposed registration are referred to as Holders of the securities.

8.4.2. Underwriting. If the registration of which GENESIS gives notice is for a registered public offering involving an underwriting, GENESIS shall so advise the Purchasers as a part of the written notice given pursuant to Section 8.4.1.1. In such event the right of any Purchaser to registration pursuant to this Section 8.4 shall be conditioned upon:

8.4.2.1. such Purchaser's participation in such underwriting and the inclusion of such Purchaser's Registrable Securities in the underwriting to the extent provided herein.

8.4.2.2. All Purchasers proposing to distribute their securities through such underwriting shall (together with GENESIS and any other shareholders distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the managing underwriter selected for such underwriting by GENESIS. Notwithstanding any other provision of this Section 8.4, if the managing underwriter determines that marketing factors require a limitation of the number of shares to be underwritten, the managing underwriter may limit the Registrable Securities to be included in such registration.

8.4.2.2.1. GENESIS shall so advise all Holders and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among all Holders in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by such Holders at the time of filing the registration

statement. To facilitate the allocation of shares in accordance with the above provisions, GENESIS may round the number of shares allocated to any Holder or other shareholder to the nearest 100 shares.

8.4.2.2.2. If any Holder or other shareholder disapproves of the terms of any such underwriting, he may elect to withdraw therefrom by written notice to GENESIS and the managing underwriter. Any securities excluded or withdrawn from such underwriting shall be withdrawn from such registration, and shall not be transferred in a public distribution prior to 90 days after the effective date of the registration statement relating thereto, or such other shorter period of time as the underwriters may require. GENESIS may include shares of Common Stock held by shareholders other than Holders in a registration statement pursuant to this Section 8.6 to the extent that the amount of Registrable Securities otherwise includible in such registration statement would not thereby be diminished.

8.4.3. Right to Terminate Registration. GENESIS shall have the right to terminate or withdraw any registration initiated by it under this Section 8.4 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration.

8.5. Limitations on Subsequent Registration Rights. From and after the Closing Date, GENESIS shall not enter into any agreement granting any holder or prospective holder of any securities of GENESIS registration rights with respect to such securities unless (i) such new registration rights, including standoff obligations, are on a pari passu basis with those

rights of the Holders hereunder; or (ii) such new registration rights, including standoff obligations, are subordinate to the registration rights granted Holders hereunder.

8.6. Expenses of Registration. All Registration Expenses incurred in connection with registrations pursuant to Section 8.4, shall be borne by GENESIS. Unless otherwise stated, all Selling Expenses relating to securities registered on behalf of the Holders and all other Registration Expenses shall be borne by the Holders of such securities pro rata on the basis of the number of shares so registered.

8.7. Information by Holder. The Holder or Holders of Registrable Securities included in any registration shall furnish GENESIS such information regarding such Holder or Holders, the Registrable Securities held by them and the distribution proposed by such Holder or Holders as GENESIS may request in writing and as shall be required in connection with any registration, qualification or compliance referred to in this Section 8.

8.8. Indemnification. If a registration is effected pursuant to Section 8.4, GENESIS will indemnify Purchasers, and Purchasers will indemnify GENESIS for any expenses, claims, losses, damages, or liabilities, which result to the party seeking indemnification as a result of the misrepresentation or failure to disclose one or more

material facts by the party from whom indemnification is sought. Appropriate indemnification language will be included in the registration documents at the time the registration is undertaken.

9. Purchasers' Right of First Refusal

9.1. If a Founder (Kirk, Durham or TFS are the Founders) elects to offer any of the Common Stock or the Conversion Stock for sale, the selling Founder must first offer to sell the offered Common Stock or Conversion Stock to the other Founders on the same terms that the selling Founder plans to offer the shares for sale to other parties. The non-selling Founders shall then have thirty days to elect to purchase the Common Stock or Conversion Stock offered by the Selling Founder on a pro rata basis. If any non-selling Founder does not wish to purchase the offered shares, the other non-selling Founders shall have an additional ten days to elect to purchase the non-electing shareholders share of the offered Common Stock or Conversion Stock. If any of the offered Common Stock or Conversion Stock is not purchased under this right of first refusal, for a period of six months thereafter, the selling Founder may offer the Common Stock or the Conversion Stock to others on the same terms proposed to the other Founders. If the selling Founder does not sell the offered Common Stock or Conversion Stock within six months, the offer must be withdrawn and the selling Founder may thereafter reoffer to the other Founders in accordance with these rights of first refusal.

9.2. These rights of first refusal shall expire upon the first to occur of the following: (i) the closing of the first public offering of the Common Stock of GENESIS to the general public which is effected pursuant to a registration statement filed with, and declared effective by, the Commission under the Securities Act; (ii) January 1, 2004, or (iii) as to a Purchaser if such Purchaser no longer holds at least 25% of shares of Common Stock and/or Conversion Stock (appropriately adjusted for Recapitalizations) purchased in accordance with the terms of this Stock Investment Agreement.

10. Co-Sale Rights.

10.1. If any Founder receives an offer from a third party to purchase some or all of that Founder's Common Stock or Conversion Stock whether purchased in this transaction or acquired in some other transaction, the other Founders shall have the right to participate in the sale of the Common Stock or Conversion Stock on the same terms as the selling Founder. The selling Founder must notify the other Founders of the offer, and the other Founders will have thirty days after notice in which to elect to participate in the sale (or to purchase the shares offered under the rights of first refusal described in Paragraph 9). If a Founder does not elect to participate in the sale, the remaining Founders shall allocate the total number of shares to be offered to the purchasing party among them pro rata based on the number of shares each holds immediately prior to the sale.

10.2. These co-sale rights shall expire upon the first to occur of the following: (i) the closing of the first public offering of the Common Stock of GENESIS to the general

public which is effected pursuant to a registration statement filed with, and declared effective by, the Commission under the Securities Act; (ii) January 1, 2004, or (iii) if such selling Founder no longer holds at least 25% of shares of Common

Stock and/or Conversion Stock (appropriately adjusted for Recapitalizations) purchased in accordance with the terms of this Stock Investment Agreement.

11. Miscellaneous

11.1. Governing Law. This Agreement shall be governed in all respects by the internal laws of the State of Washington.

11.2. Survival. The representations, warranties, covenants and agreements made herein shall survive any investigation made by any Purchaser and the closing of the transactions contemplated hereby.

11.3. Successors and Assigns. Except as otherwise provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto, provided, however, that the rights of a Purchaser to purchase the Shares shall not be assignable without the consent of GENESIS.

11.4. Entire Agreement: Amendment. This Agreement and the other documents delivered pursuant hereto at the Closing constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof, and no party shall be liable or bound to any other party in any manner by any warranties, representations or covenants except as specifically set forth herein or therein. Except as expressly provided herein, neither this Agreement nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by the party against whom enforcement of any such amendment, waiver, discharge or termination is sought.

11.5. Notices.

11.5.1. All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, sent by facsimile, or otherwise delivered by hand or by a nationally-recognized overnight courier, addressed to the last designated address of the party to receive the notification. Initial addresses are set forth on the signature page of this Stock Investment Agreement. Addresses may be changed from time to time by written notice to the other parties in accordance with this provision.

