

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 March 31, 2011

☐ 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
(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 April 24, 2011 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

Unaudited

| | <u>March 31,</u> <u>2011</u> | <u>December 31,</u> <u>2010</u> |
|---|---------------------------------|------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 414,424 | \$ 117,455 |
| Interest and other receivables | 111,680 | 224,913 |
| Related party receivable | 56,672 | 47,240 |
| Inventories, lower of cost or market: | | |
| Contracts | 988,660 | 1,000,766 |
| Real estate | <u>2,051,610</u> | <u>2,686,032</u> |
| Subtotal | 3,040,270 | 3,686,798 |
| Less allowance | <u>(947,488)</u> | <u>(1,522,329)</u> |
| Net inventories | <u>2,092,782</u> | <u>2,164,469</u> |
| Total current assets | <u>2,675,558</u> | <u>2,554,077</u> |
| NON-CURRENT ASSETS: | | |
| Long-term investments, at cost | <u>1,622,686</u> | <u>1,450,000</u> |
| Total assets | <u>\$ 4,298,244</u> | <u>\$ 4,004,077</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Line of credit, affiliated company | \$ 1,550,000 | \$ 1,750,845 |
| Line of credit, bank | 190,653 | 286,264 |
| Note payable, Flyback Energy, Inc. | 140,000 | 560,000 |
| Other current liabilities | <u>82,402</u> | <u>94,968</u> |
| Total current liabilities | <u>1,963,055</u> | <u>2,692,077</u> |
| LONG-TERM LIABILITIES: | | |
| Convertible note payable to officer, net of discount | <u>139,769</u> | <u>123,896</u> |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY: | | |
| Series B Preferred stock, \$1.00 par value: 2,000,000 authorized, 850,500 issued and outstanding at 12/31/2010 | 2,000,000 | 850,500 |
| 2,000,000 issued and outstanding at 3/31/2011 | | |
| Common stock, \$.001 par value, 100,000,000 authorized, 7,757,108 issued and outstanding | 7,758 | 7,758 |
| Additional paid-in capital | 4,370,056 | 4,370,056 |
| Accumulated deficit | <u>(4,182,394)</u> | <u>(4,040,210)</u> |
| Total stockholders' equity | <u>2,195,420</u> | <u>1,188,104</u> |
| Total liabilities and stockholders' equity | <u>\$ 4,298,244</u> | <u>\$ 4,004,077</u> |

See accompanying notes to financial statements.

GENESIS FINANCIAL, INC.

Statements of Operations

Unaudited

| | Three Months Ended March 31, | |
|---|-------------------------------------|------------------|
| | 2011 | 2010 |
| REVENUE: | | |
| Contract sales revenue | \$ - | \$ 159,642 |
| Cost of contracts sold | - | (157,790) |
| | - | 1,852 |
| Interest, processing fee and other income | 14,347 | 70,118 |
| Total revenues | 14,347 | 71,970 |
| EXPENSES: | | |
| Provision (Recovery) for losses | (14,561) | (16,422) |
| Write off of interest receivable | 108,413 | |
| Salaries | 11,250 | - |
| Management fee - affiliate | 4,500 | 18,000 |
| Interest expense, related party | 21,681 | 25,918 |
| Interest expense, other | 4,389 | 7,333 |
| Office occupancy | 1,316 | 273 |
| Other operating expenses | 19,543 | 16,210 |
| Total operating expenses | 156,531 | 51,312 |
| NET INCOME (LOSS) | \$ <u>(142,184)</u> | \$ <u>20,658</u> |
| BASIC AND DILUTED EARNINGS | | |
| (LOSS) PER SHARE | \$ <u>(0.02)</u> | \$ <u>Nil</u> |
| WEIGHTED AVERAGE SHARES | | |
| OUTSTANDING BASIC AND DILUTED | <u>7,757,108</u> | <u>6,707,108</u> |

See accompanying notes to financial statements.

GENESIS FINANCIAL, INC.

