

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-25958

CAPITAL FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

North Dakota
(State or other jurisdiction of incorporation or organization)

45-0404061
(I.R.S. Employer Identification No.)

1 Main Street North
Minot, North Dakota 58703
(Address of principal executive offices) (Zip code)

(701) 837-9600
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

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 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

As of September 30, 2016, there were 1,241 common shares of the issuer outstanding.

FORM 10-Q
CAPITAL FINANCIAL HOLDINGS, INC.

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS****ASSETS**

	(Unaudited)	
	September 30, 2016	December 31, 2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,699,076	\$ 1,038,426
Accounts receivable (net of an allowance of \$24,000 for 2016 and 2015)	1,920,186	1,766,030
Baron notes interest receivable	-	38,420
Prepays	114,247	115,587
Total current assets	<u>3,733,509</u>	<u>2,958,463</u>
PROPERTY AND EQUIPMENT		
Oil & Natural Gas Properties, Full Cost Method of Accounting	194,602	194,602
Less accumulated depletion	(24,210)	(10,467)
Total oil & natural gas properties	<u>170,392</u>	<u>184,135</u>
Other property and equipment	538,417	517,192
Furniture, fixtures and equipment		
Less accumulated depreciation	(410,661)	(375,675)
Other property holdings	86,277	86,277
Net property and equipment	<u>384,425</u>	<u>411,929</u>
OTHER ASSETS		
Severance escrow	258,121	257,927
Baron notes receivable	-	500,000
Deferred tax asset	224,458	241,576
Other assets (net of accumulated amortization of \$214,444 for 2016 and 2015)	175,279	180,772
Total other assets	<u>657,858</u>	<u>1,180,275</u>
TOTAL ASSETS	<u>\$ 4,775,792</u>	<u>\$ 4,550,667</u>

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
LIABILITIES AND STOCKHOLDERS' EQUITY

	(Unaudited)	
	September 30, 2016	December 31, 2015
CURRENT LIABILITIES		
Accounts payable	\$ 278,726	\$ 156,312
Commissions payable	1,945,745	1,712,109
Other current liabilities	63,271	24,366
Income taxes payable	8,737	61,667
Total current liabilities	\$ 2,296,479	\$ 1,954,454
NON CURRENT LIABILITIES		
Asset retirement obligation	2,907	2,907
Promissory note	-	50,000
Total noncurrent liabilities	2,907	52,907
TOTAL LIABILITIES	\$ 2,299,386	\$ 2,007,361
STOCKHOLDERS' EQUITY		
Series A preferred stock – 5,000,000 shares authorized, \$.0001 par value; 3,050,000 and 3,050,000 shares issued and 0 outstanding, respectively	\$ 305	\$ 305
Additional paid in capital – series A preferred stock	1,524,695	1,524,695
Common stock – 1,000,000,000 shares authorized, \$.0001 par value; 1,241 and 1,241 shares issued and outstanding, respectively	1,241	1,241
Additional paid in capital – common stock	10,221,515	10,221,515
Accumulated deficit	(7,971,350)	(7,904,450)
Less Treasury stock, 3,050,000 preferred shares at \$0.4262	(1,300,000)	(1,300,000)
TOTAL STOCKHOLDERS' EQUITY	\$ 2,476,406	\$ 2,543,306
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,775,792	\$ 4,550,667

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited) Three Months Ended September 30,	
	2016	2015
OPERATING REVENUES		
Fee income	\$ 292,645	282,318
Commissions	4,307,574	4,188,138
Oil and gas revenue	13,336	18,187
Other operating income	112,841	48,323
Total revenue	4,726,396	4,536,966
OPERATING EXPENSES		
Compensation and benefits	363,152	362,537
Commission expense	3,978,901	3,935,925
General and administrative expenses	333,835	187,160
Depreciation	12,356	11,761
Depletion	3,301	6,199
Total operating expenses	4,691,545	4,503,582
OPERATING INCOME	34,851	33,384
OTHER INCOME (EXPENSES)		
Interest expense	-	(195)
Interest income	77	12,500
Other income	27,004	36,129
Total other income	27,081	48,434
INCOME BEFORE INCOME TAX EXPENSE	61,932	81,818
INCOME TAX EXPENSE	(17,192)	(45,564)
NET INCOME	\$ 44,740	36,254
NET INCOME PER COMMON SHARE:		
Basic	\$ 36	29
Diluted	\$ 36	29
SHARES USED IN COMPUTING NET PER COMMON SHARE:		
Basic	1,241	1,241
Diluted	1,241	1,241

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited)	
	Nine Months Ended	
	September 30,	
	2016	2015
OPERATING REVENUES		
Fee income	\$ 888,734	868,802
Commissions	12,131,401	13,253,809
Oil and gas revenue	46,472	26,859
Other operating income	232,275	182,660
Total revenue	13,298,882	14,332,130
OPERATING EXPENSES		
Compensation and benefits	1,095,745	980,067
Commission expense	11,387,667	12,405,829
General and administrative expenses	851,940	932,593
Depreciation	36,200	32,946
Depletion	13,743	6,199
Total operating expenses	13,385,295	14,357,634
OPERATING LOSS	(86,413)	(25,504)
OTHER INCOME (EXPENSES)		
Interest expense	(1,794)	(3,646)
Interest income	16,436	50,000
Other income	25,970	63,516
Total other income	40,612	109,870
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	(45,801)	84,366
INCOME TAX EXPENSE	(21,099)	(114,974)
NET LOSS	\$ (66,900)	(30,608)
NET LOSS PER COMMON SHARE:		
Basic	\$ (54)	(25)
Diluted	\$ (54)	(25)
SHARES USED IN COMPUTING NET PER COMMON SHARE:		
Basic	1,241	1,241
Diluted	1,241	1,241