11.5.2. Each such notice or other communication shall for all purposes of this Agreement be treated as effective or having been given (a) in the case of personal delivery or delivery by facsimile copy, on the date of such delivery, (b) in the case of a nationally-recognized overnight courier, on the next business day after the date when sent and (c) in the case of mailing, on the third business day following that on which the piece of mail containing such communication has been deposited in

a regularly maintained receptacle for the deposit of the United States mail, addressed and mailed as aforesaid.

11.6. Delays or Omissions. Except as expressly provided herein, no delay or omission to exercise any right, power or remedy accruing to any holder of any Shares, upon any breach or default of GENESIS under this Agreement, shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring

11.7. Expenses. GENESIS and each Purchaser shall bear its own expenses incurred on its behalf with respect to this Agreement and the transactions contemplated hereby.

11.8. Counterparts. This Agreement may be executed in any number of counterparts, each of which may be executed by less than all of the Purchasers, each of which shall be enforceable against the parties actually executing such counterparts, and all of which together shall constitute one instrument.

11.9. Severability. In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

11.10. Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not considered in construing or interpreting this Agreement.

The foregoing Agreement is hereby executed as of the date first above written.

GENESIS FINANCIAL, INC., a Washington corporation.

By: /s/Michael A. Kirk

Michael A. Kirk, President

By: /s/Brad E. Herr

Brad E. Herr, Secretary

PURCHASERS

/s/Michael A. Kirk

Michael A. Kirk (25,000 Shares)

/s/Douglas A. Durham

Douglas A. Durham (25,000 Shares)

/s/John R. Coghlan

John R. Coghlan, President
Temporary Financial Services, Inc.
(200,000 shares for cash)
(250,000 shares for 50,000 TFS shares)
($200,000 Convertible Note)

The securities evidenced by this Note and the underlying Conversion Stock have not been registered under the Securities Act of 1933, as amended. Such securities may not be sold or otherwise transferred except in a transaction which, in the opinion of securities counsel reasonably satisfactory to GENESIS, is exempt from registration under applicable federal securities laws or pursuant to an effective Registration Statement thereunder.

GENESIS FINANCIAL, INC.

CONVERTIBLE NOTE

$200,000 January 25, 2002 Spokane, Washington

FOR VALUE RECEIVED, Genesis Financial, Inc., a Washington Corporation with offices at 200 North Mullan Road, Suite 217, Spokane, Washington 99206 ("GENESIS") promises to pay to the order of TEMPORARY FINANCIAL SERVICES, INC., a Washington corporation with offices at 200 North Mullan Road, Suite 213, Spokane, Washington 99206 ("TFS"), the principal sum of $200,000.00 United States Currency, together with interest thereon accruing from and after January 25, 2002, as specified in this Convertible Note (the "Note").

This NOTE is issued upon the following terms, to which TFS assents and GENESIS, for itself and its successors, agrees as follows:

1. Interest Rate. This NOTE shall bear interest at the rate of Six Percent (6%) per annum. Simple interest shall accrue on this NOTE until maturity. In the event this NOTE is not paid on the maturity date, this NOTE shall thereafter bear interest until paid at the rate of Twelve Percent (12%) per annum.

2. Maturity. The entire outstanding unpaid principal and all accrued but unpaid interest shall be due and payable at maturity on January 1, 2004; by cash, cashier's check, or wire transfer in lawful money of the United States at TFS's address or at such other place as TFS may designate in writing ten days before maturity.

3. Transfer. This NOTE is non-transferable without the prior written consent of TFS. Upon an approved transfer, any NOTE executed and delivered to the transferee shall bear the following restrictive legend:

> "The securities evidenced by this certificate have not been registered under the Securities Act of 1933, as amended. Such securities may not be sold or otherwise transferred except in a transaction which, in the opinion of securities counsel reasonably satisfactory to GENESIS, is exempt from registration under applicable federal securities laws or pursuant to an effective Registration Statement thereunder.

4. NOTE Holder Not Shareholder. This NOTE does not confer upon TFS any right to vote or consent or to receive notice as a shareholder of GENESIS by virtue of TFS' ownership of the NOTE. This provision does not affect rights of TFS as a shareholder of GENESIS through ownership of GENESIS common shares.

5. Conversion Rights. TFS, in its sole discretion at any time after January 1, 2003, and prior to maturity, may convert it, in whole only, into the face amount equivalent of 200,000 fully paid and nonassessable shares of the Common Stock of GENESIS (the "Common Stock") at an equivalent price of One Dollar ($1.00) per share of Common Stock. The shares issuable pursuant to this conversion feature are hereafter referred to as "Conversion Stock."

   The conversion of the NOTE shall be on the following terms and conditions:

   (a) In the event TFS notifies GENESIS of its intention to convert, GENESIS may, at its sole election, pay accrued interest in cash or may convert the accrued interest into Conversion Stock at the rate of one share for each one dollar of interest accrued to the date of conversion, rounded to the nearest whole dollar.

   (b) In order to convert this NOTE into Conversion Stock, TFS shall surrender, at the principal office of GENESIS, this NOTE duly endorsed to GENESIS and give written notice to GENESIS that TFS elects to convert this NOTE. TFS shall thereafter be treated for all purposes as the record holder of the Conversion Stock into which this NOTE is convertible. As promptly as possible thereafter, GENESIS shall issue and deliver to TFS certificates representing the

number of shares of Conversion Stock into which this NOTE has been converted. Thereupon, this NOTE shall be deemed to be satisfied and discharged, and the shares of Conversion Stock shall be fully paid and nonassessable. Each certificate representing the shares of common stock into which this NOTE has been converted shall bear the restrictive legend set forth in Paragraph 3 herein.

(c) No conversion shall be made by GENESIS while its stock transfer books are closed. Any request for conversion received while the stock transfer books are closed shall be given effect as soon as the stock transfer books are reopened.

(d) The Board of Directors of the Corporation shall have the right from time to time to adopt specific rules of procedure to carry out the full intent of the Conversion provisions set forth herein and to do all reasonable acts necessary thereto, provided that such rules and acts shall not violate the specific terms of this debt instrument.

6. Adjustment in Number of Shares. The number of shares of Conversion Stock issuable upon conversion of this NOTE will be adjusted from time to time to reflect changes in the capitalization of GENESIS. When the number of shares of Common Stock of GENESIS outstanding at any given time is changed to reflect a stock dividend, merger, recapitalization, or other similar adjustment is made, the number of shares of Conversion Stock issuable on conversion will be adjusted up or down to give economic affect to the conversion rights. For example, if the conversion rights entitle the holder of the NOTE to

200,000 shares on January 1 and on January 2 GENESIS issues a one for one stock dividend, the NOTE would thereafter be convertible into 400,000 shares.

7. Notices. So long as this NOTE is outstanding, Genesis will notify TFS or the NOTE holder, as the case may be, of any change in the capitalization of GENESIS that would or could require an adjustment, in accordance with Paragraph 6, in the number of shares of Conversion Stock into which the NOTE may be converted.

