

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

FORM 10-Q
(Mark One)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ending September 30, 2010

☐ 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.
(Exact Name of Registrant as Specified in Its Charter)

Washington
(State of Incorporation)

03-0377717
(IRS Employer Identification No.)

12314 E. Broadway, Spokane Valley, WA
(Address of principal executive offices)

99216
(Zip Code)

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

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 ☒ (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 ☐

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 ☒

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

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 October 25, 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.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

GENESIS FINANCIAL, INC.

Balance Sheets

	September 30, 2010 <u>Unaudited</u>	December 31, 2009 <u></u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 46,143	\$ 64,406
Interest and other receivables	230,618	194,913
Inventories, lower of cost or market:		
Contracts	1,220,012	3,154,238
Real estate	<u>2,546,816</u>	<u>1,686,783</u>
Subtotal	3,766,828	4,841,021
Less allowance	<u>(2,075,830)</u>	<u>(1,471,553)</u>
Net inventories	<u>1,690,998</u>	<u>3,369,468</u>
 Total current assets	 <u>1,967,759</u>	 <u>3,628,787</u>
 Other assets	 <u>20</u>	 <u>20</u>
 Total assets	 <u>\$ 1,967,779</u>	 <u>\$ 3,628,807</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Line of credit, affiliated company	\$ 1,750,845	\$ 2,390,000
Line of credit, bank	380,618	599,000
Accrued interest, affiliated company	-	79,176
Other current liabilities	<u>64,906</u>	<u>183,972</u>
Total current liabilities	<u>2,196,369</u>	<u>3,252,148</u>
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock, \$.001 par value: 10,000,000 authorized	-	-
Common stock, \$.001 par value, 100,000,000 authorized, 7,757,108 issued and outstanding at 9/30/2010		
6,707,108 issued and outstanding at 12/31/2009	7,758	6,708
Additional paid-in capital	4,073,352	3,969,401
Accumulated deficit	<u>(4,309,700)</u>	<u>(3,599,450)</u>
Total stockholders' equity (deficit)	<u>(228,590)</u>	<u>376,659</u>
 Total liabilities and stockholders' equity (deficit)	 <u>\$ 1,967,779</u>	 <u>\$ 3,628,807</u>

See accompanying notes to financial statements.

GENESIS FINANCIAL, INC.

Statements of Operations

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
REVENUE:				
Contract sales revenue	\$ -	\$ -	\$ 159,642	\$ -
Cost of contracts sold	<u>-</u>	<u>-</u>	<u>157,790</u>	<u>-</u>
	-	-	1,852	-
Interest, processing and other income	13,044	38,708	88,098	93,883
Broker fee income	<u>587</u>	<u>213</u>	<u>587</u>	<u>54,957</u>
Total revenues	<u>13,631</u>	<u>38,921</u>	<u>90,537</u>	<u>148,840</u>
EXPENSES:				
Provision for losses	646,251	190,957	534,227	638,121
Management fee - affiliate	18,000	18,000	54,000	54,000
Interest expense, related party	25,196	26,781	76,249	79,469
Interest expense, other	6,618	20,001	25,711	50,199
Office occupancy	225	322	743	2,926
Other operating expenses	<u>26,533</u>	<u>17,225</u>	<u>109,857</u>	<u>60,024</u>
Total operating expenses	<u>722,823</u>	<u>273,286</u>	<u>800,787</u>	<u>884,739</u>
LOSS FROM OPERATIONS	(709,192)	# (234,365)	(710,250)	(735,899)
OTHER INCOME ("EXPENSE"):				
Loss on sale of investment securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(41,721)</u>
NET LOSS	\$ <u>(709,192)</u>	\$ <u>(234,365)</u>	\$ <u>(710,250)</u>	\$ <u>(777,620)</u>
BASIC AND DILUTED				
LOSS PER SHARE	\$ <u>(0.09)</u>	\$ <u>(0.03)</u>	\$ <u>(0.10)</u>	\$ <u>(0.12)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED				
	<u>7,757,108</u>	<u>6,707,108</u>	<u>7,237,877</u>	<u>6,707,108</u>

See accompanying notes to financial statements.

GENESIS FINANCIAL, INC.

