

10-Q 1 cpfh_10q.htm QUARTERLY REPORT

**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, 2017

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.)

1821 Burdick Expressway W
Minot, North Dakota 58701
(Address of principal executive offices) (Zip code)

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

1 N Main St
Minot, North Dakota 58703
(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, 2017, there were 1,241 common shares of the issuer outstanding.

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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

	<u>(Unaudited)</u>	
	<u>September 30, 2017</u>	<u>December 31, 2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,245,304	\$ 934,711
Accounts receivable (net of an allowance of \$24,000 for 2017 and 2016)	1,657,328	1,932,933
Prepays	34,699	61,709
Current assets of discontinued operations	<u>-</u>	<u>6,375</u>
Total current assets	<u>2,937,331</u>	<u>2,935,728</u>
PROPERTY AND EQUIPMENT		
Land	98,409	98,409
Building	1,096,946	875,682
Furniture, fixtures and equipment	384,118	543,601
Less accumulated depreciation	(289,388)	(422,058)
Property and equipment of discontinued operations	<u>-</u>	<u>72,616</u>
Net property and equipment	<u>1,290,085</u>	<u>1,168,250</u>
OTHER ASSETS		
Severance escrow	157,892	258,185
Deferred tax asset	320,436	417,542
Other assets	<u>175,279</u>	<u>175,279</u>
Total other assets	<u>653,607</u>	<u>851,006</u>
	\$	
TOTAL ASSETS	<u><u>4,881,023</u></u>	<u><u>\$ 4,954,984</u></u>

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited)	
	September 30, 2017	December 31, 2016
CURRENT LIABILITIES		
Accounts payable	\$ 257,066	\$ 292,987
Commissions payable	1,764,537	2,027,962
Income taxes payable	8,857	10,187
Other current liabilities	113,699	12,962
Current liabilities of discontinued operations	-	7,434
Total current liabilities	\$ 2,144,159	\$ 2,351,532
 NON CURRENT LIABILITIES		
Non current liabilities of discontinued operations	-	2,907
Building mortgage	675,000	475,000
Total noncurrent liabilities	675,000	477,907
TOTAL LIABILITIES	\$ 2,819,159	\$ 2,829,439
 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	(8,385,892)	(8,322,211)
Less Treasury stock, 3,050,000 preferred shares at \$0.4262	(1,300,000)	(1,300,000)
TOTAL STOCKHOLDERS' EQUITY	\$ 2,061,864	\$ 2,125,545
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,881,023	\$ 4,954,984

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,	
	2017	2016
OPERATING REVENUES		
Fee income	\$ 431,944	292,645
Commissions	3,213,739	4,307,574
Other fee income	102,580	112,841
Total revenue	3,748,263	4,713,060
OPERATING EXPENSES		
Compensation and benefits	344,674	345,020
Commission expense	3,028,630	3,978,901
General and administrative expenses	320,917	309,752
Depreciation	8,647	12,188
Total operating expenses	3,702,868	4,645,861
OPERATING INCOME	45,395	67,199
OTHER INCOME (EXPENSES)		
Interest expense	(8,453)	-
Loss from disposed assets	(5,092)	-
Other income	67,289	27,080
Total other income	53,744	27,080
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	99,139	94,279
INCOME TAX EXPENSE	50,505	28,745
	48,634	65,534
NET INCOME BEFORE DISCONTINUED OPERATIONS		
DISCONTINUED OPERATIONS	-	(20,794)
NET INCOME (LOSS)	\$ 48,634	(44,740)
NET INCOME (LOSS) PER COMMON SHARE, BASIC AND DILUTED:		
Continuing	\$ 39	53
Discontinued	\$ -	(17)
SHARES USED IN COMPUTING NET PER COMMON SHARE:		
Basic and 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,	
	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Fee income	\$ 1,144,548	888,734
Commissions	9,971,996	12,131,401
Other fee income	312,299	232,275
Total revenue	11,428,843	13,252,410
OPERATING EXPENSES		
Compensation and benefits	1,102,698	1,044,677
Commission expense	9,373,638	11,387,667
General and administrative expenses	986,657	796,705
Depreciation	44,054	35,751
Total operating expenses	11,507,047	13,264,800
OPERATING LOSS	(78,204)	(12,390)
OTHER INCOME (EXPENSES)		
Interest expense	(20,714)	(947)
Loss from disposed assets	(5,092)	-
Other income	71,970	26,200
Total other income	46,164	25,253
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX	(32,040)	12,863
INCOME TAX EXPENSE	9,326	44,095
	<u>(41,366)</u>	<u>(31,232)</u>
NET LOSS BEFORE DISCONTINUED OPERATIONS		
DISCONTINUED OPERATIONS	<u>(22,315)</u>	<u>(35,668)</u>
NET LOSS	<u>\$ (63,681)</u>	<u>(66,900)</u>
NET LOSS PER COMMON SHARE, BASIC AND DILUTED:		
Continuing	\$ (33)	(25)
Discontinued	\$ (18)	(29)
SHARES USED IN COMPUTING NET PER COMMON SHARE:		
Basic and 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,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (63,681)	(66,900)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	44,054	36,200
Depletion	(29,354)	13,743
Provision for deferred income taxes	97,106	17,118
(Increase) decrease in:		
Accounts receivable	275,605	(115,736)
Income taxes payable	(1,330)	(52,930)
Prepays	27,010	6,833
Severance escrow	100,293	(194)
Accounts payable	(43,355)	122,414
Commissions payable	(263,425)	233,636
Other liabilities	100,736	38,905
Net cash provided by operating activities	\$ 243,659	233,089
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	\$ (22,333)	(22,439)
Payment of Baron notes receivable	-	500,000
Improvements to building	(221,264)	-
Deductions to property and equipment	5,093	-
Deductions to oil and gas properties	105,438	-
Net cash (used in) provided by investing activities	\$ (133,066)	477,561
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	200,000	-
Repayment of short-term borrowings	-	(50,000)
Net cash provided by (used in) financing activities	\$ 200,000	(50,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 310,593	660,650
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	\$ 934,711	1,038,426
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,245,304	1,699,076
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Cash paid for interest on building mortgage	8,453	-