8. Events of Default. The following events shall constitute events of default under this NOTE and shall entitle TFS to the remedies set forth.

a. This NOTE shall be in default upon the failure of GENESIS to pay any interest or principal payment in accordance with the terms of this NOTE.

b. This NOTE shall be in default in the event: GENESIS files any petition under any section of the United States Bankruptcy Act; any petition is filed against GENESIS under the United States Bankruptcy Act; GENESIS is adjudged bankrupt; or GENESIS makes any general assignment or trust deed or trust mortgage for the benefit of creditors; or takes advantage of any other insolvency act; or if any receiver, trustee, conservator, custodian, or similar officer is appointed for GENESIS.

c. This NOTE shall be in default if GENESIS is declared to be in default under any senior credit facility.

9. Remedies on Default. From and after the date of any default, the NOTE may be accelerated and TFS may demand payment of the entire unpaid balance and all accrued but unpaid interest. Upon a default, it shall not be necessary for the NOTE holder to declare the NOTE due.

10. Prepayment. This NOTE be prepaid at any time after January 1, 2003. Upon notification of prepayment, TFS shall have thirty days in which to elect to convert the NOTE to Conversion Stock, or to accept the prepayment amount.

11. Costs of Collection. If TFS undertakes collection of this NOTE, GENESIS agrees to pay all costs of collection, including a reasonable attorney's fee. GENESIS waives presentment for payment, notice of non-payment, protest and demand, and notice of protest, of demand and of dishonor, and the benefit of any exemption laws.

12. Notices. Any notice to GENESIS provided in this NOTE shall be in writing and shall be given and effective upon (1) actual delivery to GENESIS or (2) mailing such notice by first-class U.S. mail, addressed to GENESIS at the address listed above or such other address as GENESIS may designate or (3) by facsimile transmission directed to GENESIS at GENESIS's then current facsimile number. Any notice to TFS provided in this NOTE shall be in writing and shall be given and effective upon (1) actual delivery to TFS or (2) mailing such notice by first-class U.S. mail, addressed to TFS at TFS's address aforesaid or

such other address as TFS may designate by notice to GENESIS or (3) by facsimile transmission directed to TFS at TFS's then current facsimile number. If notice is sent to either party by facsimile transmission, the original hard copy shall be forwarded to the party entitled thereto within ten (10) days of facsimile transmission.

13. Miscellaneous. This NOTE is to be construed and enforced in accordance with the laws of the State of Washington. Jurisdiction for enforcement and collection of the NOTE shall be the State of Washington, and venue shall be Spokane County, Washington.

GENESIS:

By: /s/Michael A. Kirk
Michael A. Kirk, President

ATTEST:

/s/Brad E. Herr
Brad E. Herr, Secretary

Accepted by TFS this 25th day of January, 2002.

/s/John R. Coghlan
John R. Coghlan, President

OPTION TO ACQUIRE SHARES FROM A SHAREHOLDER

THIS AGREEMENT is by and between TEMPORARY FINANCIAL SERVICES, INC. (“TFS”) which owns 800,000 shares of the common stock of Genesis Financial, Inc., a Washington corporation (the “GENESIS”), and Michael A. Kirk and Douglas B. Durham (collectively the “Buyer”).

R E C I T A L S

This Agreement is entered into upon the basis of the following facts and intentions of the parties:

A. TFS owns 800,000 shares of the common stock (collectively the “Shares”) of GENESIS.

B. Buyer desires to obtain an option to purchase the Shares from TFS and TFS is willing to grant such an option to Buyer.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

1. Option. As of the date hereof, TFS grants to Buyer an option (the “Option”) to purchase up to 200,000 of the Shares from TFS upon the terms, covenants and conditions hereinafter set forth. The share certificates representing the Shares shall hereafter bear a legend referring to this Option Agreement.

2. Consideration for the Option. This Option is given in connection with the transaction (the “Transaction”) described in the Stock Investment Agreement executed on January 25, 2002, and the agreement of TFS to sell the securities to Buyers is an integral part of the transaction, supported by adequate consideration, receipt of which is hereby acknowledged by TFS.

3. Term and Exercise. Buyer may exercise the Option at any time up to and until December 31, 2005, by giving TFS written notice of the intention to exercise the Option.

4. Purchase Price. The purchase price (“Purchase Price”) which Buyer agrees to pay upon exercise of the Option is the lesser of Five Dollars ($5.00) per share, or the Initial Public Offering Price if GENESIS conducts an Initial Public Offering prior to the expiration date of the Option. The Purchase Price is payable in cash.

5. Number of Shares. The number and class of Shares specified in this Agreement and/or the Purchase Price are subject to appropriate adjustment in the event of any merger, reorganization, consolidation, recapitalization, liquidation, stock dividend, split-up, share combination or other change in the corporate structure of the GENESIS affecting the Shares.

6. Representations and Warranties of TFS. TFS represents and warrants to the Buyer that:

(a) TFS has full power and authority to execute and deliver this Agreement, and this Agreement is a valid and binding agreement enforceable against the TFS in accordance with its terms;

(b) Neither the execution of this Agreement nor the sale of the Shares will constitute a violation of, or conflict with, or default under, any contract, commitment, agreement, understanding or arrangement to which the TFS is a party or by which TFS is bound or of any law, decree, or judgment;

(c) Now and up to the time of exercise of the Option, TFS will have valid title to the Shares, free and clear of all claims, liens, charges, encumbrances and security interests, and will transfer such Shares upon exercise of the Option to the Buyer free and clear of all claims, liens, charges, encumbrances and security interests;

(d) The Purchase Price may or may not reflect the actual value of the Shares, that TFS has investigated the value independently, that it has been represented by independent counsel, and that it understands that the value of the Shares when and if the Option is exercised may be significantly higher than the Purchase Price; and

(e) Prior to December 31, 2005, TFS shall not sell, assign, transfer, pledge, hypothecate, or otherwise encumber

200,000 of the Shares.

7. Cooperation. Each party shall, upon request of the other party, promptly execute and deliver all additional documents reasonably deemed by the requesting party to be necessary, appropriate or desirable to complete and evidence the sale, assignment and transfer of the Shares pursuant to this Agreement.

8. Representations and Warranties of the Buyer. Buyer represents and warrants to the TFS that (a) this Agreement is a valid and binding agreement enforceable against Buyer in accordance with its terms and (b) Buyer, if he exercises the option, will be purchasing the Shares for his own account and not with a view to or for sale in connection with any distribution of such Shares in violation of applicable securities laws.

9. Purchase and Sale. If Buyer exercises the Option, at a closing (the "Closing"), TFS shall sell, transfer and deliver the Shares, represented by certificates duly endorsed in blank or accompanied by stock powers duly executed, to the Buyer, and the Buyer shall purchase the Shares in exchange for the Purchase Price.

10. Dividends and Voting Rights. Until the Option is exercised, if at all, all dividends and voting rights attendant to the Shares shall remain with TFS.

11. Buyer May Exercise Option for Less Than All Shares. Notwithstanding any other provision herein to the contrary, the Buyer may exercise the Option with respect to less than all of the Shares. Michael A. Kirk (Kirk) and Douglas B. Durham (Durham) shall each be entitled to purchase 100,000 shares in accordance with this Option. If either Kirk

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or Durham does not purchase the full number of shares available to him under this Option prior to the expiration date, the other shall have the right for ten days following expiration of this Option, to purchase the remaining shares, and for this purpose only, the expiration date of the Option shall be considered extended.

12. Survival. All representations, warranties and agreements made by the TFS and by the Buyer in this Agreement shall survive the execution of this Agreement and any Closing and any investigation at any time made by or on behalf of any party hereto.