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited)	
	Nine Months Ended	
	September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (66,900)	(30,608)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	36,200	32,946
Depletion	13,743	6,199
Provision for deferred income taxes	17,118	87,750
Changes in:		
Accounts receivable	(115,736)	254,054
Income taxes receivable	(52,930)	230,487
Prepays	6,833	54,066
Severance escrow	(194)	(192)
Accounts payable	122,414	(225,799)
Commissions payable	233,636	(120,197)
Other liabilities	38,905	100,601
Net cash provided by operating activities	\$ 233,089	389,307
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	\$ (22,439)	(30,790)
Additions to other property holdings	-	(86,277)
Additions to oil and gas properties	-	(91,000)
Repayment of Baron notes	500,000	-
Net cash (used in) provided by investing activities	\$ 477,561	(208,067)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of short-term borrowings	(50,000)	(200,000)
Net cash used in financing activities	\$ (50,000)	(200,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	660,650	(18,760)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,038,426	1,333,323
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,699,076	1,314,563

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2016 and 2015

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Capital Financial Holdings, Inc., a North Dakota corporation, and its subsidiaries Capital Financial Services, Inc. ("CFS") and Capital Natural Resources, Inc. ("CNR") (collectively, the "Company"), included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the footnotes thereto contained in the Annual Report on Form 10-K for the year ended December 31, 2015, of Capital Financial Holdings, Inc., as filed with the SEC. The condensed consolidated balance sheet at December 31, 2015, contained herein, was derived from audited financial statements, but does not include all disclosures included in the Form 10-K and applicable under accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, but not required for interim reporting purposes, have been condensed or omitted.

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (which are of a normal, recurring nature) necessary for a fair presentation of the financial statements. The results of operations for the nine months ended September 30, 2016, are not necessarily indicative of operating results for the entire year.

Oil and Gas Properties

CNR follows the full cost method of accounting for crude oil and natural gas operations whereby all costs related to the exploration and development of crude oil and natural gas properties are capitalized into a single cost center ("full cost pool"). Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling directly related to acquisition, and exploration activities.

Proceeds from property sales will generally be credited to the full cost pool with no gain or loss recognized, unless such a sale would significantly alter the relationship between capitalized costs and the proved reserves attributable to these costs.

Capitalized costs are depleted and amortized on the unit-of-production method based on the estimated proved reserves as determined by independent petroleum engineers. The costs of unproved properties are withheld from the depletion base until such time as they are either developed or abandoned. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion and full cost ceiling calculations. For the three and nine months ended September 30, 2016, depletion expense was \$3,301 and \$13,743 respectively.

As of September 30, 2016, CNR held leasehold interests on acreage located in Taylor and Gonzales County, Texas, Lincoln County, Colorado and Divide and Williams County, North Dakota. CNR holds non-operating working interest in the Kifer Rozella 1, producing oil well, located in the County of Gonzales, state of Texas and non-operating working interest in an oil and gas property consisting of three oil and gas leases in Taylor County, Texas. The oil and gas leases in North Dakota and Colorado are currently non-producing properties and non-operating leases.

The Company assesses all items classified as unproved property on an annual basis, or if certain circumstances exist, more frequently, for possible impairment or reduction in value. As of September 30, 2016 the Company held non-producing and unproved properties in Lincoln County, Colorado and Divide and Williams County, North Dakota.

Oil and Gas Revenue

The Company recognizes oil and gas revenue for only its ownership percentage of total production under the entitlement method. There was no imbalance as of September 30, 2016.

Asset Retirement Obligations

Asset retirement obligation is included in other noncurrent liabilities and relates to future costs associated with the plugging and abandonment of crude oil and natural gas wells, removal of equipment and facilities from leased acreage and returning the land to its original condition. Estimates are based on estimated remaining lives of those wells based on reserve estimates, external estimates to plug and abandon the wells in the future, inflation, credit adjusted discount rates and federal and state regulatory requirements. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. As of September 30, 2016, asset retirement obligations were \$2,907 and for the three and nine months ended September 30, 2016 accretion expense was not significant.

NOTE 2 – RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

A summary of our significant accounting policies is included in Note 1 of our 2015 Form 10-K filed on March 28, 2016.

ASU 2016-15—*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* – The Company is currently assessing the potential impact on the company. This amendment becomes effective for public companies for fiscal years beginning after December 15, 2017. The pronouncement would impact the presentation of certain items on the statement of cash flows including debt prepayment or debt extinguishment costs, settlement of zero coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and/or corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. Should the Company have any of the aforementioned items, they would be presented on the statement of cash flows in accordance to ASU 2016-15. Early adoption is permitted, but the entity must adopt all of the amendments in the same period.

NOTE 3 – BUSINESS VENTURES

On June 9, 2014, the Company launched a new wholly-owned operating subsidiary, Capital Natural Resources, Inc., by acquiring 1,000,000 shares, .001 par value common stock of Capital Natural Resources, Inc. (“CNR”) for the amount of \$100,000. Capital Natural Resources, Inc. will seek opportunities related to natural resources in the United States, including petroleum, natural gas and/or other minerals, water resources and land. The new subsidiary is expected to diversify the business operations of the Company and is unrelated to any current or past business. On June 17, 2014, the Company acquired an additional 400,000 shares, .001 par value common stock of CNR for the amount of \$40,000. On July 21, 2014, the Company acquired an additional 3,750,000 shares, .001 par value of common stock of CNR for the amount of \$375,000. On September 21, 2016 CNR issued a payment of \$214,600 to the Company in exchange for redemption of 2,146,000 shares, .001 par value of common stock of CNR. As of September 30, 2016, the Company owned 3,004,000 shares of CNR as CNR’s sole shareholder.

On April 1, 2015, CNR obtained a non-operating working interest in an oil and gas property consisting of three oil and gas leases in Taylor County, Texas for a purchase price of \$90,000 paid in cash. This purchase is presented as oil and natural gas properties on the balance sheet. As of September 30, 2016, oil and gas revenues were \$46,472.