Statements of Cash Flows

Unaudited

| | Three Months Ended March 31, | |
|---|-------------------------------------|------------------|
| | 2011 | 2010 |
| <i>CASH FLOWS FROM OPERATING ACTIVITIES</i> | \$ 36,611 | \$ 31,846 |
| <i>CASH FLOWS FROM INVESTING ACTIVITIES:</i> | | |
| Investment AWG International, Inc. | (172,686) | - |
| <i>CASH FLOWS FROM FINANCING ACTIVITIES:</i> | | |
| Sales of preferred stock in private placement | 1,149,500 | - |
| Borrowings (repayment) line of credit with affiliate, net | (200,845) | (17,842) |
| Borrowings (repayment) line of credit from bank, net | (95,611) | (25,000) |
| Note payable Flyback Energy, Inc. | (420,000) | - |
| | <u>433,044</u> | <u>(42,842)</u> |
| <i>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i> | 296,969 | (10,996) |
| <i>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</i> | <u>117,455</u> | <u>64,406</u> |
| <i>CASH AND CASH EQUIVALENTS AT END OF PERIOD</i> | \$ <u>414,424</u> | \$ <u>53,410</u> |

See accompanying notes to financial statements.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization:

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

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

The 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, 2011 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2011.

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, 2010.

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.

Summary of Significant Accounting Policies:

Long term investments – Investments not readily marketable are recorded at cost, when purchased. The investments in equity securities of privately held companies in which the Company holds less than 20% voting interest and on which the Company does not have the ability to exercise significant influence are accounted for using the cost method. Under the cost method, these investments are carried at the lower of cost or fair value. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. In making this determination, the Company reviews several factors to determine whether the losses are other-than-temporary, including but not limited to: (i) the length of time the investment was in an unrealized loss position, (ii) the extent to which fair value was less than cost, (iii) the financial condition and near term prospects of the issuer and (iv) the Company's intent and ability to hold the investment 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 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 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 fair 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 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.

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.

Earnings per share – Basic earnings per common share have been computed on the basis of the weighted-average number of common shares outstanding during the period presented. Diluted earnings per common share are computed on the basis of the number of shares that are currently outstanding plus the number of shares that would be issued pursuant to outstanding warrants, stock options and common stock issuable on conversion of preferred stock unless such shares are deemed to be antidilutive. The dilutive effect of convertible debt and outstanding securities, in periods of future income, would be as follows as of March 31, 2011:

| | |
|-----------------------------|------------------|
| Stock options | 1,000,000 |
| Convertible preferred stock | 5,000,000 |
| Convertible debt | 625,000 |
| Total possible dilution | <u>6,625,000</u> |

NOTE 2 — INVENTORY:

Real Estate:

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

| | March 31, 2011 | December 31, 2010 |
|------------------------|---------------------------|------------------------------|
| Residential properties | \$ 257,274 | \$ 381,624 |
| Commercial properties | - | - |
| Land properties | 1,651,867 | 2,120,358 |
| Acquisition costs | 142,469 | 184,050 |
| Total | <u>\$ 2,051,610</u> | <u>\$ 2,686,032</u> |

Loss Allowance:

The activity in the Company's loss allowance account for the three month period consisted of the following:

| | March 31, 2011 | 2010 |
|--------------------|---------------------------|---------------------|
| Beginning balances | \$ 1,522,329 | \$ 1,471,553 |
| Additions | - | 75,000 |
| Writeoffs | (574,841) | (62,885) |
| Ending balances | <u>\$ 947,488</u> | <u>\$ 1,483,668</u> |

NOTE 3 — LONG TERM INVESTMENTS:

Flyback Energy, Inc.:

On November 23, 2010, Genesis Financial, Inc. closed the purchase of an equity interest in Flyback Energy, Inc., for \$1,200,000. The purchase was for \$1,200,000 of Series "B" Preferred Stock and Common Stock Purchase Warrants from Flyback Energy, Inc., a closely held Washington corporation payable on an installment basis. The purchase represented a ten percent equity interest in Flyback Energy, Inc. assuming the warrants are exercised. John R. Coghlan, Co-president of Genesis Financial, Inc. was elected to the board of directors of Flyback Energy, Inc. on February 7, 2011.

The Company paid \$500,000 down with the balance of \$700,000 payable on a promissory note at \$140,000 monthly commencing December 23, 2010, until paid in full. Flyback Energy, Inc. will retain a security interest in the unpaid securities. The Company has a right of first refusal to purchase all or less than all of Flyback Energy, Inc.'s next debt or equity offering.

Flyback Energy, Inc. has developed a unique and proprietary electronic switch design that offers control over electrical power and magnetic fields.