13. Modification; Assignment. This Agreement may not be modified, amended, altered or supplemented except upon the execution and delivery of a written agreement executed by the parties hereto. Buyer may assign his rights under this Agreement with the consent of TFS.

14. Successors. This Agreement will be binding upon, inure to the benefit of and be enforceable by and against the parties hereto and their respective heirs, beneficiaries, executors, representatives and permitted assigns.

15. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Washington.

16. Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to its subject matter and supersedes all agreements, understanding, representations, or warranties, whether oral or written, by or among the parties, previously or contemporaneously made or given.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the Buyer and TFS as of the day and year first written below:

BUYER:		TFS:	
/s/Michael A. Kirk	01/25/2002	/s/John R. Coghlan	01/25/2002
Michael A. Kirk	Date	John R. Coghlan, President	
/s/Douglas B. Durham	01/25/2002		
Douglas B. Durham	Date		

WAREHOUSING LINE OF CREDIT PROMISSORY NOTE

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

MAXIMUM CREDIT. The unpaid principal balance under the CREDIT LINE may not exceed $2,000,000 outstanding at any given time during the term of the NOTE.

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

DUE DATE. You promise to pay the balance of this NOTE on February 15, 2003, or at the option of LENDER on demand. So long as this NOTE is in good standing, you may obtain advances on the CREDIT LINE in accordance with the procedures described in this NOTE and the attached exhibits.

INTEREST. Interest shall accrue on the daily net principal balance outstanding, and is payable on the 5th day of each month during the term of this loan. Interest will be calculated at the rate equal to two percent above the rate that Sterling Savings Bank, Spokane, Washington, refers to as its “prime rate.” Any change in the interest rate resulting from a change in the prime rate will be effective on the date of the change.

COMMITMENT FEE. BORROWER will pay LENDER One Quarter of One Percent (1/4%) of the Maximum Credit amount as a Loan commitment fee. This amount, aggregating $5,000 is payable on the date of this NOTE.

ADVANCES AND REPAYMENTS. BORROWER may request advances on the CREDIT LINE from time to time, and shall make payments against the outstanding principal balance from time to time in accordance with the procedures set forth in EXHIBIT A (attached).

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

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

PERSONAL GUARANTEES. This NOTE is jointly and severally personally guaranteed by Michael A. Kirk, an individual residing in Spokane, Washington, and Douglas B. Durham and Colleen D. Durham, husband and wife, residing in Spokane, Washington. The personal guarantee agreement is attached as EXHIBIT D (attached).

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

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

SIGNATURES. This NOTE is executed on February 20th, 2002, in Spokane, Washington.

GENESIS FINANCIAL, INC.

/s/Michael A. Kirk
Michael A. Kirk, President

ATTEST:

/s/Douglas B. Durham
Douglas B. Durham, Chairman

Accepted this 20th day of February, 2002 in Spokane, Washington.

Temporary Financial Services, Inc.

/s/John R. Coghlan
John R. Coghlan, President

Attest:

/s/Brad E. Herr
Brad E. Herr, Secretary

EXHIBIT B

FINANCIAL COVENANTS

Borrower shall remain in compliance with the following financial covenants:

1. Senior Debt to Capital shall not exceed 3.0. Except however, Lender agrees to forebear Borrower's non-compliance with this covenant during the first 5 months of Borrower's operations.
2. Senior Debt shall consist of all of Borrower's liabilities except debt which has been specifically subordinated. Capital consists of Borrower's equity plus subordinated debt.
3. Borrower shall not cause or allow any material disbursement or distribution of funds to any party except in the normal course of business and as generally outlined in Borrower's Business Plan.
4. Borrower shall pay all costs associated with the administration of this line.

REPORTING OBLIGATIONS

Borrower shall provide to Lender any and all financial and collateral information that Lender may reasonably request, including:

a. Monthly Compliance Certificate.
b. Monthly internally prepared financial statements.
c. Monthly internally prepared collateral reports showing the amount of line advances and the identification, status and eligibility of all real estate loans.
d. Fiscal year end financial statements, audited by an acceptable CPA.

SECURITY AGREEMENT

DATED AS OF: February 20, 2002

DEBTOR: Genesis Financial, Inc.
200 North Mullan Road, Suite 217
Spokane, WA 99206, and

SECURED PARTY: Temporary Financial Services, Inc.
200 North Mullan Road, Suite 213
Spokane, Washington 99206

1. GRANT OF SECURITY INTEREST. Debtor hereby grants to Secured Party a continuing security interest in the following described property of Debtor, and any additions, attachments and accessions thereto and all products and proceeds thereof, together with all guarantees, liens and securities in connection therewith (collectively, the "Collateral"):

All assets, including: All inventory, accounts, accounts receivable, chattel paper, documents, instruments, contract rights, real estate loans held for resale, insurance proceeds, trademarks, tradenames and other general intangibles, furniture, fixtures, equipment, and all proceeds thereof, now owned and hereafter acquired.

2. OBLIGATIONS SECURED

2.1 The security interest granted hereby is to secure payment of a Warehousing Line of Credit Promissory Note dated February 20, 2002 (the "Note") and performance of all liabilities and obligations of Debtor to Secured Party of every kind and description, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, including but not limited to indebtedness and obligations with respect to LENDER agreements, notes, advances, letters of credit, acceptances, foreign exchange contracts, suretyships, guaranties, endorsements, and checks drawn with non-sufficient funds, together with any and all extensions, renewals and modifications thereof (collectively, "Obligations"), and whether or not any Obligation is related to any other Obligation by class or kind or is contemplated by the parties at the time this Security Agreement is executed.

2.2 In addition to the provisions of Section 2.1, the Obligations secured hereunder shall include all amounts payable by Debtor to Secured Party under this Security Agreement and all amounts paid or liabilities incurred by Secured Party in connection with protecting or enforcing its rights under this Security Agreement, including but not limited to amounts described in Sections 12, 13, 16 and 20.8, and interest on any such amounts at the interest rate established in the Note.

3. PURCHASE MONEY SECURITY INTEREST. If Debtor at any time acquires any Collateral with the proceeds of any advance from Secured Party, Debtor authorizes Secured Party to disburse proceeds in the amount of the purchase price of such Collateral directly to, or Debtor shall remit such proceeds directly to, the seller of such Collateral. Secured Party shall have both a purchase money security interest and a non-purchase money security interest under the Uniform Commercial Code in such Collateral.

4. TITLE; ADVERSE LIENS. Debtor warrants that Debtor is and shall be the lawful owner of the Collateral, free of all adverse liens, encumbrances and security interests except as previously disclosed in writing to Secured Party, with the right to sell, assign, pledge, transfer, and grant a security interest therein. Except as expressly permitted hereunder, or under the Agreement dated as of January 25, 2002, between Debtor and Secured Party (hereinafter referred to as the "Investment Agreement") Debtor shall not sell, assign, pledge, transfer or grant a security interest in any of the Collateral to any person other than Secured Party. Debtor shall defend all Collateral against the claims and demands of all persons.