On December 1, 2015, CNR purchased a non-operating working interest in the Kifer Rozella 1, producing oil well, located in the County of Gonzales, state of Texas. The purchase price of \$100,000 for CNR’s interest was paid by \$50,000 by a promissory note and deed of trust carried by the Seller, Origin Production Company, Inc. Said promissory note has an annual interest rate of 10% per annum and is payable in monthly installment of approximately \$1,062 beginning January 1, 2016 with final maturity on December 1, 2020. This purchase is presented as oil and natural gas properties on the balance sheet. On February 1, 2016 the Company paid off the promissory note in the amount of approximately \$50,847 bringing the balance of the note to zero. Total interest paid on the promissory note was approximately \$847.

On July 28, 2015, CNR acquired five year oil and gas leases located in Williams County, North Dakota and two located in Divide County, North Dakota for a combined acquisition cost of \$7,676, including lease bonus and prepaid annual rentals. The oil and gas leases were obtained from the State of North Dakota Department of Trust Lands. The leases grant the right to conduct oil and gas operations and extract oil and gas from the property with payment of royalty to the lessor of 3/16 of oil and gas produced. The leases will expire August 3, 2020 unless held by production, meaning oil and gas is being produced from the properties.

On August 20, 2015, CNR acquired a five year oil and gas lease located in Lincoln County, Colorado at an initial acquisition cost of \$1,652 including the first annual rental payment of \$1,600. The oil and gas lease was obtained from the Colorado State Board of Land Commissioners. The lease grants the right to conduct oil and gas operations and extract oil and gas from the property with payment of royalty to the lessor of 1/6 of oil and gas produced. The lease will expire August 20, 2020 unless held by production, meaning oil and gas is being produced from the property.

The oil and gas leases in North Dakota and Colorado are currently non-producing properties and non-operating leases.

The purchase allocation for all four CNR oil and gas lease transactions was based on the estimated fair value of the assets acquired.

On May 19, 2015, CNR acquired interests in coal rights located in Kanawha County, West Virginia for a purchase price of \$1,275 paid in cash. This purchase is presented as other property holdings on the balance sheet.

On June 11, 2015, CNR acquired mineral, water rights and surface interests in Hudspeth County, Texas for a purchase price of \$83,350 paid in cash. This purchase is presented as other property holdings on the balance sheet.

NOTE 4 - BARON NOTES RECEIVABLE

On June 11, 2014, June 27, 2014, and July 22, 2014, Baron Energy, Inc. issued promissory notes to Capital Natural Resources, Inc. (the “note holder”) in the amounts of \$85,000, \$40,000 and \$375,000, respectively. The three notes carried an interest rate of 15% per annum, payable monthly, and mature on June 12, 2016, June 28, 2016 and July 23, 2016, respectively. On March 21, 2016, the notes were paid in full including all unpaid accrued interest in the amount of \$82,642 bringing the receivable balance to zero.

NOTE 5 – LINE OF CREDIT

On July 14, 2014, the Company signed new loan documents for a line of credit with American Bank Center in the amount of \$300,000. The line of credit had a variable interest rate of 1.509 percent above Wall Street Journal U.S. Prime Rate. The loan matured July 14, 2015. The Company set up monthly payments with an automatic payment of \$25,000. There are no financial covenants associated with the line of credit. The Company made a payment of \$25,000 on July 6, 2015, and a final payment of \$28,578 on July 14, 2015, bringing the balance to zero. The total interest expense on this line of credit was \$8,061.

On July 14, 2015, the Company signed renewal loan documents for the line of credit with American Bank Center in the amount of \$500,000. The line of credit has a variable interest rate of 1.509 percent above Wall Street Journal U.S. Prime Rate. The loan matured with principal due on July 14, 2016. For the period ended September 30, 2016, the Company had no outstanding balance against this line of credit before renewal. As of September 30, 2016, the Company had zero outstanding and zero interest expense against its current line of credit. There are no financial covenants associated with the line of credit.

On September 12, 2016, the Company signed renewal loan documents for the line of credit with American Bank Center in the amount of \$500,000. The line of credit has a variable interest rate of 1.509 percent above Wall Street Journal U.S. Prime Rate which was 3.5% as of September 30, 2016. The loan matures with principal due on September 12, 2017. For the period ended September 30, 2016, the Company had no outstanding balance against this line of credit before renewal. As of September 30, 2016, the Company had zero outstanding and zero interest expense against its current line of credit. There are no financial covenants associated with the line of credit.

NOTE 6 - STOCK WARRANTS, STOCK SPLITS, AND STOCK OPTIONS

The Company measures and records compensation expense for all share-based payment awards made to employees and directors, including employee stock options, based on estimated fair values. There were no compensation costs or deferred tax benefits recognized for stock-based compensation awards for the nine months ended September 30, 2016 and 2015. Changes are due to the stock buyback and reverse stock split.

Option activity for the twelve months ended December 31, 2015 and the nine months ended September 30, 2016 was as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding on January 1, 2015	336	\$ 5,400	\$ 2,800	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Canceled	129	\$ 5,000	\$ 3,487	-
Outstanding on December 31, 2015	207	\$ 4,734	\$ 4,388	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Canceled	38	\$ 4,932	\$ 3,866	-
Outstanding on September 30, 2016	169	\$ 4,599	\$ 3,363	\$ -

Exercisable options totaled 207 at December 31, 2015 and totaled 169 at September 30, 2016.

NOTE 7 – INCOME TAXES

Deferred taxes arise because of different tax treatment between financial statement accounting and tax accounting, known as “temporary differences.” The Company records the tax effect of these temporary differences as “deferred tax assets” (generally items that can be used as a tax deduction or credit in future periods) and “deferred tax liabilities” (generally items for which the Company has received a tax deduction and has not yet been recorded in the consolidated statement of operations).