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2017 and 2016

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, 2016, of Capital Financial Holdings, Inc., as filed with the SEC. The condensed consolidated balance sheet at December 31, 2016, 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, 2017, 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.

Capitalized costs are depleted and amortized on the unit-of-production method based on the estimated gross 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 nine months ended September 30, 2017, depletion expense was zero.

CNR held leasehold interests on acreage located in Gonzalas and Taylor County, Texas, Lincoln County, Colorado and Divide and Williams County, North Dakota. 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. In the first quarter of 2017, these assets were sold for \$66,200.

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. In the first quarter of 2017, non-producing and unproved properties in Lincoln County, Colorado and Divide and Williams County, North Dakota held by the Company were disposed of in transfers deemed effective as of December 31, 2016 by assignment documents in accordance with established practice in the oil and gas industry.

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, 2017.

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, 2017, asset retirement obligations were zero and for the nine months ended September 30, 2017 accretion expense was zero.

As of December 31, 2016, the natural resource segment met the definition of discontinued operations.

NOTE 2 – ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

A summary of our significant accounting policies is included in Note 1 of our 2016 Form 10-K filed on March 30, 2017.

ASU 2014-15 — *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendment requires that in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The Company is currently evaluating the impact of its pending adoption of ASU 2014-15.

ASU 2016-02 – *Leases (Topic 842)*: - The amendments in this update supersede nearly all existing lease guidance under GAAP. The amendment requires the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases currently classified as operating leases. Qualitative and quantitative disclosures are required. This update is effective for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years. Early application is permitted. Entities are required to apply the amendments at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact of its pending adoption of ASU 2016-02.

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. 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.

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.

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. 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 tracts 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 were to 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 was to 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 were 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 with 1,483,451 recoverable tons for a purchase price of \$1,275 paid in cash.

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.

In the first quarter of 2017, all of the natural resource assets described above were disposed of by CNR. As of December 31, 2016, the natural resource subsidiary, Capital Natural Resources, Inc., met the definition of discontinued operations.

NOTE 4 – DISCONTINUED OPERATIONS

On March 2 and 3, 2017 the Company sold the assets in its natural resource segment, Capital Natural Resources, Inc. The sale included all of the leases and coal, mineral, water and surface interests.

The summarized balance sheet for discontinued operations is presented below:

	<u>2017</u>	<u>2016</u>
Current Assets		
Accounts receivable	\$ -	5,626
Current Long term receivable		-
Prepays	-	749
Total current assets	<u>\$ -</u>	<u>6,375</u>
Property and Equipment		
Oil and natural gas properties, Full Cost Method of Accounting	\$ -	61,829
Less accumulated depletion	-	(29,354)
Equipment	-	4,690
Less accumulated depreciation	-	(816)
Other property holdings	-	36,267
Net property and equipment	<u>\$ -</u>	<u>72,616</u>
Total Assets	<u>\$ -</u>	<u>78,991</u>
Current liabilities		
Accounts payable	\$ -	7,434
Total current liabilities	<u>\$ -</u>	<u>7,434</u>
Noncurrent liabilities		
Asset retirement obligation	\$ -	2,907
Total noncurrent liabilities	<u>\$ -</u>	<u>2,907</u>
Stockholder's Equity		
Common Stock	\$ -	300,400
Accumulated deficit	-	(231,750)
Total stockholder's equity	<u>\$ -</u>	<u>68,650</u>
Total liabilities and stockholder's equity	<u>\$ -</u>	<u>78,991</u>

The results of operations of Capital Natural Resources, Inc. are included in the Company's Consolidated Statements of Operations as discontinued operations.

The company recorded impairment on the assets held for sale as of December 31, 2016. The proceeds of the sale, after giving effect to any working capital adjustments, will be allocated among the holding company.