5. CORPORATE STATUS AND AUTHORITY. (i) Debtor is duly organized and existing under the laws of Washington and is duly qualified and in good standing in every other state or jurisdiction in which it is doing business; and (ii) the execution, delivery, and performance hereof are within Debtor's corporate powers and have been duly authorized, and are not in contravention of law or the terms of Debtor's charter, bylaws or other incorporation papers, or of any indenture, agreement or undertaking to which Debtor is a party or by which it is bound.

6. PERMITS AND LICENSES. Debtor has and shall keep in force all licenses, permits and authorizations necessary to the

proper conduct of its business in any state or jurisdiction in which Debtor conducts business, and shall promptly obtain all such additional licenses, permits and authorizations as hereafter may become necessary for such purposes.

7. **PLACES OF BUSINESS AND CERTAIN LOCATIONS.** The street address of Debtor's chief executive office from which Debtor manages the main part of its operation, keeps all Collateral, and all records concerning accounts, contract rights, and chattel paper is shown above. If Debtor (i) has one or more places of business at any location other than its chief executive office or (ii) keeps Collateral or records concerning accounts, contract rights and chattel paper at any location other than its chief executive office, such other locations, including the address of the servicing agent, will be provided to Secured Party by written notice within seven days of the date use of such other location commences.

8. **CHANGE OF NAME, STRUCTURE AND LOCATION**. Without the prior written consent of Secured Party, Debtor shall not (i) merge or consolidate with or into any person, or (ii) remove any Collateral from the state(s) or jurisdiction(s) indicated in this Security Agreement. Without limiting the foregoing, Debtor shall give Secured Party at least 30 days prior written notice of any change of Debtor's name, identity or corporate structure and any addition to, change in or discontinuance of its mailing address, its business locations, and any locations concerning the Collateral as indicated in this Security Agreement.

9. **IDENTIFICATION AND DELIVERY OF COLLATERAL; COLLATERAL REPORTS.** Debtor shall mark and identify all Collateral and all books and records pertaining to the Collateral as required by Secured Party. Debtor shall deliver to Secured Party at Secured Party's request, all original instruments, documents and title documents, leases, contracts, securities, licenses, records, and other chattel paper (together with any related certificates of title) included in the Collateral, each assigned or endorsed as Secured Party may require, and all original and duplicate invoices representing sales and delivery of goods or performance of services (each of which shall bear and assignment stamp acceptable to Secured Party) together with evidence of delivery as may be required by Secured Party. Debtor shall deliver to Secured Party at Secured Party's request such reports concerning the Collateral on such dates and in such detail as Secured Party from time to time may require. The value of all inventory reflected on the reports shall be the lesser of cost or market value.

10. **FINANCIAL AND OTHER INFORMATION.** Debtor shall furnish to Secured Party from time to time such financial statements and other financial data as Secured Party may require, each in form and detail acceptable to Secured Party. Debtor warrants that all information concerning the Collateral, all financial statements, balance sheets and other financial data, and all other information furnished by Debtor to Secured Party are, or at the time furnished shall be, accurate and correct in all material respects and as complete as necessary to give Secured Party true and accurate knowledge of the subject matter. All financial information furnished by Debtor to Secured Party shall be prepared in accordance with generally accepted accounting principles consistently applied.

11. **INSPECTIONS.** Debtor shall at all reasonable times allow Secured Party by or through its nominees (i) to examine and inspect the Collateral; (ii) to verify the Collateral directly with applicable third parties such as account debtors or by any other methods; and (iii) to examine, inspect and take extracts from Debtor's books and records.

12. **USE AND ADVERSE LIENS.** Debtor shall not use or permit the Collateral to be used in violation of any law or regulation, waste or destroy the Collateral, or permit anything to be done that may impair the value of the Collateral. Debtor shall promptly pay when due all taxes and assessments on the Collateral, or for its use or operation, and shall keep the Collateral free from any adverse lien, security interest or encumbrance. At its option, Secured Party may discharge taxes, liens, security interests or encumbrances at any time levied or placed on the Collateral and may pay for the maintenance and preservation of the Collateral, and Debtor shall pay to Secured Party on demand all such amounts.

13. **INSURANCE.** Unless expressly waived by Secured Party, Debtor shall provide, maintain and deliver to Secured Party policies insuring the Collateral against loss or damage by such risks, in such form and amount, for such periods and by such companies as may be satisfactory to Secured Party. All policies of insurance shall include a standard loss payable endorsement and such other endorsements as Secured Party may request. If Debtor fails to obtain such insurance, Secured Party shall have the right, but not the obligation, to obtain such insurance and Debtor shall pay to Secured Party on demand the cost thereof. Secured Party is hereby appointed Debtor's attorney-in-fact to obtain, adjust, settle and cancel such insurance in Secured Party's sole discretion. Debtor hereby assigns to Secured Party all rights to receive proceeds of insurance to the full extent of the amount of all Obligations secured hereunder, directs any insurer to pay all proceeds directly to Secured Party, and authorizes Secured Party to endorse any check for proceeds.

14. **POSSESSION, USE AND SALE OF COLLATERAL.** Until default, Debtor may retain possession of all Collateral composed of equipment and fixtures and may use them in any lawful manner not inconsistent with the terms and conditions of this Security Agreement. Debtor shall not sell, lease, transfer or otherwise dispose of any interest in any such Collateral without the prior written consent of Secured Party. Until default, Debtor may use any Collateral composed of inventory in any lawful manner not inconsistent with the terms and conditions of this Security Agreement and the Investment Agreement, and may

consume any raw materials and supplies comprising such Collateral as may be necessary to carry on Debtor's business. Debtor may also sell such Collateral but only in the ordinary course of business. A sale in the ordinary course of business does not include a transfer in bulk or as security for or in total or partial satisfaction of a money debt.

15. COLLECTION OF ACCOUNTS. Subject to the following sentence, Debtor shall make collections from the account debtors on all Collateral composed of accounts, chattel paper and general intangibles as directed by Secured Party. Secured Party may before or after any default

hereunder without prior notice to Debtor, and Debtor shall at Secured Party's request and in such form as Secured Party may require, notify the account debtors that the Collateral has been assigned to and payment thereon shall be made directly to Secured Party.

16. FINANCING STATEMENTS; FURTHER ASSURANCE. At Secured Party's request, Debtor shall execute and pay the costs of filing one or more financing statements and any other documents required by the Uniform Commercial Code or other applicable laws or regulations. A carbon, photographic or other reproduction of this Security Agreement or of any related financing statement shall be sufficient as a financing statement. At the request of Secured Party, Debtor shall do, make, execute and deliver all such additional and further acts, deeds, assurances and instruments as Secured Party from time to time may require to more completely vest in and assure to Secured Party its rights hereunder and in or to the Collateral, all at Debtor's expense. Secured Party hereby is appointed Debtor's attorney-in-fact with power to do all acts and things which Secured Party may deem necessary to perfect and continue perfected its security interest in the Collateral, and to protect the Collateral. Without the prior written consent of Secured Party, Debtor shall not grant a security interest in the Collateral to any person other than Secured Party, and shall not allow any financing statement or other security instrument covering Collateral or its proceeds to be on file in any public office.