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

As of, and for the three months ended:	<u>Holding Company</u>	<u>Natural Resource Activities</u>	<u>Broker-Dealer Services</u>	<u>Total</u>
30-Sep-16				
Commissions and fee income	-	-	4,600,219	4,600,219
Other fee income	-	-	112,841	112,841
Oil and gas revenue	-	13,336	-	13,336
Other income	-	-	27,004	27,004
Interest income	17	-	60	77
Interest expense	-	-	-	-
Depreciation	996	167	11,192	12,356
Depletion	-	3,301	-	3,301
Income (loss) before income tax benefit (expense)	(128,262)	(32,348)	222,541	61,932
Income tax benefit (expense)	44,379	11,553	(73,124)	(17,192)
Net income (loss)	(83,882)	(20,794)	149,417	44,740
Segment assets	1,056,120	332,872	3,386,800	4,775,792

As of, and for the three months ended:	<u>Holding Company</u>	<u>Natural Resource Activities</u>	<u>Broker-Dealer Services</u>	<u>Total</u>
30-Sep-15				
Commissions and fee income	-	-	4,470,456	4,470,456
Other operating income	-	-	48,323	48,323
Oil and gas revenue	-	18,187	-	18,187
Other income	11,399	-	24,731	36,129
Interest income	-	12,500	-	12,500
Interest expense	(179)	-	(16)	(195)
Depreciation	662	80	11,019	11,761
Depletion	-	6,199	-	6,199
Income (loss) before income tax benefit (expense)	(107,165)	7,963	181,020	81,818
Income tax benefit (expense)	28,539	(3,121)	(70,982)	(45,564)
Net income (loss)	(78,626)	4,841	110,038	36,254
Segment assets	747,916	798,744	3,053,480	4,600,140

As of, and for the nine months ended:

	Holding Company	Natural Resource Activities	Broker-Dealer Services	Total
30-Sep-16				
Commissions and fee income	-	-	13,020,135	13,020,135
Other fee income	-	-	232,275	232,275
Oil and gas revenue	-	46,472	-	46,472
Other income	(3,531)	-	29,501	25,970
Interest income	50	16,206	180	16,436
Interest expense	(947)	(847)	-	(1,794)
Depreciation	2,218	448	33,533	36,200
Depletion	-	13,743	-	13,743
Income (loss) before income tax benefit (expense)	(318,520)	(58,664)	331,383	(45,801)
Income tax benefit (expense)	85,807	22,996	(129,902)	(21,099)
Net income (loss)	(232,713)	(35,668)	201,481	(66,900)
Segment assets	1,056,120	332,872	3,386,800	4,775,792

As of, and for the nine months ended:

	Holding Company	Natural Resource Activities	Broker-Dealer Services	Total
30-Sep-15				
Commissions and fee income	-	-	14,122,611	14,122,611
Other operating income	-	-	182,660	182,660
Oil and gas revenue	-	26,859	-	26,859
Other income	26,824	-	36,692	63,516
Interest income	-	50,000	-	50,000
Interest expense	(3,578)	-	(68)	(3,646)
Depreciation	2,567	80	30,299	32,946
Depletion	-	6,199	-	6,199
Income (loss) before income tax benefit (expense)	(222,047)	13,874	292,539	84,366
Income tax benefit (expense)	5,162	(5,439)	(114,697)	(114,974)
Net income (loss)	(216,885)	8,436	177,842	(30,608)
Segment assets	747,916	798,744	3,053,480	4,600,140

NOTE 10 – LEGAL PROCEEDINGS

The Company operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. Issuers of certain alternative products sold by the Company are in Bankruptcy or may have other financial difficulties. As a result of such alleged failings of alternative products and the uncertainty of client recovery from the various product issuers, the Company is subject to several legal and/or arbitration proceedings. These proceedings include customer suits and arbitrations related to the failure of Medical Capital, other alternative investments alleged to be unsuitable, the bankruptcy proceedings of the various DBSI entities and the bankruptcy of other various entities. The Company vigorously contests the allegations of the various proceedings and believes that there are multiple meritorious legal and fact based defenses in these matters. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. The Company makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reasonably estimated. The current proceedings are subject to uncertainties and, as such, the Company is unable to estimate the possible loss or range of loss that may result from the outcome of these cases; however, results in these cases that are against the interests of the Company could have a severe negative impact on the financial position of the Company. As of September 30, 2016, the Company is a defendant in two on-going suits or arbitrations as discussed above. The Company expects to vigorously defend these cases.

On April 5, 2011, several broker-dealers and their principals/officers, including the Company and John Carlson, President and Chief Compliance Officer, filed a lawsuit in the Superior Court of California for Orange County against Mayer Hoffman McCann, P.C. (“Mayer Hoffman”) captioned Signature Financial Group, Inc., et al, (“Signature”) v. Mayer Hoffman McCann, P.C., et al. The lawsuit arose out of reviews of the financial statements of Medical Capital Holdings, Inc. (“Medical Capital”) by Mayer Hoffman. In June 2009, Medical Capital was sued by the U.S. Securities and Exchange Commission (“SEC” or “Commission”), a finding was made that Medical Capital was conducting a “Ponzi scheme,” and a receiver was appointed to liquidate Medical Capital. The plaintiffs in the Signature lawsuit are broker-dealers and principals of broker-dealers that sold Medical Capital investments to their clients. These plaintiffs sought to recover damages from Mayer Hoffman for the losses and expenses they incurred as a result of the Medical Capital financial deceptions and resulting expenses and losses to the plaintiffs. Specific claims asserted and relief requested included fraud-intentional misrepresentation of fact/concealment of fact, negligent misrepresentation, equitable indemnity, and declaratory relief. On September 23, 2014, the Plaintiffs entered into a Confidential Settlement and Mutual Release Agreement (the “Settlement Agreement”) with Mayer Hoffman and entities affiliated with Mayer Hoffman to settle the Plaintiffs’ claims against Mayer Hoffman and all affiliated parties of Mayer Hoffman with no admission of liability or fault by any defendant. The settlement proceeds were received on December 4, 2014 and recorded as other income on the consolidated financial statements of Capital Financial Holdings, Inc. In a matter related to the Settlement Agreement, on or about October 6, 2014, the Company filed a lawsuit seeking declaratory judgment against its former errors and omission insurance carrier - Arch Specialty Insurance Company (“Arch”) - in the Circuit Court of Wisconsin for Milwaukee County (Capital Financial Services, Inc. v. Arch Specialty Insurance Company). On or about November 24, 2014, Arch filed counterclaims against the Company. These actions were for declaratory relief in connection with a dispute over whether Arch is entitled to any portion of the settlement proceeds that the Company received in exchange for dismissing the lawsuit with Mayer Hoffman. On September 14, 2016 the Company and Arch agreed to settle all claims between them in exchange for a \$82,500 payment by the Company to Arch which was accrued at September 30, 2016. On October 24, 2016 the court ordered the case, including all claims, counterclaims, and third party claims dismissed with prejudice in accordance with the settlement agreement.

