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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ending March 31, 2009

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

For the transition period from _____to_____

Commission file number: **333-103331**

Genesis Financial, Inc.

(Name of Small Business Issuer in its Charter)

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

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ ] No [X] (See Explanatory Note)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of "accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer [ ], Accelerated filer [ ], Non-accelerated filer [ ], Smaller reporting company [X]

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

APPLICABLE ON TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act subsequent to the distribution of securities under a plan confirmed by the court. Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of July 12, 2010 we had 7,757,108 shares of common stock issued and outstanding.

EXPLANATORY NOTE: The registrant filed a Comprehensive 10-K report on April 23, 2010 for the periods ending December 31, 2004, 2005, 2006 and 2007. This Comprehensive 10-K deviated from the Section 15(d) requirements in that it condensed annual and quarterly reports for multiple years into a single comprehensive report. The SEC Staff did not object to the registrant's request to file the comprehensive 10-K report.

Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

GENESIS FINANCIAL, INC.
Balance Sheets

		March 31, 2009 Unaudited		December 31, 2008
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	48,863	$	117,387
Interest and other receivables		322,994		247,904
Inventories, lower of cost or market:				
Contracts		5,508,678		5,413,396
Real estate		1,400,078		1,736,011
Subtotal		6,908,756		7,149,407
Less allowance		(1,637,969)		(1,738,254)
Net inventories		5,270,787		5,411,153
Income taxes receivable		10,000		10,000
Total current assets		5,652,644		5,786,444
Investment in securities available for sale		75,262		105,833
Other assets		2,680		2,680
Total assets	$	5,730,586	$	5,894,957
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Line of credit, affiliated company	$	2,500,000	$	2,500,000
Line of credit, bank		950,000		1,000,000
Other current liabilities		140,046		232,382
Total current liabilities		3,590,046		3,732,382
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' EQUITY:				
Preferred stock, $.001 par value: 10,000,000 authorized		-		-
Common stock, $.001 par value, 100,000,000 authorized, 6,707,108 issued and outstanding		6,708		6,708
Additional paid-in capital		3,969,401		3,969,401
Accumulated deficit		(1,835,569)		(1,813,534)
Total stockholders' equity		2,140,540		2,162,575
Total liabilities and stockholders' equity	$	5,730,586	$	5,894,957

See accompanying notes to financial statement.

GENESIS FINANCIAL, INC.

Statements of Operations

Unaudited

	Three Months Ended March 31, 2009	2008
REVENUE:		
Interest, processing and other income (expense)	$ (10,611)	$ 379,907
Broker fee income	7,787	263,917
Total revenues	(2,824)	643,824
EXPENSES:		
Provision (recovery) for losses	(100,285)	75,000
Management fee - affiliate	18,000	-
Compensation and related expenses	-	88,231
Interest expense, related party	26,199	53,651
Interest expense, other	18,819	33,093
Office occupancy	2,358	15,302
Other operating expenses	12,399	10,667
Total operating expenses (income)	(22,510)	275,944
NET INCOME FROM OPERATIONS	19,686	367,880
OTHER INCOME (LOSS):		
Loss on sale of investment securities	(41,721)	-
NET INCOME (LOSS) BEFORE INCOME TAXES	(22,035)	367,880
INCOME TAXES	-	10,000
NET INCOME (LOSS)	$ (22,035)	$ 357,880
BASIC AND DILUTED EARNINGS INCOME (LOSS) PER SHARE	$ Nil	$ 0.05
WEIGHTED AVERAGE SHARE OUTSTANDING BASIC AND DILUTED	6,707,108	6,955,315

See accompanying notes to financial statement.

GENESIS FINANCIAL, INC.

Statements of Cash Flows

Unaudited

		Three Months Ended March 31,		
		2009		**2008**
CASH FLOWS FROM OPERATING ACTIVITIES	$	185,679	$	(329,804)
CASH FLOWS FROM INVESTING ACTIVITIES		30,571		-
CASH FLOWS FROM FINANCING ACTIVITIES				
Redemption of common stock		-		(180,000)
Borrowings (repayment) line of credit with affiliate, net		-		500,000
Borrowings (repayment) from line of credit from bank, net		(50,000)		(150,000)
		(50,000)		170,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		166,250		(159,804)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		117,387		165,174
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	48,863	$	5,370

See accompanying notes to financials statement.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization:

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

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

The unaudited financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, as well as the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of the Company's management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the interim financial statements have been included. Operating results for the three-month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2009.