Statements of Cash Flows

Unaudited

	Nine Months Ended September 30,	
	2010	2009
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>	\$ 734,274	\$ 155,746
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>	-	105,833
<i>CASH FLOWS FROM FINANCING ACTIVITIES</i>		
Sale of common stock in private placement	105,000	-
Repayment on line of credit with affiliate, net	(639,155)	-
Repayment on line of credit from bank, net	(218,382)	(266,000)
	(752,537)	(266,000)
<i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i>	(18,263)	(4,421)
<i>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</i>	64,406	117,387
<i>CASH AND CASH EQUIVALENTS AT END OF PERIOD</i>	\$ 46,143	\$ 112,966
<i>NON-CASH INVESTING AND FINANCING ACTIVITY</i>		
Line of credit with affiliate settled with transfer of contract	\$ 41,980	

See accompanying notes to financial statements.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization:

Genesis Financial, Inc. (“the Company” or “Genesis” or “GFI”) 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 nine month period ended September 30, 2010, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2010.

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 year ended December 31, 2009.

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.

NOTE 2 — INVENTORIES:

Contracts Receivable:

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

	September 30, 2010	December 31, 2009
Unpaid principal balances	\$ 1,220,845	\$ 3,155,658
Deferred origination costs	(833)	(1,420)
Totals	<u>\$ 1,220,012</u>	<u>\$ 3,154,238</u>

Real Estate:

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

	September 30, 2010	December 31, 2009
Residential properties	\$ 426,524	\$ 370,685
Commercial properties	-	40,136
Land properties	2,120,292	1,129,117
Acquisition costs	-	146,845
Total	<u>\$ 2,546,816</u>	<u>\$ 1,686,783</u>

Loss Allowance:

The activity in the Company's loss allowance account for three and nine month period end consists of the following:

	Three month period ending September 30,		Nine month period ending September 30,	
	2010	2009	2010	2009
Beginning balances	\$ 1,388,066	\$ 2,047,065	\$ 1,471,553	\$ 1,738,235
Additions	646,251	190,957	534,227	638,121
Recovery - (Writeoffs)	41,513	(242,000)	70,050	(380,334)
Ending balances	<u>\$ 2,075,830</u>	<u>\$ 1,996,022</u>	<u>\$ 2,075,830</u>	<u>\$ 1,996,022</u>

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. Michal A. Kirk is president and a director of the Company. John R. Coghlan is CFO, majority shareholder and a director of the Company. Specific affiliates and related parties are as follows:

- Coghlan Family Corporation (“CFC”) and Coghlan, LLC are controlled by John R. Coghlan. Coghlan Family Corporation is owned 100% by Coghlan, LLC, which is owned by the Coghlan

family members. John R. and Wendy Coghlan, husband and wife, collectively own 35.65% of Coghlan, LLC and are co-managers.

- Genesis Holdings, Inc. is a Washington corporation, which is managed by John R. Coghlan. Mr. Coghlan is President and Director of Genesis Holdings, Inc.
- Genesis Holdings II, Inc. is a Washington Corporation, which is managed by Michael A. Kirk. Mr. Kirk is the President and Director of Genesis Holdings II, Inc.
- JM Growth Enterprises, LLC is a Washington limited liability company, which is managed and controlled by Michael A. Kirk and John R. Coghlan.

Genesis Financial, Inc. had the following related party transactions for the nine months ended September 30, 2010 and the nine months ended September 30, 2009. In general, sales of contracts and real estate inventories with related parties and affiliates result in minimal gain or loss recognized by the Company.

Michael A. Kirk and Genesis Finance Corporation

Genesis Financial, Inc. has a contract with Genesis Finance Corporation, a Washington corporation owned 100% by Michael A. Kirk, to handle the operations and servicing management of the Company's assets. Genesis Finance Corporation is paid \$6,000 per month for their services.

John R. Coghlan

On July 6, 2009, John R. Coghlan purchased \$104,158 in royalties.

On February 2, 2010, John R. Coghlan purchased a \$157,790 interest in a commercial contract. This commercial contract had been purchased by the Company from JM Growth Enterprises, LLC on the same day (see below).

On September 1, 2010, John R. Coghlan purchased a \$41,980 interest in a contract that was applied to the CFC line of credit.

Coghlan Family Corporation

The Company entered has a Line of Credit Agreement with Coghlan Family Corporation. The Agreement provided for a \$2.5 million line of credit. See Note 4 for more information.

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

On June 19, 2009, CFC purchased a \$100,000 interest in a contract secured by land.

On June 30, 2010, CFC purchased a commercial contract for \$31,995, a land contract for \$70,868 and a business note for \$7,137 totaling \$110,000.

On September 29, 2010, CFC purchased a \$54,820 interest in two properties secured by commercial real estate, a \$619,103 interest in four properties secured by land, a \$157,612 interest in two properties secured by residential real estate and a \$2,249 interest in a business note.