17. EVENTS OF DEFAULT. Time is of the essence of this Security Agreement. The occurrence of any of the following shall, at the discretion of Secured Party, be an Event of Default hereunder:

17.1 Default in the payment or performance of any Obligation, in any covenant or liability contained or referred to herein, in the Agreement and/or Addenda thereto, in any note, or in any other agreement between Debtor and Secured Party;

17.2 Any warranty, representation or statement (including but not limited to financial statements) made or furnished to Secured Party by or on behalf of Debtor or any guarantor of any of the Obligations (“Guarantor”) proves to have been false in any material respect when made or furnished;

17.3 Any indebtedness of Debtor under any note, indenture, agreement, undertaking or obligation of any kind to any person, including Secured Party, becomes due by acceleration or otherwise and is not paid;

17.4 Default by Debtor under any lease or other arrangement whereby Debtor occupies, or stores Collateral in, any premises owned by any person other than Debtor;

17.5 Any default under any security agreement or other instrument executed by any person which secures any of the Obligations or under any guaranty of any Guarantor;

17.6 Any guaranty of any Guarantor shall cease to be, or shall be asserted by any person not to be, in full force and effect;

17.7 Loss, theft, damage, destruction, sale (except as expressly permitted under this Security Agreement) or encumbrance to or of any of the Collateral, or the making of any levy, seizure or attachment thereof or thereon;

17.8 Death, dissolution, termination of existence, insolvency, business failure, appointment of a receiver for any part of the property of, assignment for the benefit of creditors by, entry of any judgment against or the commencement of any proceeding under any bankruptcy or insolvency laws by or against, Debtor, and Guarantor or any surety for Debtor, or failure of Debtor, any Guarantor or any such surety to provide Secured Party with financial information promptly when requested;

17.9 Sale, transfer, or other disposition of all or a substantial part of the assets of Debtor or any Guarantor other than in the ordinary course of business;

17.10 Interruption or cessation of a material portion of Debtor's ordinary business operations;

17.11 Secured Party in good faith believes the Collateral inadequate, unsafe, or in danger of misuse;

17.12 Secured Party deems itself insecure with respect to repayment of any of the Obligations.

18. RIGHTS AND REMEDIES. Upon the occurrence of any Event of Default and at any time thereafter, Secured Party at its option and not withstanding any time or credit allowed by any instrument evidencing any Obligation or related thereto, may

without notice declare any and all Obligations immediately due and payable and terminate any commitment to extend credit to Debtor. In such event, Secured Party shall have all the rights and remedies provided herein and in all other instruments or writings, executed by Debtor or any other person in connection with the Obligations, and as otherwise provided by law. Without limiting the foregoing, Secured Party may do any one or more of the following: (i) enter upon any premises where the Collateral may be located and remove therefrom the Collateral, and with respect to accounts, may remove any records which Secured Party deems necessary for collection thereof; (ii) require Debtor to assemble the Collateral and make it available to Secured Party at a place designated by Secured Party; and (iii) establish a field warehouse under the control of Secured Party on Debtor's premises and place the Collateral therein. Secured Party in its sole discretion, without notice and without bringing suit on the Obligations, may apply for and secure appointment of a receiver, receiver-manager, or receiver and manager ("receiver") for the undersigned to take possession of Debtor's business and the Collateral, and the incomes, rents and proceeds thereof. Debtor hereby expressly waives any requirement that Secured Party or the receiver post a bond upon such appointment. Any receiver appointed by Secured Party, so far as concerns responsibility for its acts, shall be deemed the agent of the undersigned and not of Secured Party. All Secured Party's rights and remedies, whether evidenced hereby or by any other agreement, instrument or writing shall be cumulative and may be exercised singularly or concurrently.

19. ADDITIONAL SECURITY AND COLLATERAL AGREEMENT. As additional security and collateral for the Obligations, Debtor hereby grants to Secured Party a security interest in all instruments, documents, notes, bills of exchange, title or documents of title, policies and certificates of insurance, securities, stock certificates, bonds, goods, accounts receivable, deposits, choses in action, chattel paper, cash, property and the proceeds thereof (whether or not the same are Collateral hereunder) owned by Debtor or in which Debtor has an interest, which now or hereafter are at any time in the possession or control of Secured Party at any of its offices or in transit by mail or carrier to or from Secured Party or in the possession of any third party acting in Secured Party's behalf, without regard to whether Secured Party received the same in pledge, for safekeeping, as agent for collection or transmission or otherwise or whether Secured Party has conditionally released the same, shall constitute additional security and collateral for the Obligations and may at any time be collected, negotiated, sold, assigned, set off or applied against any Obligations which are then due whether by acceleration or otherwise.

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20. GENERAL

20.1 Nothing contained in this Security Agreement shall be construed to obligate Secured Party to extend credit to Debtor, or enter into any foreign exchange contracts or other contracts of any nature with Debtor.

20.2 Without notice to Debtor and without diminishing or affecting Secured Party's rights or Debtor's obligations hereunder, Secured Party may deal in any manner with any person who at any time is liable for, or provides any real or personal property collateral for (i) any of the Obligations; or (ii) any obligations constituting Collateral. Without limiting the foregoing, Secured Party may, in its sole discretion: (a) provide secured or unsecured credit to Debtor; (b) agree to any number of waivers, modifications, extensions and renewals of any length of any Obligations and of any obligations constituting Collateral; (c) impair, release (with or without substitution of new collateral) and fail to perfect a security interest in, any collateral provided by any person, whether with respect to the Obligations or any obligations constituting Collateral; (d) sue, fail to sue, agree not to sue, release, and settle or compromise with, any person.

20.3 This Security Agreement and all rights and liabilities hereunder and in and to any and all Obligations and Collateral or other security shall inure to the benefit of Secured Party and its successors and assigns, and shall be binding upon Debtor and its successors and assigns.

20.4 If at any time or times by assignment or otherwise Secured Party transfers any Obligations and Collateral or other security therefor, the transferee shall become vested with Secured Party's rights and powers hereunder with respect to the Obligations, Collateral and other security transferred, whether or not specifically referred to in the transfer. To the extent that Secured Party retains any Obligations and Collateral or other security therefor, Secured Party's rights and powers hereunder shall continue with respect thereto.

20.5 Secured Party shall not be deemed to have waived any of Secured Party's rights hereunder or under any other agreement, instrument or writing signed by Debtor unless such waiver be in writing and signed by Secured Party. No delay or omission on the part of Secured Party in exercising any right shall operate as a waiver of such right or any other right. A waiver on any one occasion shall not be construed as a bar or waiver of any right or remedy on any future occasion.

20.6 Any demand upon or notice to Debtor that Secured Party may give shall be effective when served personally or deposited in the mails or by facsimile or courier addressed to the address shown above, such other address as may be designated in writing to Secured Party from time to time, or to any address at which Secured Party customarily communicates with Debtor.

20.7 If there is more than one Debtor hereunder, all references to "Debtor" shall mean all or any one or more of them.

20.8 Whether or not litigation or arbitration is commenced, Debtor shall pay to Secured Party on demand any and all costs and expenses reasonably incurred or expended by Secured Party in the repossession, protection, storage, maintenance, and liquidation of any Collateral and other security, in the collection or attempted collection of the Collateral and in protecting and enforcing the rights of Secured Party hereunder, including such additional sums as any court or arbitrator(s) shall adjudge reasonable as attorney fees, including but not limited to costs and attorney

fees incurred in any appellate proceeding, proceeding under the bankruptcy code or receivership.