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

For further information refer to the financial statements and footnotes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Summary of Significant Accounting Policies

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

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

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

Inventories –

Contracts Receivable
Real estate contracts held in inventory for resale are carried at the lower of cost (outstanding principal adjusted for net discounts, deferred origination fees and capitalized acquisition costs) or fair market value, determined on an aggregate basis by major type of receivable. Interest on these receivables is included in interest income during the period held for sale. Until the contract is sold, contract origination fees received from borrowers are deferred and amortized into income over the established average life of related loan under a method which approximates the effective interest rate method.

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

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

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

Processing fees – Genesis earns fees for processing contracts that it has sold. Genesis collects processing fees, generally expressed as a percent of the unpaid principal balances, from the borrowers' payments.

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

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

Customer advances – From time-to-time, customers deposit funds with the Company for general purposes pending real estate receivable contract purchase or loan closing. The Company records these customer advances as a liability when received and the amounts are offset against the contract or loan delivered to the customer when the purchase is closed. The closings generally occur within a relatively short time after receipt of the advance from the customer.

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

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

NOTE 2 – INVENTORIES:

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

		March31, 2009		**December 31, 2008**
Residential properties	$	265,514	$	267,051
Commercial properties		-		25,000
Land properties		1,005,748		1,341,453
Acquisition costs		128,816		102,507
Total	$	1,400,078	$	1,736,011

Loss Allowance:

The activity in the Company's loss allowance account for the three months ended March 31, is as follows:

		2009		2008
Beginning balances	$	1,738,254	$	795,900
Additions		75,000		75,000
Writeoffs (recoveries)		(175,285)		(812,400)
Ending balances	$	1,637,969	$	58,500

The Company did a carrying value analysis of their portfolio during the quarter ended March 31, 2009 and increased reserves by $75,000. The Company had writeoffs, net of recoveries of previously reserved contracts totaling $175,285 for the three months ended March 31, 2009.

NOTE 3 - RELATED PARTY TRANSACTIONS:

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

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

Genesis Financial, Inc. had the following related party transactions for the quarter ending March 31, 2009 and the quarter ended March 31, 2008.

Michael Kirk and Genesis Finance Corporation

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

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

<u>Coghlan Family Corporation "CFC"</u>

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

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

<u>Coghlan, LLC</u>

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

<u>Genesis Holdings, Inc.</u>

There was no activity for the 1st quarter 2008 or 2009.

<u>Genesis Holdings II, Inc.</u>

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

NOTE 4 — LINE OF CREDIT:

At March 31, 2009, the Company had a $1,000,000 Line of Credit with RiverBank with a variable interest rate equal to the prime rate index rate (as published in the Wall Street Journal) plus 1% total 8.25%. The line has a term of 12 months, and an origination fee of 1%, or $10,000. The outstanding balance at March 31, 2009 was $950,000. The RiverBank line of credit is senior to the CFC line of credit and is collateralized by the assets of Genesis. The RiverBank line requires that the CFC line may not be paid down lower than the amount owing to RiverBank at any time during the term of the loan. The line is payable on demand and is personally guaranteed by John and Wendy Coghlan.

At March 31, 2009, the Company had a $2,500,000 Line of Credit Agreement with the Coghlan Family Corporation, Inc. ("CFC"). CFC is an affiliated company controlled by a director and principal shareholder of the Company. The interest rate on the line is 8% per annum with an origination fee of 1% or $20,000. The outstanding balance at December 31, 2008 was $2,500,000. The credit line is collateralized by all of Genesis' assets but is subordinate to the RiverBank line of credit. The line of credit agreement requires that the Company maintain a debt to equity ration of no greater than 3.0. Borrowings under the line are personally guaranteed by an officer of the Company.