NOTE 11 – REGULATORY MATTERS

The broker dealer (“BD”) segment of Capital Financial Services, Inc. is subject to periodic examinations by its regulator, the Securities Exchange Commission (“SEC”). During 2016, the SEC conducted a routine examination of the CFS BD. At the conclusion of its examination, the SEC issued an Examination Report with certain findings, asking the Company’s regulated entity to improve its anti-money laundering program, record additional information on the Company’s transaction blotters, and record transactions on the Company’s transaction blotters that are performed at other companies. On October 26, 2016 the broker dealer made its latest response to the routine examination report. The broker dealer is awaiting further correspondence from the SEC and continues to work with its legal counsel with respect to any potential remaining issues.

NOTE 12 – SUBSEQUENT EVENTS

On September 12, 2016, the Company executed a Uniform Offer to Purchase (the Agreement) giving it the right to acquire a commercial office building and associated property (the Office Building) located at 1801 Burdick Expressway West, Minot, North Dakota. Although the Company believes that the acquisition of the Office Building is probable, there can be no assurance that the acquisition of the Office Building will be consummated. The contract purchase price for the Office Building is \$975,000, exclusive of closing costs, with all built in fixtures and other furniture, fixtures and equipment in the building to remain with the property. The Company has made a \$20,000 refundable earnest money deposit. The Company anticipates funding the purchase price with a commercial real estate loan in an amount to be determined and cash on hand. The amount and terms of the financing are not yet determined. The consummation of the purchase is subject to the completion of various closing conditions to be met by the parties. If the Company does not close on the purchase, there are circumstances under which it may have the deposit refunded.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**GENERAL**

Capital Financial Holdings, Inc. derives the majority of its revenues and net income from sales of mutual funds, insurance products, and various other securities through Capital Financial Services, Inc. ("CFS"), the Company's broker dealer segment.

The Company has been engaged in the financial services business since 1987. The Company was incorporated September 22, 1987, as a North Dakota corporation. The Company's principal offices are located at 1 Main Street North, Minot, North Dakota 58703. As of September 30, 2016, the Company had 19 full-time employees consisting of officers, principals, data processing, compliance, accounting, and clerical support staff.

The Company organizes its current business units into three reportable segments: broker dealer services, natural resources and holding company. The broker-dealer services segment distributes securities and insurance products to retail investors through a network of registered representatives through its wholly-owned subsidiary, Capital Financial Services, Inc. ("CFS"), a Wisconsin corporation. The natural resources segment seeks opportunities related to natural resources in the United States, including petroleum, natural gas and/or other minerals, water resources and land through its wholly-owned subsidiary, Capital Natural Resources, Inc. ("CNR"), a Colorado corporation. The holding company encompasses cost associated with business development and acquisitions, dispositions of subsidiary entities and results of discontinued operations, dividend income and recognized gains or losses.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Capital Financial Holdings, Inc. derives the majority of its revenues and net income from sales of mutual funds, insurance products, and various other securities through Capital Financial Services, Inc. ("CFS"), the Company's broker dealer segment.

CFS is a full-service brokerage firm. CFS is registered with the SEC as an investment advisor and broker-dealer and also with FINRA as a broker-dealer. CFS specializes in providing investment products and services to independent investment representatives, financial planners, and investment advisors and currently supports over 175 investment representatives and investment advisors.

RESULTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	44,740	36,254	(66,900)	(30,608)
Income (loss) per share:				
Basic	36	29	(54)	(25)
Diluted	36	29	(54)	(25)

The Company reported net income for the three months ended September 30, 2016, of \$44,740, compared to net income of \$36,254 for the same quarter in 2015. The Company reported net loss of \$66,900 for the nine months ended September 30, 2016, compared to a net loss of \$30,608 during the same period in 2015. The increase in net income for the three months ended September 30, 2016 compared to net income in the same period in 2015 is due to increased operating revenues of approximately \$189,000. The increased net loss for the nine months ended September 30, 2016 compared to a net loss in the same period in 2015 is due primarily to decreased revenues of approximately \$1,033,000 and increased compensation and benefits expenses of approximately \$115,000.

Operating revenues

Total operating revenues for the three months ended September 30, 2016 were \$4,726,396, an increase of 4% from \$4,536,966 for the same period ended September 30, 2015. Total operating revenues for the nine months ended September 30, 2016 were \$13,298,882, a decrease of 7% from \$14,332,130 for the same period ended September 30, 2015. The decrease for the three month and six month periods net revenue categories are listed below.

Fee income

Fee income for the three months ended September 30, 2016 was \$292,645, an increase of 4% from \$282,318 for the same period ended September 30, 2015. Fee income for the nine months ended September 30, 2016 was \$888,734, an increase of 2% from \$868,802 for the same period ended September 30, 2015. The increases are due to an increase in fee income received by the broker dealer segment as a result of higher values of client assets under management.

The Company earns investment advisory fees in connection with the broker dealer's registered investment advisor. The Company pays the registered representatives a portion of this fee income as commission expense and retains the balance. These fees constituted approximately 6% of the Company's consolidated revenues for the three months ended September 30, 2016 and approximately 7% for the nine months ended September 30, 2016. These fees constituted approximately 6% of the consolidated revenues for the three months ended September 30, 2015 and approximately 6% for the nine months ended September 30, 2015. There is no fee income attributable to the other segments.