20.9 This Security Agreement shall be effective when signed by Debtor and delivered to Secured Party.

20.10 Whenever there is no outstanding Obligation and no commitment on the part of Secured Party under any agreement which might give rise to an Obligation, Debtor may terminate

this Security Agreement by notice in writing delivered to Secured Party at the office of Secured Party to which this Security Agreement was delivered. Prior to such termination, this shall be a continuing agreement in every respect.

20.11 Even if this Security Agreement and any security interest granted herein has been terminated in whole or in part (pursuant to Section 20.9 or otherwise), if any payment or other transfer to Secured Party on account of any Obligation(s) is avoided or set aside under any applicable bankruptcy, insolvency or fraudulent conveyance law or law for the relief of debtors or on any other basis, or if Secured Party in its sole discretion consents in good faith to any such avoidance or set aside, such Obligation(s) and the security interest granted herein shall be deemed to continue or be reinstated to the extent of such payment or transfer.

20.12 Any disputes claims, counterclaims, and defenses, including those based on or arising from any alleged tort ("Claims") relating in any way to this Security Agreement, or breach thereof, shall be settled by arbitration in accordance with the rules of the American Arbitration Association or any organization which is the successor thereto, and judgment upon the award rendered pursuant to such arbitration may be rendered in any court having jurisdiction thereof. The fees and expenses of any arbitration shall be borne by the losing party. The prevailing party shall be entitled to recover from the losing party the expenses of its witnesses and reasonable attorney fees. If either party institutes any judicial proceeding relating to this Security Agreement, such action shall not be a waiver of the right to submit any Claim to arbitration. In addition, each has the right before, during, and after any arbitration to exercise any number of the following remedies, in any order or concurrently: (i) setoff; (ii) self-help repossession; (iii) judicial or non-judicial foreclosure against real or personal property collateral; and (iv) provisional remedies, including injunction, appointment of receiver, attachment, claim and delivery and replevin.

20.13 This Security Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Washington without regard to conflict of law principles. Any legal action taken in connection with this Security Agreement shall be commenced in Spokane, Washington, and the parties agree that they will be subject to the jurisdictions of the Courts of Spokane County, Washington.

20.14 If anything in this Security Agreement is held to be illegal, then only that portion is void and not the entire Security Agreement.

20.15 Secured Party shall use ordinary reasonable care in the physical preservation and custody of the Collateral in its possession, but shall have no other obligation to protect the Collateral or its value, and in particular, Secured Party shall have no responsibility for the collection or protection of any income on the Collateral; preservation of rights against parties thereto or against third persons; ascertaining any maturities, calls, conversions, exchanges, offers, tenders, or similar matters relating to any of the Collateral; nor for informing the undersigned with respect to any of the above, whether or not Secured Party has or is deemed to have knowledge thereof. The undersigned hereby waives presentment, protest, demand, or notice of non-payment to the undersigned, or to any maker, endorser, surety, guarantor, or other person who is a party to any of the Collateral, and agrees that Secured Party shall have no obligations to commence litigation, notify debtor or take any other action to prevent the running of any statute of limitations. Further, the undersigned waives presentment, protest, demand, or notice of non-payment to the undersigned of any portion of the indebtedness and Secured Party may grant an extension of time to or renew any obligation of the undersigned or any one or more of them, or exchange or release any Collateral or other security without first obtaining the consent of the undersigned.

21. AGREEMENT AND ADDENDA. This Security Agreement supports and backs the Warehousing Line of Credit Promissory Note dated as of February 20, 2002.

Signed and Delivered to Secured Party as of the day and year first written above.

GENESIS FINANCIAL, INC.

/s/Micahel A. Kirk

Michael A. Kirk, President

ATTEST:

/s/Douglas B. Durham

Douglas B. Durham, Chairman

GUARANTY

LENDER: **Temporary Financial Services, Inc.**
200 North Mullan Road, Suite 213
Spokane, Washington 99206

BORROWER: **Genesis Financial, Inc.**
200 North Mullan Road, Suite 217
Spokane, Washington 99206

GUARANTOR: **Michael A. Kirk, a single man**
6519 North Sutherlin
Spokane, Washington 99208

Douglas B. Durham and Colleen D. Durham, husband and wife
1926 East 38th
Spokane, Washington 99223

This Guaranty supports and backs the Warehousing Line of Credit Promissory Note and the related Security Agreement between BORROWER and LENDER, both dated as of February 20, 2002 (collectively the "Credit Facility").

Executed at: Spokane, Washington, this 20th day of February, 2002.

For a valuable consideration the undersigned and each of them, hereinafter collectively called "Guarantor", jointly and severally and unconditionally guarantees and promises to pay Temporary Financial Services, Inc., a Washington corporation, (herein called 'LENDER'), its successors or assigns, on demand in lawful money of the United States of America, any and all indebtedness of the above named "BORROWER", to LENDER, as follows:

1. Maximum liability. The liability of Guarantor hereunder shall not exceed at any one time the sum of: (a) The principal amount of the Credit Facility; (b) An amount equal to interest, and fees owed by BORROWER on the Credit Facility; and, (c) All costs, expenses and attorneys' fees, including any on appeals, incurred by LENDER in connection with the collection of the indebtedness of BORROWER or with the collection or sale of any collateral in accordance with the Credit Facility.

2. **"Indebtedness" defined.** The word "indebtedness" is used herein in its most comprehensive sense and includes, but is not limited to, any and all advances, debts, obligations, and liabilities of BORROWER to LENDER, including judgments against BORROWER by LENDER, whether currently existing or arising at a later date, whether voluntarily or involuntarily created, and however arising, and whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined.

3. **Nature of Guarantor's undertaking.** The liability of Guarantor hereunder shall be open and continuous for as long as this guaranty shall be in force. Guarantor intends to guarantee at all times the performance of all obligations of BORROWER to LENDER within the limits set forth above. Thus, no payments made upon BORROWER's indebtedness shall be held to discharge or diminish the liability of Guarantor for any and all remaining and succeeding indebtedness of BORROWER to LENDER. The liability of Guarantor hereunder shall be joint and several with all other Guarantors hereunder, shall also be binding upon Guarantor's marital community (if any), and shall be enforceable against both the separate and community property of Guarantor existing at the date of execution hereof or hereafter acquired.

4. **LENDER's rights and obligations in dealing with BORROWER.** Guarantor authorizes LENDER to deal with BORROWER and BORROWER's sureties, endorsers, and other guarantors, in any manner in which LENDER sees fit in connection with any indebtedness of BORROWER to LENDER, now or hereafter created, without any further consent or authorization from Guarantor being necessary. Specifically, but without limiting the powers of LENDER, LENDER may make various types of secured or unsecured financing arrangements for BORROWER; LENDER may extend the time for payment of any indebtedness of BORROWER, LENDER may release any collateral given to LENDER by BORROWER, with or without the substitution of new collateral; LENDER may release or agree not to sue BORROWER's sureties, endorsers, or other guarantors on any terms it chooses; LENDER may sue or fail to sue BORROWER upon any overdue indebtedness or may realize or neglect to realize upon any collateral held in connection therewith; all of the foregoing without the necessity of any notice to or consent from Guarantor and all without

affecting Guarantor's liability hereunder.