Coghlan, LLC

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

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

There was no activity for the nine months ended September 30, 2010.

Genesis Holdings, Inc.

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

There was no activity for the nine months ended September 30, 2010.

Genesis Holdings II, Inc.

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

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

There was no activity for the nine months ended September 30, 2010.

JM Growth Enterprises, LLC

On February 2, 2010, JM Growth Enterprises, LLC sold its interest to GFI in a commercial contract for \$157,790.

There was no activity for the nine months ended September 30, 2010.

NOTE 4 — LINE OF CREDIT:

On July 7, 2010, the Line of Credit was renewed with RiverBank, with a balance owing of \$473,905, with a variable interest rate equal to the prime rate index (as published in the Wall Street journal) plus 1%, with a floor of 6%. The line has a term of 14 months, and an origination fee of 1/2%, or \$2,369. The payments are due quarterly in the amount of \$100,000, for the first four payments, and the last payment will be \$95,164. At September 30, 2010 the outstanding balance was \$380,618. 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 R. and Wendy Coghlan.

At September 30, 2010, 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 John R. Coghlan. The interest rate on the line is a variable interest rate equal to the prime rate index (as published in the Wall Street Journal) plus 1%. If the Company defaults on the agreement, the default interest rate will be 12%. Interest is payable monthly. The line has a term of 12 months and an origination fee of 1/2% or \$12,500. The credit line is collateralized by all of Genesis' assets but is subordinate to the RiverBank line of credit. The line of credit agreement requires that the Company maintain a debt to equity ratio of no greater than 3.0. Borrowings under the line are personally guaranteed by the CEO of the Company, Michael A. Kirk. Because of the economic conditions, CFC has agreed to waive the interest starting October 1, 2010, the 3.0 debt to equity covenant, and the 12% default rate are waived.

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, 2009. 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.

Genesis Financial, Inc. 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. At this point, Management does not feel that the real estate markets have bottomed out, and we will continue to bide our time until we feel that situation has changed, before we attempt to recapitalize.

Over the past three 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 September 30, 2010 compared to quarter ended September 30, 2009.

Revenues

Total revenues for the quarter ending September 30, 2010 were \$13,631 compared to \$38,921 for the same quarter September 30, 2009. The majority of the revenue for the quarter ended September 30, 2010 and the quarter ended September 30, 2009 was from interest and broker fee income.

During the quarters ended September 30, 2010 and September 30, 2009 we did not sell any contracts and real estate properties.

Net income (loss) from operations was (\$709,192) and (\$234,365), respectively, for the quarters ending September 30, 2010 and 2009.

Of the contracts held in inventory at September 30, 2010 and 2009, contracts with aggregate values of \$662,661 and \$1,148,833, respectively, were in payment default. This decrease in defaults was due to the completed litigation of many delinquent accounts, resulting in them becoming repossessions. We believe the defaults and repossessions are directly related to the national real estate market collapse.

General and Administrative Expenses

General and administrative expenses ("G&A") for the quarters ended September 30, 2010 and 2009, were \$44,758 and \$35,547, respectively. G&A primarily consists of management and professional fees for legal and auditing. The year over year increase (decrease) for the fiscal quarters ended September 30, 2010 and 2009 were (\$9,211) and \$(89,604), respectively. The primary reason for the changes during the quarters ended September 30, 2010 and September 30, 2009 was a reduction in litigation expense.

Interest Expense

For the quarters ending September 30, 2010 and 2009, interest expense amounted to \$31,814 and \$46,782, 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 \$473,905 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%, with a floor of six percent. The line of credit also includes a one-half percent origination fee. The term of the loan is 14 months, with quarterly payments of principal and interest of \$100,000, with a final payment of \$95,164.

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

We consider the terms of the lines of credit to be acceptable. As of September 30, 2010 and 2009, the balances on the lines of credit were \$2,131,463 and \$3,234,000 respectively. Interest expense on the line of credit will fluctuate in future periods with inventory levels.

Nine Months ended September 30, 2010 compared to nine months ended September 30, 2009.

Revenues

Total revenues for the nine months ending September 30, 2010 were \$90,537 compared to \$148,840 for the same nine months ended September 30, 2009. The majority of the revenue for the nine months ended September 30, 2010 for the nine months ended September 30, 2009 was from interest and processing fees and broker fee income.