NOTE 5 – SUBSEQUENT EVENTS:

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

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

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

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

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

In April, 2010 Genesis Financial, Inc. completed a private placement of 1,050,000 shares of common stock at $.10 per to accredited investors for a total of $105,000 received.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

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

Fair Value Measures

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

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

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

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

At March 31, 2009 and 2008, our financial instrument measured at fair value on a recurring basis consists of investments in securities available for sale which is measured using Level 1 inputs.

NOTE 7 – LEGAL PROCEEDINGS:

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

When used in this Form 10-Q and in our future filings with the Securities and Exchange Commission, the words or phrases will likely result, management expects, or we expect, will continue, is anticipated, estimated or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speaks only as of the date made. These statements are subject to risks and uncertainties, some of which are described below. Actual results may differ materially from historical earnings and those presently anticipated or projected. We have no obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect anticipated events or circumstances occurring after the date of such statements.

Background

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

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

Additional details about our business are set forth in our Annual Report on Form 10-K for the year ending December 31, 2008

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

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

PLAN OF OPERATIONS.

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

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

RESULTS OF OPERATIONS

Quarter ended March 31, 2009 compared to quarter ended March 31, 2008.

Revenues

Total revenues for the quarter ending March 31, 2009 were ($2,824) compared to $643,824 for the quarter ending March 31, 2008. The company was generally inactive for the three months ended March 31, 2009 and no contracts were purchased or sold, or loans originated while the company generated $268,917 in broker fee income and $379,907 in interest and processing fee income for the same three months ending March 31, 2008.

Our ending inventory for the quarters ending March 31, 2009 and 2008 consisted of contracts and real estate properties with a cost basis of $6,854,289 and $8,190,811, respectively.

Net aggregate total revenues for the quarters ending March 31, 2009 and 2008 were ($2,824) and $643,824, respectively, generating net income from operations of $19,686 and $367,880, respectively for each quarter.

Of the contracts held in inventory at March 31, 2009 and 2008, contracts with aggregate values of $1,350,236 and $2,331,526 respectively, were in payment default. We believe this increase in defaults was related to the national real estate market collapse.

General and Administrative Expenses

General and administrative expenses (“G&A”) for those quarters ended March 31, 2009 and 2008, were $32,757 and $114,200, respectively. G&A primarily consists of executive and director salaries, rent and professional fees for legal, accounting and public relations, utilities, and maintenance. The period over period increases and (decreases) for the fiscal quarters ended March 31, 2009 and 2008 were ($81,443) and $73,598, respectively. The primary reason for the decrease for the quarter ended March 31, 2009 was the out-sourcing of the management and servicing of the contracts, rather than an employee based management and servicing team. The primary reasons for the increase for the quarter ended March 31, 2008 were legal expenses due to the Valencia, LLC lawsuit.

Interest Expense

For the quarters ending March 31, 2009 and 2008, interest expense amounted to $45,018 and $86,744, respectively.

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

We are currently operating under a primary $1,500,000 line of credit with RiverBank, an unaffiliated lender, with a variable interest rate equal to the prime rate index rate (as published in the Wall Street Journal) plus 1%. The line of credit also includes a one percent origination fee.

We also are currently operating under a secondary $2,500,000 line of credit with Coghlan Family Corporation, an affiliated company, bearing interest at the rate of eight percent (8%). The line of credit also includes a one-half percent origination fee.

We consider the terms of the lines of credit to be acceptable. As of March 31, 2009 and 2008, the balances on the lines of credit were $3,450,000 and $3,500,000, respectively. Interest expense on the line of credit will fluctuate in future periods with inventory levels. The increase (decrease) for the lines of credit for the quarters ending March 31, 2008 and 2007, were ($50,000) and $1,039,896, respectively.

LIQUIDITY AND CAPITAL RESOURCES

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

At March 31, 2009 and December 31, 2008, we had cash available of $48,863 and $117,387, respectively, and our lines of credit were fully extended.