Commission income

Commission income includes broker dealer segment commissions. The Company pays the registered representatives a percentage of this income as commission expense and retains the balance. Commission income for the three months ended September 30, 2016 was \$4,307,574, an increase of 3% from \$4,188,138 for the same period ended September 30, 2015. Commission income for the nine months ended September 30, 2016 was \$12,131,401 a decrease of 8% from \$13,253,809 for the same period ended September 30, 2015. The decreases were due primarily to the decrease in commissions received by the broker dealer segment due to market conditions. Commission revenues constituted approximately 91% of the Company's consolidated revenues for the three months ended September 30, 2016 and approximately 91% for the nine months ended September 30, 2016. Commission revenues constituted approximately 92% of the consolidated revenues for the three months ended September 30, 2015 and approximately 92% for the nine months ended September 30, 2015. There is no commission income attributable to the other segments.

Oil and gas revenue

Oil and gas revenue is income tied to the non-operating working interest well leases and is received by the natural resources segment. It is the Company's share of oil and gas revenues for its ownership percentage of total production. Oil and gas revenue for the three months ended September 30, 2016 was \$13,336, a decrease of 23% from \$18,187 for the same period ended September 30, 2015. Oil and gas revenue for the nine months ended September 30, 2016 was \$46,472, an increase of 73% from \$26,859 for the same periods ended September 30, 2015. There is no oil and gas revenue attributable to the other segments.

Other operating income

Other operating income for the three months ended September 30, 2016 was \$112,841, an increase of 134% from \$48,323 for the same period ended September 30, 2015. Other operating income for the nine months ended September 30, 2016 was \$232,275, an increase of 27% from \$182,660 for the same period ended September 30, 2015. The increases were primarily due to an increase in the income received related to alternative investment products. There is no other operating income attributable to the natural resource or holding segments. Other operating income constituted approximately 2% of the Company's consolidated revenues for the three and nine months ended September 30, 2016 and approximately 1% of the consolidated revenues for the three and nine months ended September 30, 2015.

Interest income

Consolidated interest income for the three months ended September 30, 2016 was \$77, a decrease of 99% from \$12,500 for the same period ended September 30, 2015. Interest income for the nine months ended September 30, 2016 was \$16,436, a decrease of 67% from \$50,000 for the same period ended September 30, 2015. Interest income is attributable to the Baron Energy notes from the natural resource segment. There was no material interest income for the holding or broker dealer segments for the periods ended September 30, 2016 and 2015.

Operating expenses

Total operating expenses for the three months ended September 30, 2016 were \$4,691,545, a decrease of 4% from \$4,503,582 for the three months ended September 30, 2015. Total operating expense for the nine months ended September 30, 2016 were \$13,385,295, a decrease of 7% from \$14,357,634 for the same period ended September 30, 2015. The decreases resulted from the net decreases in the expense categories described below.

Compensation and benefits

Consolidated compensation and benefits expense for the three months ended September 30, 2016 were \$363,152, a slight increase from \$362,537 for the same period ended September 30, 2015. Consolidated compensation and benefits expense for the nine months ended September 30, 2016 were \$1,095,745 an increase of 12% from \$980,067 for the same period ended September 30, 2015. The increase resulted from increased wages, health insurance premiums and 401k participation by the employees.

Compensation and benefits for the holding segment for the three months ended September 30, 2016 was a credit of \$8,682 a decrease of 112% from an expense of \$73,656 for the same period ended September 30, 2015. Compensation and benefits for the holding segment for the nine months ended September 30, 2016 was an expense of \$68,955, a decrease of 25% from \$92,400 for the same period ended September 30, 2015. The decreases are due to decreases in paid wages connected to personnel associated with the holding segment.

Compensation and benefits for the broker dealer segment for the three months ended September 30, 2016 was \$353,702, a 27% increase from \$278,169 for the same period ended September 30, 2015. Compensation and benefits for the broker dealer segment for the nine months ended September 30, 2016 was \$975,723, a 15% decrease from \$849,764 for the same period ended September 30, 2015. The increases were due to decreases in wages, insurance premiums and 401k participation by the employees.

Compensation and benefits for the natural resource segment for the three months ended September 30, 2016 was \$18,132, an increase of 69% from \$10,713 for the same period ended September 30, 2015. Compensation and benefits for the natural resources segment for the nine months ended September 30, 2016 was \$51,067, an increase of 35% from \$37,903 for the same period ended September 30, 2015.

Commission expense

Commission expense for the three months ended September 30, 2016 was \$3,978,901, an increase of 1% from \$3,935,925 for the same period ended September 30, 2015. Commission expense for the nine months ended September 30, 2016 was \$11,387,667, a decrease of 8% from \$12,405,829 for the same period ended September 30, 2015. The increases and decreases are a result of the revenues received by the broker dealer segment. There is no commission expense attributable to the other segments.

General and administrative expense

Consolidated general and administrative expenses for the three months ended September 30, 2016 were \$333,835, an increase of 78% from \$187,160 for the same period ended September 30, 2015. Consolidated general and administrative expenses for the nine months ended September 30, 2016 were \$851,940, a decrease of 9% from \$932,593 for the same period ended September 30, 2015. The decrease and increase resulted from the net increases and decreases in the expense categories described below.

General and administrative expenses for the holding segment for the three months ended September 30, 2016 were \$135,964, a 209% increase from \$44,066 for the same period ended September 30, 2015. General and administrative expenses for the nine months ended September 30, 2015 were \$242,920, an increase of 62% from \$150,326 for the same period ended September 30, 2015. The increases were from an increase in accounting expenses and legal expenses.

General and administrative expenses for the broker dealer segment for the three months ended September 30, 2016 were \$173,788, an increase of 26% from \$137,361 for the same period ended September 30, 2015. General and administrative expenses for the nine months ended September 30, 2016 were \$553,784, a decrease of 28% from \$763,434 for the same period ended September 30, 2015. The increases for the three months ended September 30, 2016 were from increases in legal fees and recruiting expenses. The decreases for the nine months ended September 30, 2016 were from a reduction in legal fees and settlements and accounting expenses.