AWG International, Inc.:

One December 6, 2010, Genesis Financial, Inc. entered into an agreement with AWG International, Inc. to purchase 54,953 shares of the AWG International, Inc. common stock for \$250,000. As part of the transaction Genesis Financial, Inc. was also issued common stock purchase warrants to acquire an additional 54,953 common shares for \$250,000. The Company exercised the warrants for 37,917 shares for \$172,686 during quarter ended March 31, 2011.

AWG International, Inc. designs and builds proprietary systems Air-to-Water machines for residential and commercial applications. AWG International, Inc. realized significant breakthrough with development of new component technology and purification systems that produce more water with new coil designs.

NOTE 4 — RELATED-PARTY TRANSACTIONS:

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

Coghlan Family Corporation and Coghlan, LLC are controlled by John R. Coghlan, a Company director, CFO and majority shareholder. Coghlan Family Corporation is owned 100% by Coghlan, LLC, which is owned by the Coghlan family members. John and Wendy Coghlan collectively own 35.65% of Coghlan, LLC and are co-managers.

Genesis Holdings, Inc. is a Washington corporation, which is managed by John Coghlan. Mr. Coghlan is President and Director of Genesis Holdings, Inc.

Genesis Holdings II, Inc. is a Washington Corporation, which is managed by Michael Kirk. Mr. Kirk is the President and Director of Genesis Holdings II, Inc.

JM Growth Enterprises, LLC is a Washington Corporation, which is managed and controlled by Michael Kirk and John Coghlan.

Genesis Financial, Inc. had the following related party transactions for the quarter ending March 31, 2011 and the quarter ended March 31, 2010.

Michael Kirk and Genesis Finance Corporation

Genesis Financial, Inc. had a contract with Genesis Finance Corporation, a Washington corporation owned 100% by Michael Kirk, to handle the operations and servicing management of the Company's assets. Genesis Finance Corporation was paid \$6,000 per month for their services through December 31, 2010, when the contract was renegotiated to \$1,500 per month.

John R. Coghlan

On February 2, 2010, John R. Coghlan purchased a \$157,790 interest in a commercial contract from the Company.

There was no activity for the quarter ended March 31, 2011.

Coghlan Family Corporation “CFC”

On January 1, 2008, the Company entered into a Warehousing Line of Credit Agreement Promissory Note Agreement with Coghlan Family Corporation. The Agreement provided for a \$2.5 million line of credit (see note 4). The rate of interest was one (1%) percent over the Prime Rate of interest quoted on the first day of the month prior to the payment date. Interest is payable monthly. The Company paid a commitment fee of one half of one percent (1/2%) aggregating \$12,500. The Company was permitted to request advances from time to time. If the Company defaults on the Agreement, default interest rate will be twelve (12%) per annum. The credit line is collateralized by all of Genesis’ assets, excluding investments in Flyback Energy, Inc. and AWG International, Inc. 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 Michael A. Kirk, the CEO of the Company. Because of the economic condition, CFC has agreed to waive the interest starting October 1, 2010 and has also agreed to waive the 3.0 debt to equity ratio requirement as well as the 12% default rate. (See note 5)

On February 15, 2011, Coghlan Family Corporation purchased from the Company a \$95,000 interest in a contract secured by land.

During the quarter ended March 31, 2011, Coghlan Family Corporation purchased \$219,000 of the Series “B” Preferred Stock offered by the Company.

Coghlan, LLC

There was no activity for the quarters ended March 31, 2010 and 2011.

Genesis Holdings, Inc.

There was no activity for the quarters ended March 31, 2010 and 2011.

Genesis Holdings II, Inc.

There was no activity for the quarter ended March 31, 2010 and 2011.

JM Growth Enterprises, LLC

On February 2, 2010 JM Growth Enterprises, LLC sold its interest in a commercial contract for \$157,789.

There was no activity for the quarter ended March 31, 2011.

NOTE 5 — LINE OF CREDIT:

At March 31, 2011 and December 31, 2010 the Company has a promissory note with Riverbank, with a balance owing of \$190,653 and \$286,264, respectively, 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 rate at March 31, 2011 and December 31, 2010 was 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. 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., related parties of the Company. (See Note 4)

At March 31, 2011 and December 31, 2010, the Company had a \$2,500,000 Line of Credit Agreement with the Coghlan Family Corporation, Inc. ("CFC"), with balances owing of \$1,550,000 and \$1,750,845, respectively. CFC is an affiliated company controlled by a John R Coghlan. 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, excluding investments in Flyback Energy, Inc. and AWG International, Inc. 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 Michael A. Kirk, the CEO of the Company. Because of the economic condition, CFC has agreed to waive the interest and fees starting October 1, 2010 and has also agreed to waive the 3.0 debt to equity ratio requirement as well as the 12% default rate.

