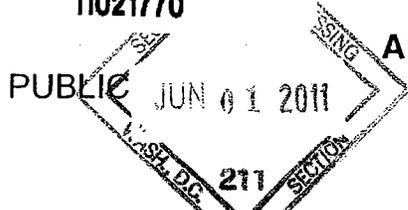




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UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

OMB APPROVAL table with OMB Number, Expires, and Estimated average burden.



ANNUAL AUDITED REPORT FORM X-17A-5 PART III

SEC FILE NUMBER table with value 8-16081

FACING PAGE Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 04/01/10 AND ENDING 03/31/11 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Gaines Financial Corporation

OFFICIAL USE ONLY table with FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1919 North Belt East, Ste. 100

(No. and Street)

Belleville

IL

62221

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Gaines B. Smith

618-233-7509

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Brown Smith Wallace, L.L.C.

(Name - if individual, state last, first, middle name)

1050 N. Lindbergh Blvd.

St. Louis

MO

63132

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Checked box: Certified Public Accountant
Public Accountant
Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY box

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

PW

OATH OR AFFIRMATION

I, Gaines B. Smith, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Gaines Financial Corporation, as of March 31, 2011, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



[Handwritten Signature]
Signature

President

Title

[Handwritten Signature: Brenda Prewitt]
Notary Public

This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Supplemental Report on Internal Control.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Condition	2
Notes to Statements of Financial Condition.....	3
Supplemental Report	
Supplemental Report on Internal Control Required by Securities and Exchange Commission Rule 17a-5.....	5



Independent Auditors' Report

Sole Director and Stockholder
Gaines Financial Corporation
Belleville, Illinois

We have audited the accompanying statements of financial condition of Gaines Financial Corporation (the "Company") as of March 31, 2011 and 2010 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These statements of financial condition are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements of financial condition based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements of financial condition are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statements of financial condition presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the statements of financial condition referred to above present fairly, in all material respects, the financial position of Gaines Financial Corporation as of March 31, 2011 and 2010 in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Brian Smith Wallace, III".

St. Louis, Missouri
May 19, 2011

GAINES FINANCIAL CORPORATION

Statements of Financial Condition

March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 6,000	\$ 6,000
TOTAL ASSETS	<u>\$ 6,000</u>	<u>\$ 6,000</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Total Liabilities	\$ -	\$ -
Stockholder's Equity		
Common stock: no par value; authorized 1,000 shares; 150 shares issued and outstanding	6,000	6,000
Retained earnings	-	-
Total Stockholder's Equity	<u>6,000</u>	<u>6,000</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 6,000</u>	<u>\$ 6,000</u>

The accompanying notes are an integral part of these financial statements.

GAINES FINANCIAL CORPORATION

Notes to Statements of Financial Condition

March 31, 2011 and 2010

Note A - Summary of Significant Accounting and Reporting Policies

Nature of Operations

Gaines Financial Corporation (the "Company") was incorporated on August 20, 1970 in the State of Illinois. The Company is a registered broker-dealer under the Securities Exchange Act of 1934, a member of the Financial Industry Regulatory Authority (FINRA), and the Illinois Department of Securities.

The Company is engaged solely in the mutual fund investment business serving clients in the greater St. Louis metropolitan area. All mutual fund transactions are conducted on an application basis. At no time does the Company have constructive receipt of clients' cash or securities.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company's cash and cash equivalents are on deposit with a domestic financial institution. These funds are held in a checking and savings account.

Income Taxes

The Company is treated as a C-Corporation for income tax purposes. Since inception in 1970, the Company has periodically paid out all net income as commissions and therefore has no federal or state income tax liability.

The Company has addressed the provisions of ASC 740-10, *Accounting for Income Taxes*. In that regard, the Company has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings and believes that no provision for income taxes is necessary at this time to cover any uncertain tax positions. Tax years that remain subject to examination by major tax jurisdictions are 2007, 2008, 2009, and 2010.

Subsequent Events

The Company evaluated all subsequent events through May 19, 2011, the date the financial statements were available to be issued.

Note B - Net Capital Requirements

The Company is subject to the Net Capital provision of Rule 15c3-1 of the Securities Exchange Act of 1934. Under the provision, the Company is required to maintain minimum Net Capital, as defined, equal to the greater of \$5,000 or 6 2/3% of aggregate indebtedness and the ratio of aggregate indebtedness to net capital cannot exceed 15 to 1.

GAINES FINANCIAL CORPORATION

Notes to Statements of Financial Condition - Continued

March 31, 2011 and 2010

Note B - Net Capital Requirements (Continued)

At March 31, 2011, the Company had Net Capital of \$6,000, which was \$1,000 in excess of the required minimum, and no aggregate indebtedness.

The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, in that the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraph (k) (1) of the Rule. As an introducing broker, the Company does not carry any customer accounts and does not hold funds or securities, or owe money or securities to customers, and effectuates all financial transactions directly between the customer and the mutual fund investment company.

Note C - Related Party Transaction

The Company occupies office space and uses furniture and equipment that is owned by the sole stockholder and the only individual associated with the Company. No overhead or usage assessments have been charged to the Company in relation to this arrangement.

Note D - SIPC Annual Assessment

The Company is a member of the Securities and Investor Protection Corporation and has remitted all required assessments.

Supplemental Report

Supplemental Report On Internal Control Required By Securities And Exchange Commission Rule 17a-5

Sole Director and Stockholder
Gaines Financial Corporation
Belleville, Illinois

In planning and performing our audit of the financial statements of Gaines Financial Corporation (the "Company") as of and for the year ended March 31, 2011 (on which we issued our report dated May 19, 2011), in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding assets. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

Management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

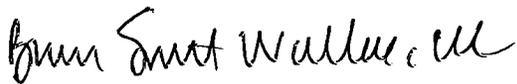
A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the Company's internal control over financial reporting was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in the Company's internal control over financial reporting and control activities for safeguarding securities that we consider to be a material weakness, as identified above, as of March 31, 2011.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures as described in the second paragraph of this report, were adequate at March 31, 2011, to meet the SEC's objectives.

This report is intended solely for the information and use of the Sole Director and Stockholder of the Company, the SEC, the Financial Industry Regulatory Authority and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



St. Louis, Missouri
May 19, 2011