General and administrative expenses for the natural resources segment for the three month periods ended September 30, 2016 were \$24,083 an increase of 320% from \$5,732 for the same period ended September 30, 2015. General and administrative expenses for the nine month periods ended September 30, 2016 were \$55,235 an increase of 194% from \$18,802 for the same period ended September 30, 2015. The increases were due to the operating expenses tied to the leases purchased by the natural resources segment.

Depreciation

Consolidated depreciation expense for the three months ended September 30, 2016 was \$12,356, an increase of 5% from \$11,761 for the same period ended September 30, 2015. Consolidated depreciation expense for the nine months ended September 30, 2016 was \$36,200, an increase of 10% from \$32,946 for the same period ended September 30, 2015.

Depreciation expense for the holding segment for the three months ended September 30, 2016 was \$996, an increase of 50% from \$662 for the same period ended September 30, 2015. Depreciation expense for the holding segment for the nine months ended September 30, 2016 was \$2,218, a decrease of 14% from \$2,567 for the same period ended September 30, 2015.

Depreciation expense for the broker dealer segment for the three months ended September 30, 2016 was \$11,192, a decrease of 81% from \$11,320 for the same period ended September 30, 2015. Depreciation expense for the broker dealer segment for the nine months ended September 30, 2016 was \$33,533, an increase of 11% from \$30,299 for the same period ended September 30, 2015. The increases in depreciation expenses were due to additional fixed assets purchased during 2016.

Depreciation expense for the natural resource segment during the quarter ended September 30, 2016 is immaterial. There was no depreciation expense for the natural resources segment for the quarter ended September 30, 2015.

Depletion Expense

Depletion expense for the natural resources segment for the three months ended September 30, 2016 was \$3,301 a 47% decrease from \$6,199 from the same period ended September 30, 2015. Depletion expense for the nine months ended September 30, 2016 was \$13,743 an increase of 122% from \$6,199 from the same period ended September 30, 2015. There is no depletion expense attributable to the other segments. Depletion is determined by deducting units (barrels of oil) extracted on the unit of production method based on the estimated gross proved reserves as determined by independent petroleum engineers. The percentage of units extracted to the total estimated proven reserves is multiplied by the producing property cost to determine depletion.

Interest expense

Interest expense for the three months ended September 30, 2016 was zero, a decrease of 100% from \$195 for the same period ended September 30, 2015. Interest expense for the nine months ended September 30, 2016 was \$1,794, a decrease of 51% from \$3,646 for the same period ended September 30, 2015. The decrease is due to the interest payments made on the line of credit issued to the holding division. There is no material interest expense attributable to the other segments.

Liquidity and capital resources

Net cash provided by operating activities was \$233,089 for the nine months ended September 30, 2016, as compared to net cash provided by operating activities of \$389,307 during the nine months ended September 30, 2015. The primary difference corresponds to the timing of payment/reimbursement on the E&O insurance, commissions payable and income taxes.

Net cash provided by investing activities was \$477,561 for the nine months ended September 30, 2016, as compared to net cash used in investing activities of \$208,067 for the nine months ended September 30, 2015. The primary difference corresponds with the launch of the new subsidiary, Capital Natural Resources, Inc., and the asset investments within that subsidiary.

Net cash used in financing activities was \$50,000 for the nine months ended September 30, 2016, as compared to net cash used in financing activities of \$200,000 for the nine months ended September 30, 2015. The primary difference corresponds with the payments made on the line of credit and short term borrowings.

The Company has historically relied upon sales of its equity securities and debt instruments, as well as bank loans, for liquidity and growth. Management believes that the Company's existing liquid assets, along with cash flow from operations, will provide the Company with sufficient resources to meet its ordinary operating expenses during the next twelve months. Significant, unforeseen or extraordinary expenses may require the Company to seek alternative financing sources, including common or preferred share issuance or additional debt financing.

In addition to the liabilities coming due in the next twelve months, management expects that the principal needs for cash may be broker recruitment, repurchase of shares of the Company's common stock, and debt service. Management also expects to realize increases in consultant expenses as well as increased compliance and legal costs with respect to its broker dealer subsidiary related to regulatory and litigation matters.

FORWARD-LOOKING STATEMENTS

When used herein, in future filings by the Company with the Securities and Exchange Commission ("SEC"), in the Company's press releases, and in other Company-authorized written or oral statements, the words and phrases "can be," "expects," "anticipates," "may affect," "may depend," "believes," "estimate," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Such statements are subject to certain risks and uncertainties, including those set forth in this "Forward-Looking Statements" section, which could cause actual results for future periods to differ materially from those presently anticipated or projected. The Company does not undertake and specifically disclaims any obligation to update any forward-looking statement to reflect events or circumstances after the date of such statements.

Forward-looking statements include, but are not limited to, statements about the Company's:

- Business strategies and investment policies,
- Possible or assumed future results of operations and operating cash flows,
- Financing plans and the availability of short-term borrowing,
- Competitive position,
- Potential growth opportunities,
- Recruitment and retention of the Company's key employees,
- Potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts,
- Likelihood of success and impact of litigation,
- Expected tax rates,
- Expectations with respect to the economy, securities markets, the market for merger and acquisition activity, the market for asset management activity, and other industry trends,
- Competition, and
- Effect from the impact of future legislation and regulation on the Company.

The following factors, among others, could cause actual results to differ materially from forward-looking statements, and future results could differ materially from historical performance:

- General political and economic conditions which may be less favorable than expected;
- The effect of changes in interest rates, inflation rates, the stock markets, or other financial markets;
- Unfavorable legislative, regulatory, or judicial developments;
- Adverse findings or rulings in arbitrations, litigation or regulatory proceedings;
- Incidence and severity of catastrophes, both natural and man-made;
- Changes in commodity pricing due to natural resource investments;
- Changes in accounting rules, policies, practices, and procedures which may adversely affect the business; and
- Terrorist activities or other hostilities which may adversely affect the general economy.