NOTE 6 — NOTES PAYABLE

At December 31, 2010, the Company has two notes payable as follows:

Flyback Energy, Inc. ("FEI"): In connection with the Company's purchase of FEI's preferred stock (see Note 3), the Company entered into a note payable agreement with FEI on November 23, 2010 for \$700,000 to be paid in monthly installments of \$140,000 through April 2011 plus interest at .035% per annum. The first payment was made in December 2010. At March 31, 2011 the balance of the note is \$140,000. The note is collateralized by FEI preferred stock purchased by the Company.

John R. Coghlan: On December 15, 2010, the Company entered into a convertible note agreement with John R. Coghlan. The note accrues interest at 8% per annum with interest and balance due on December 15, 2012. The note is convertible at anytime by Mr. Coghlan into 1 share of the Company's Series B Preferred stock for every \$1.00 outstanding of the note payable and related accrued interest. In connection with the issuance of this note, the Company recognized a beneficial conversion feature of \$128,750 that resulted in a discount to the note payable. The discount is being amortized into earnings over the term of the note. The note is collateralized by 290,000 shares of the Company's Series B Preferred stock.

NOTE 7 — PREFERRED STOCK

On November 11, 2010 the Company filed Articles of Amendment to the Amended and Restated Articles of Incorporation creating 2,000,000 shares of Series "B" Preferred Stock. The designated Series "B" Preferred Stock consists of 2,000,000 with a par value \$1.00; is presently non-dividend bearing, convertible to common at \$.40 per share subject to any recapitalization. The holders of the Preferred stock will be entitled to receive, prior and in preference to any distributions to the holders of the common stock. Each share of the Preferred Stock is convertible into two and one-half common stock shares at the option of the holder. Each share of Series "B" Preferred Stock can automatically converted immediately prior to the closing of a firm commitment underwritten initial public offering pursuant to an effective registration statement filed under the Securities Act of 1933 or upon the receipt by the Corporation of a written request for such request for such conversion from the holders of the majority of the Series "B" Preferred Stock holders.

Upon issuance of the preferred stock, the Company determined that a beneficial conversion feature of \$194,833 was realized at December 31, 2010 and \$705,840 at March 31, 2011. This beneficial conversion feature was recognized as a deemed dividend distribution to the preferred shareholders on the date of issuance because the preferred stock is convertible at the option of the holder immediately upon issuance.

During the quarters ended March 31, 2011 and December 31, 2010, 1,149,500 and 850,500 shares had been sold with proceeds of \$1,149,500 and \$850,500 received respectively. In total, 2,000,000 shares were sold for proceeds of \$2,000,000.

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

Additional details about our business are set forth in our Annual Report on Form 10-K for the year ending December 31, 2010. 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.

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

PLAN OF OPERATIONS.

Over the course of the next twelve months, we will continue to develop our operations along the lines of our growth since inception, but will also concentrate on controlling 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. We are either holding these contracts in inventory, or selling them individually as opportunities arise. Over the next twelve months we anticipate making several short term small real estate loans in the \$25,000 to \$100,000 range. We will continue to focus our efforts towards developing relationships with investors who are interested in the individual contracts and loans, versus the pools.

Over the past few 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, 2011 compared to quarter ended March 31, 2010.

Revenues

Total revenues for the quarter ending March 31, 2011 were \$14,347 compared to \$71,970 for the same quarter ending March 31, 2010. The majority of the revenue for the quarter ended March 31, 2011 and the quarter ended March 3, 2010 was from interest and broker fee income.

During the quarter ended March 31, 2011 we did not sell any contracts or real estate properties. During the quarter ended March 31, 2010, we sold contracts and real estate properties for \$159,642 and recognized \$1,852 income on the sales.

We earned \$14,347, and \$70,118, respectively for the quarters ending March 31, 2011 and 2010 from interest, processing and other income.

Net income (loss) from operations was (\$142,184) and \$20,658, respectively, for the quarters ending March 31, 2011 and 2010.