Net income (loss) from operations was (\$710,250) and (\$777,620), respectively for the nine months ending September 30, 2010 and 2009

Of the contracts held in inventory at September 30, 2010 and 2009, contracts with aggregate values of \$662,661 and \$1,148,833, respectively, were in payment default. This decrease in defaults was due to the completed litigation of many delinquent accounts, resulting in them becoming repossessions. We believe the defaults and repossessions are directly related to the national real estate market collapse.

Our ending inventory for the nine months ending September 30, 2010 and 2009 consisted of contracts and real estate properties with a cost basis of \$3,551,063 and \$6,388,440, respectively.

General and Administrative Expenses

General and administrative expenses ("G&A") for the nine months ended September 30, 2010 and 2009 were \$164,600 and \$116,950, respectively. G&A primarily consists of management and professional fees for legal and auditing. The year over year increases and (decreases) for the nine months ended September 30, 2010 and 2009 were \$47,650 and (\$256,537), respectively. The primary reason for the increase for the nine months ended September 30, 2010 was the professional fees incurred in bringing the required audits and filings current while the decrease for the nine months ended September 30, 2009 were the changes made in operations, engaging a manager to manage the existing contracts and ceasing to actively seek new contracts.

Interest Expense

For the nine months ending September 30, 2010 and 2009, interest expense amounted to \$101,960 and \$129,668 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 September 30, 2010 and 2009, we had cash available of \$46,143 and \$112,966, respectively, and no funds were available under our lines of credit.

On July 7, 2010, the Line of Credit was renewed with RiverBank, with a balance owing of \$473,905, with a variable interest rate equal to the prime rate index (as published in the Wall Street journal) plus 1%, with a floor of 6%. The line has a term of 14 months, and an origination fee of 1/2%, or \$2,369. The payments of principal and interest are due quarterly in the amount of \$100,000, for the first 4 payments, and the last payment will be \$95,164. 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 September 30, 2010, 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 a variable interest rate equal to the prime rate index (as published in the Wall Street Journal) plus 1%. The line has a term of 12 months and an origination fee of 1/2% or \$12,500. The credit line is collateralized by all of Genesis' assets but is subordinate to the RiverBank line of credit. The line of credit agreement requires that the Company

maintain a debt to equity ratio of no greater than 3.0. Borrowings under the line are personally guaranteed by an officer of the Company. Because of the economic conditions, CFC has agreed to waive all interest beginning October 1, 2010 and the 3.0 debt to equity ratio, as well as the 12% default rate, are waived.

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 principal 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. At this point, Management does not feel that the real estate markets have bottomed out, and we will continue to bide our time until we feel that situation has changed, before we attempt to recapitalize.

For the fiscal periods ending September 30, 2010 and September 30, 2009, our net cash flows from operating activities were \$734,274 and \$155,746, respectively. The reason for the increase was contract collections in excess of operating costs.

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.

During these periods our net cash used by financing activities was \$752,527 and 4,421, respectively. The reason for the decrease was our credit lines were at their maximum limits.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable to Smaller Reporting Companies

Item 4. 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 September 30, 2010 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.

None

Item 1A. Risk Factors

Not Applicable to Smaller Reporting Companies.

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

In May 2010, Genesis Financial, Inc. completed a private placement of 1,050,000 shares of common stock at \$.10 per share to 19 accredited investors for a total price of \$105,000.

We believe these securities were issued in a private transaction pursuant to Section 4(2) and Regulation D Rule 506 of the Securities Act of 1933, as amended, (the, "Act") and are deemed restricted securities and may not be publicly resold, without registration under the Act or unless exempt from the registration requirements.

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: November 10, 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 quarterly 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 quarterly report;
- (3) Based on my knowledge, the financial statements and other financial information included in this quarterly 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 quarterly 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 quarterly 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: November 10, 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 quarterly report on Form 10-Q of Genesis Financial, Inc.
- (2) Based on my knowledge, this quarterly 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 quarterly report;
- (3) Based on my knowledge, the financial statements and other financial information included in this quarterly 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 quarterly 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 quarterly 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: November 10, 2010

/s/ John R. Coghlan

By: _____
John R. Coghlan, CFO

Exhibit 32.1 - Chief Executive Officer Certification (Section 906)

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

Pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), I, Michael A. Kirk, the undersigned Chief Executive Officer of Genesis Financial, Inc., (the "Company"), hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2010 (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: November 10, 2010

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

Exhibit 32.2 - Chief Financial Officer Certification (Section 906)

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

Pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), I, John Coghlan, the undersigned Chief Financial Officer of Genesis Financial, Inc., (the "Company"), hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of the Company for the periods ended September 30, 2010, (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: November 10, 2010

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