The Company is a financial services holding company that, through its broker dealer subsidiary, provides brokerage, investment advisory, insurance and related services. The Company operates in a highly regulated and competitive industry that is influenced by numerous external factors such as economic conditions, marketplace liquidity and volatility, monetary policy, global and national political events, regulatory developments, competition, and investor preferences. The Company's revenues and net earnings may be either enhanced or diminished from period to period by such external factors. The Company remains focused on continuing to reduce redundant operating costs, upgrade operating efficiency, recruit quality representatives and grow our revenue base. The Company provides broker-dealer services in support of trading and investment by its representatives' customers in corporate equity and debt securities, U.S. Government securities, municipal securities, mutual funds, private placement alternative investments, variable annuities and variable life insurance. The Company also provides investment advisory services for its representative's customers.

A key component of the broker-dealer subsidiary's business strategy is to recruit well-established, productive representatives who generate substantial revenues from an array of investment products and services. Additionally, the broker-dealer subsidiary assists its representatives in developing and expanding their business by providing a variety of support services and a diversified range of investment products for their clients.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable as a Smaller Reporting Company

Item 4. Controls and Procedures

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) and Rule 15c-14(c) under the Exchange Act) as of the end of the period covered by this report, pursuant to Rule 13a-15(b) of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of September 30, 2016, and that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed and summarized, and reported within the time periods specified by the SEC's rules and forms.

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

We are not currently a "listed company" under SEC rules and are therefore not required to have a board comprised of a majority of independent directors or separate committees comprised of independent directors. We use the definition of "independence" under the NASDAQ Rules, as applicable and as may be modified or supplemented from time to time and the interpretations thereunder, to determine if the members of our Board are independent. In making this determination, our Board considers, among other things, transactions and relationships between each director and his immediate family and us, including those reported in its Annual Report under the caption "Certain Relationships and Related Transactions." The purpose of this review is to determine whether any such relationships or transactions are material and, therefore, inconsistent with a determination that the directors are independent. On the basis of such review and its understanding of such relationships and transactions, our Board has determined that none of our Board members is an independent director.

PART II - OTHER INFORMATION**Item 1. Legal Proceedings**

The information in response to this item can be found in Note 10 (Legal Proceedings) to Financial Statements in this Report, which information is incorporated by reference into this item.

Item 1A. Risk Factors

Not Applicable as a Smaller Reporting Company

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

The Company has issued the following securities in the past quarter without registering the securities under the Securities Act:

None

Small Business Issuer Repurchases of Equity Securities:

In November of 1997, the Board of Directors of the Company authorized the repurchase of up to \$2,000,000 of its outstanding common stock from time to time in the open market. The table below displays the dollar value of shares that may yet be purchased under this plan.

Period	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
July 2016	-	-	-	\$ 597,754
August 2016	-	-	-	\$ 597,754
September 2016	-	-	-	\$ 597,754
Total	-	-	-	\$ 597,754

Item 3. Defaults Upon Senior Securities

None

Item 4. (Removed and Reserved)

Item 5. Other Information

None

Item 6. Exhibits

Exhibits

[31.1](#) CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act and Rules 13a-14(a) and 15d-14(a) of the Exchange Act

[31.2](#) CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act and Rules 13a-14(a) and 15d-14(a) of the Exchange Act

[32.1](#) CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act and 18 U.S.C. Section 1350

[32.2](#) CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act and 18 U.S.C. Section 1350

CAPITAL FINANCIAL HOLDINGS, INC.

SIGNATURES

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

CAPITAL FINANCIAL HOLDINGS, INC.

Date: November 10, 2016

By /s/ John Carlson
John Carlson
Chief Executive Officer & President
(Principal Executive Officer)

Date: November 10, 2016

By /s/ Elizabeth Colby
Elizabeth A. Colby
Chief Financial Officer & Corporate Secretary
(Principal Financial Officer)

Exhibit 31.1

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Jonathan Carlson, certify that:

1. I have reviewed this Form 10-Q of Capital Financial Holdings, Inc. (the "Company");
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods present in this report;
4. The small business issuers other certifying officer(s) 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 13-a-15(f) and 15d-15(f)) for the small business issuer 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 small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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 small business issuer'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; and
 - (d) Disclosed in this report any change in the small business issuer's internal control over financing reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 reasonable likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Capital Financial Holdings, Inc.

Dated: November 10, 2016

By: /s/ Jonathan Carlson
Jonathan Carlson

Exhibit 31.2

**CERTIFICATION OF
CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Elizabeth Colby, certify that:

1. I have reviewed this Form 10-Q of Capital Financial Holdings, Inc. (the "Company");
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods present in this report;
4. The small business issuers other certifying officer(s) 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 13-a-15(f) and 15d-15(f)) for the small business issuer 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 small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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 small business issuer'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; and
 - (d) Disclosed in this report any change in the small business issuer's internal control over financing reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 reasonable likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Capital Financial Holdings, Inc

Dated: November 10, 2016

By: /s/ Elizabeth Colby
Elizabeth Colby

Exhibit 32.1

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying Quarterly Report on Form 10-Q of Capital Financial Holdings, Inc. (the "Company") for the quarter ending September 30, 2016, I, Jonathan Carlson, Chief Executive Officer of the Company hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

1. Such Quarterly Report on Form 10-Q for the quarter ending September 30, 2016, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such Quarterly Report on Form 10-Q for the quarter ending September 30, 2016, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Capital Financial Holdings, Inc.

Dated: November 10, 2016

By: /s/ Jonathan Carlson
Jonathan Carlson

**CERTIFICATION OF
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying Quarterly Report on Form 10-Q of Capital Financial Holdings, Inc. (the "Company") for the quarter ending September 30, 2016, I, Elizabeth Colby, Chief Financial Officer of the Company hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

1. Such Quarterly Report on Form 10-Q for the quarter ending September 30, 2016, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in such Quarterly Report on Form 10-Q for the quarter ending September 30, 2016, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Capital Financial Holdings, Inc

Dated: November 10, 2016

By: /s/ Elizabeth Colby
Elizabeth Colby