Of the contracts held in inventory at March 31, 2011 and 2010, contracts with aggregate values of \$756,738 and \$2,319,727 respectively, were in payment default. This decrease in defaults was due to the completed litigation of many delinquent accounts, resulting in 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 March 31, 2011 and 2010, were \$36,609 and \$34,483, respectively. G&A primarily consists of management and professional fees for legal and auditing. The year over year increases and (decreases) for the fiscal quarters ended March 31 2011 and 2010 were \$2,126 and \$1,726), respectively.

Interest Expense

For the quarters ending March 31, 2011 and 2010, interest expense amounted to \$26,070 and \$33,251, respectively.

Interest expense was incurred on borrowings under lines of credit with RiverBank, an unaffiliated lender, John R. Coghlan, an affiliated person from discounts on a convertible note. The Coghlan Family Corporation, an affiliated company, has waived current interest payments on its line of credit.

We are currently operating under a primary \$190,653 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 due on September 30, 2011.

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 March 31, 2011 and 2010, the balances on the lines of credit were \$1,740,653 and \$2,946,158 respectively. Interest expense on the line of credit will fluctuate in future periods with inventory levels.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of cash are from related party loans, unaffiliated party loans, funding agreements and common and preferred 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, 2011 and 2010, we had cash available of \$414,424 and \$53,410, respectively, and no funds were available under our lines of credit. Management considers the capital resources to be adequate to meet the current operating needs of the Company for the next twelve months.

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 March 31, 2011, the Company had a \$2,500,000 Line of Credit Agreement with the Coghlan Family Corporation, Inc. ("CFC") with a balance of \$1,550,000 and no more advances. 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 been 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 receive interest and principal reductions (typically monthly) on contracts and loans which we hold in inventory. 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. At this point, management does not believe that the real estate markets have bottomed out, and we will continue to wait until we believe that real estate market begins to improve, before we will attempt to recapitalize.

For the quarters ending March 31, 2011 and March 31, 2010, our net cash flows from operating activities were \$36,611 and \$31,846, respectively. The reason for the increase was improved collections on real estate loans in excess of operating expenses.

For the period ended March 31, 2011 the decrease in cash flows from investing activities was due to an investment in AWG, International, Inc. in the amount of \$172,686.

During these periods our net cash provided by (used by) financing activities was \$433,044 and (\$42,842), respectively. The reason for the increase for the period ended March 31, 2011 was the sale of preferred stock in excess of loan payments while the decrease for the period ended March 31, 2010 was payment of credit lines.

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 March 31, 2011 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 March 2011, Genesis Financial, Inc. completed a private placement of 2,000,000 shares of Series B Preferred stock at \$1.00 per share to accredited investors for a total price of \$2,000,000.

On November 11, 2010, the Company filed Articles of Amendment to the Amended and Restated Articles of Incorporation creating 2,000,000 shares of Series “B” Preferred Stock. The designated Series “B” Preferred Stock consists of 2,000,000 with a par value \$1.00; is presently non-dividend bearing, convertible to common at \$0.40 per share subject to any recapitalization. The holders of the Preferred stock will be entitled to receive, prior and in preference to any distributions to the holders of the common stock. Each share of the Preferred Stock is convertible into two and one-half common stock shares at the option of the holder. Each share of Series “B” Preferred Stock can automatically converted immediately prior to the closing of a firm commitment underwritten initial public offering pursuant to an effective registration statement filed under the Securities Act of 1933 or upon the receipt by the Corporation of a written request for such request for such conversion from the holders of the majority of the Series “B” Preferred Stock holders.

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: May 9, 2011

Genesis Financial, Inc.
(Registrant)

/s/ Michael A. Kirk

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

/s/ John R. Coghlan

By: John R. Coghlan
Title: Chief Financial Officer

CERTIFICATION

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: May 9, 2011

/s/ Michael A. Kirk

By: _____
Michael A. Kirk, CEO

CERTIFICATION

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: May 9, 2011

/s/ John R. Coghlan

By: _____
John R. Coghlan, CFO

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 March 31, 2011 (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: May 9, 2011

/s/ Michael A. Kirk

By: _____
Michael A. Kirk, CEO

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 period ended March 31, 2011, (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: May 9, 2011

/s/ John R. Coghlan

By: _____
John R. Coghlan, CFO