5. **Duration of guaranty.** This guaranty shall take effect when received by LENDER, without the necessity of any acceptance by LENDER, and shall continue in full force until such time as Guarantor shall notify LENDER in writing, at the office of LENDER to which this guaranty shall be delivered in the first instance, of Guarantor's election to terminate the same. Any such election to terminate shall be effective only as to indebtedness incurred by BORROWER to LENDER after receipt of such written notice; provided, that this guaranty shall be effective even as to indebtedness incurred by BORROWER after receipt of such written notice if LENDER committed itself to BORROWER in regard to such indebtedness prior to receipt of such notice. This guaranty shall bind the Guarantor for renewals and extensions granted after the termination hereof which pertain to debts guaranteed hereby whether or not the renewals or extensions are longer than the original period of the debts guaranteed hereunder. This guaranty shall bind the estate of Guarantor as to indebtedness created both before and after the death or incapacity of Guarantor; provided, that Guarantor's executor or administrator or other legal representative may terminate this guaranty in the same manner in which Guarantor might have terminated it and with the same effect. Termination of this guaranty by one of the undersigned shall not affect the liability hereunder of the remaining of the undersigned.

6. **LENDER's rights against and obligations to Guarantor.**Guarantor hereby expressly waives presentment, protest, demand, or notice of any kind, including notice of nonpayment of any of BORROWER's indebtedness or of any collateral thereto and notice of any action or nonaction on the part of BORROWER, LENDER, or any surety, endorser, or other guarantor. Upon any default of BORROWER on any obligation to LENDER, LENDER may, at its option, then and there demand and be entitled to payment from Guarantor of the full amount or any part of the amount of BORROWER's indebtedness to LENDER, within the limitations set forth above, and if Guarantor shall not pay the sum demanded to LENDER, LENDER may proceed directly and at once against Guarantor to collect such sum without first proceeding against BORROWER, or any surety, endorser, or other guarantor and without foreclosing upon or selling or otherwise disposing of any collateral it may have as security for any of BORROWER's indebtedness. Failure to make such demand at such time or so to proceed shall not relieve Guarantor of its obligations hereunder or in any sense constitute a waiver. LENDER shall have the right to demand and collect from Guarantor all or any portion of BORROWER's indebtedness and failure of LENDER at any time to demand from Guarantor or to proceed to collect from Guarantor the full amount of BORROWER's indebtedness from Guarantor shall not preclude LENDER from later demanding or proceeding to collect from Guarantor any remaining indebtedness of BORROWER to LENDER covered by this guaranty. In any action or suit against Guarantor to enforce this guaranty, LENDER shall be entitled to recover from Guarantor, in addition to costs and disbursements allowed by law, a reasonable amount for LENDER's attorney's fees in such action or suit or appeal therefrom. In any action or suit brought by LENDER against Guarantor, Guarantor will not assert as a defense any statute of limitations if at the time the action or suit is commenced there is outstanding any indebtedness of

BORROWER to LENDER which is not barred by the statute of limitations of the State of Washington. If payment is made by BORROWER on a debt guaranteed hereby and thereafter LENDER is forced to remit the amount of that payment to the BORROWER's trustee in bankruptcy or similar person under any federal or state bankruptcy law or law for the relief of debtors, the BORROWER's debt shall be considered unpaid for the purpose of enforcement of this Guaranty.

7. **Subordination of Guarantor's rights against BORROWER.**Guarantor agrees that the indebtedness of BORROWER to LENDER, whether now existing or hereafter created, shall be and the same hereby is declared to be prior to any claim that Guarantor may now have or hereafter acquire against BORROWER, whether or not BORROWER becomes insolvent, and Guarantor shall and does expressly subordinate such claim Guarantor may have against BORROWER, upon any account whatsoever, to any claim that LENDER may now or hereafter have against BORROWER. In the event of insolvency and consequent liquidation of the assets of BORROWER, through Bankruptcy, by an assignment for the benefit of creditors, by voluntary liquidation, or otherwise, the assets of BORROWER applicable to the payment of the claims of both LENDER and Guarantor shall be paid to LENDER and shall be first applied by LENDER to the indebtedness of BORROWER to LENDER. Guarantor does hereby assign to LENDER all claims which it may have or acquire against BORROWER or any assignee or trustee in bankruptcy of BORROWER; provided, that such assignment shall be effective only for the purpose of assuring to LENDER full payment of all indebtedness of BORROWER to LENDER.

8. **Assignment of Guaranty.** Assignment by LENDER of all or part of the indebtedness shall transfer to the assignee all benefits of this Guaranty as to the portion of the indebtedness assigned. This Guaranty shall remain in effect in favor of LENDER as to the portion of the indebtedness not assigned.

9. **Releases and Waivers**. Guarantor hereby expressly and irrevocably releases and waives any and all "claims" (as now or hereafter defined in the United States Bankruptcy Code, 11 USC 101 et.seq.) of any nature whatsoever, whether known or unknown and whether now existing or hereafter acquired, against any debtor or the estate in any existing or future bankruptcy case in which the debtors include BORROWER or any person or entity with respect to whom Guarantor is an "insider" (as now or hereafter defined in such Bankruptcy Code), to the extent such claims in any manner relate to or arise out of this Guaranty or any indebtedness guaranteed hereby (including but not limited to fixed or contingent claims based on subrogation, indemnity, reimbursement, contribution or contract). Guarantor authorizes and empowers LENDER to at any time exercise, in its sole discretion, any right or

remedy or any combination thereof which may then be available to LENDER; Guarantor agrees that nothing contained herein shall prevent LENDER from suing on any indebtedness instrument or from exercising any right or remedy available to LENDER thereunder, and Guarantor further agrees that the exercise of any such rights or remedies shall not constitute a legal or equitable discharge of Guarantor. It is Guarantor's intent and purpose that the obligation hereunder shall be absolute, independent, and unconditional under any and all circumstances.

Notwithstanding any foreclosure of any lien on real or personal property securing any indebtedness guaranteed hereby, whether by the exercise of a power of sale, by an action for judicial foreclosure or by acceptance of a deed in lieu of foreclosure, Guarantor shall remain bound under this Guaranty.

Guarantor acknowledges that LENDER's financing for BORROWER is of substantial and material benefit to Guarantor, that Guarantor has been informed and believes that LENDER would not provide financing for BORROWER but for this Guaranty and the representations, acknowledgments, releases, waivers and agreements contained herein, and that LENDER will rely on all such representations, acknowledgments, releases, waivers and agreements in providing financing for BORROWER.

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10. **Indebtedness continued.** The term "indebtedness" as defined in paragraph 2 above includes, but is not limited to, all existing and future obligations and liabilities of BORROWER under the Credit Facility between BORROWER and LENDER referenced above, a copy of which is attached to this Guaranty.

11. **Disputes.** This Guaranty shall be governed by and construed and enforced in accordance with Washington Law. Notwithstanding any arbitration under the Credit Facility, any legal action taken in connection with this Guaranty shall be commenced in Spokane, Washington, and the parties agree that they will be subject to the jurisdiction of the Courts of Spokane County, Washington.

/s/Michael A. Kirk
Michael A. Kirk, Guarantor

/s/Douglas B. Durham
Douglas B. Durham, Guarantor

/s/Colleen D. Durham
Colleen D. Durham, Guarantor