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

The primary line of credit with RiverBank, an unaffiliated lender, bearing interest at a variable rate equal to the prime rate index rate plus 1%. The line of credit requires a one percent origination fee that is payable in cash. The line is for a twelve month term, and currently expires on July 1, 2010. The previous line of credit was expired June 1, 2009. We believed the terms of the line of credit were acceptable.

The secondary line of credit with Coghlan Family Corporation, an affiliated company, bearing interest at the rate of eight (8%) per annum. The line of credit requires a one-half percent origination fee that is payable in cash. The line is for a twelve month term, and expires December 31, 2009.. The line of credit was renewed June 29, 2009 and expires July 1, 2010. We believed the terms of the line of credit were at least as favorable as those available to us from an unaffiliated lender.

Pursuant to the terms of our line of credit agreements with our primary line of credit holder, RiverBank (RB), an unaffiliated lender, we have provided RB with a blanket security agreement in all of our assets. The security agreement will remain in place so long as amounts are due RB under the line of credit. Our contract and loan inventory represented the primary asset that secured the RB loan. In the event of default on the line, RB will be in a position to foreclose their security interest in any or all of our assets, up to the balance due on the line plus interest and costs. Our secondary line of credit with Coghlan Family Corporation (CFC) also provides guarantees of performance on the primary lines of credit, as well as guarantees of size limits on the amounts of the lines of credit on the secondary lines of credit.

Pursuant to the terms of our lines of credit with our secondary line of credit holder, Coghlan Family Corporation (CFC), an affiliated company, we have provided CFC with a blanket security agreement in all our assets, junior only to the primary line of credit holder blanket security agreement. The security agreement will remain in place so long as amounts are due CFC under the line of credit. Our contract and loan inventory represents the primary asset that secured the CFC loan. In the event of default on the line, CFC will be in a position to foreclose their security interest in any and all of our assets, up to the balance due on the line, plus interest and costs, plus the amount necessary to pay off the primary line of credit holders.

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

For the fiscal periods ending March 31, 2009 and March 31, 2008, our net cash provided (used) in operating activities was $216,250 and ($329,804), respectively. The reason for the increase/decrease was the decrease in general and administrative expenses and the decrease in interest expense.

During these periods our net cash provided by financing activities was ($50,000) and $170,000, respectively. The reason for the increase/decrease was our credit lines were at their maximum limits.

In May 2010, Genesis Financial, Inc. completed a private placement of 1,050,000 shares of common stock at $.10 per share to accredited investors for a total price of $105,000.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable to Smaller Reporting Companies

Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Principal Financial Officer (Chairman of the Board), of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, management concluded that our disclosure controls and procedures are effective as of March 31, 2009 to cause the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by SEC, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Principal Financial Officer (Chairman of the Board), as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

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

Limitations

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors

Not Applicable to Smaller Reporting Companies.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds.

The Company did not sell any unregistered equity securities during the period covered by this Report.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Removed and Reserved.

Item 5. Other Information.

None

Item 6. Exhibits

(a) Exhibits

Exhibit No.	Description
31.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

Dated: July 21, 2010

Genesis Financial, Inc.
(Registrant)

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

/s/ John R. Coghlan
____
By: John R. Coghlan
Title: Chief Financial Officer

Exhibit 31.1 Chief Executive Officer Certification (Section 302)

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

I, Michael A. Kirk, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Genesis Financial, Inc.

(2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

(3) Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

(4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, if any, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
(d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant=s auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information ; and
(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 21, 2010

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

Exhibit 31.2 Chief Financial Officer Certification (Section 302)

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

I, John Coghlan, certify that:

(1) I have reviewed this Comprehensive quarterly report on Form 10-Q of Genesis Financial, Inc.

(2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report.

(3) Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

(4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, if any, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
(d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 21, 2010

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

Exhibit 32.1 Chief Executive Officer Certification (Section 906)

CERTIFICATION PURSUANT TO
18U.S.C., SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

Dated: July 21, 2010

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

Exhibit 32.2 Chief Financial Officer Certification (Section 906)

CERTIFICATION PURSUANT TO
18U.S.C., SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

Dated: July 21, 2010

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