The summarized income for the three months ended September 30, 2017 and September 30, 2016 from discontinued operations is presented below:

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Oil lease income	\$ -	13,336
Total operating revenue	<u>\$ -</u>	<u>13,336</u>
Operating Expenses		
Compensation and benefits	\$ -	18,132
Lease operating expense	-	20,500
General and administrative	-	3,583
Depletion	-	3,301
Depreciation	-	167
Loss from discontinued operations	(22,315)	
Total operating expenses	<u>\$ (22,315)</u>	<u>45,683</u>
Operating loss	<u>\$ (22,315)</u>	<u>(32,347)</u>
Loss of discontinued operations before income tax expense	\$ (22,315)	(32,347)
Income tax benefit	<u>\$ -</u>	<u>11,553</u>
Net loss	<u>\$ (22,315)</u>	<u>(20,794)</u>

The summarized income for the nine months ended September 30, 2017 and September 30, 2016 from discontinued operations is presented below:

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Oil lease income	\$ -	46,472
Total operating revenue	<u>\$ -</u>	<u>46,472</u>
Operating Expenses		
Compensation and benefits	\$ -	51,067
Lease operating expense	-	49,139
General and administrative	-	6,098
Depletion	-	13,743
Depreciation	-	448
Loss from discontinued operations	(22,315)	
Total operating expenses	<u>\$ (22,315)</u>	<u>120,495</u>
Operating loss	<u>\$ (22,315)</u>	<u>(74,023)</u>
Other income (expenses)		
Interest expense	\$ -	(847)
Interest income	-	16,206
Total other income	<u>\$ -</u>	<u>15,359</u>
Loss of discontinued operations before income tax expense	\$ (22,315)	(58,664)
Income tax benefit	<u>\$ -</u>	<u>22,996</u>
Net loss	<u>\$ (22,315)</u>	<u>(35,668)</u>

The Company did not reclassify its Statements of Cash Flows to reflect the various discontinued operations. Cash flows from 2017 are combined with the cash flows from continuing operations within each of the categories presented.

NOTE 5—BARON NOTES RECEIVABLE

On June 11, 2014, June 27, 2014, and July 22, 2014, Baron Energy, Inc., issued promissory notes receivable to Capital Natural Resources, Inc. (the “note holder”) in the amounts of \$85,000, \$40,000 and \$375,000 respectively. The three notes carry an interest rate of 15% per annum, payable monthly, and mature on June 12, 2016, June 28, 2016 and July 23, 2016 respectively. The Chairman of the Company has acted, and continues to act, as counsel to the Company while his affiliated law firm has acted and continues to act as counsel to Baron Energy, Inc. Moreover, the Chairman also serves on the management team of the subsidiary that holds the Baron Energy Notes. This related party transaction was reviewed by the Company. At maturity, the notes are convertible at the option of the note holder into specified non-operating minority working interests in Baron Energy, Inc.’s oil and gas operations in Frio County, Texas. As additional compensation to the note holder, at the maturity of the notes, regardless of whether the note holder elects to convert the principal of the notes to non-operating minority working interests, the note holder will be assigned specified non-operating minority working interests in Baron Energy, Inc.’s oil and gas operations in Frio County, Texas. The note holder also has the option to receive additional working interests if it extends the maturity dates of the notes. Interest income earned on the notes was \$82,642. On March 21, 2016, the Baron Notes were paid in full in the amount of \$500,000 together with accrued interest.

NOTE 6 – 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 had a variable interest rate of 1.509 percent above Wall Street Journal U.S. Prime Rate which was 4.25% as of September 30, 2017. The credit line expired on September 12, 2017 without being used. As of September 30, 2017, the Company had zero outstanding and zero interest expense against the line of credit. There were no financial covenants associated with the line of credit.

NOTE 7 - 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, 2017 and 2016. Changes are due to the stock buyback and reverse stock split.

Option activity for the twelve months ended December 31, 2016 and the nine months ended September 30, 2017 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, 2016	207	\$ 8,692	\$ 4,435	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Canceled	(39)	-	-	-
Outstanding on December 31, 2016	168	\$ 5,000	\$ 3,844	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Canceled	(1)	-	-	-
Outstanding on September 30, 2017	167	\$ 4,538	\$ 4,190	\$ -

Exercisable options totaled 168 at December 31, 2016 and totaled 167 at September 30, 2017.

NOTE 8 – 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).

Management reviews and adjusts those estimates annually based upon the most current information available. However, because the recoverability of deferred taxes is directly dependent upon the future operating results of the Company, actual recoverability of deferred taxes may differ materially from management's estimates.

Due to stock options forfeited, the deferred tax assets associated with stock compensation valued under the Black Scholes model were reduced. As of September 30, 2017, an accumulated amount of approximately \$434,610 has been recorded as tax expense since the beginning of stock options being forfeited. There are no additional stock options subject to forfeiture.

The effective tax rates for the nine months ended September 30, 2017 were different from the statutory rate primarily due to the reduction of the deferred tax assets related to stock compensation.

At September 30, 2017, the Company has approximately \$65,084 in federal net operation loss carry forward which begins to expire in 2036.

NOTE 9 - EARNINGS PER SHARE

Basic earnings per share are computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect per share amounts that would have resulted if dilutive potential common shares had been converted to common shares. The following reconciles amounts reported in the financial statements:

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	<u>Numerator</u>	<u>Denominator</u>	<u>Per Share Amount</u>	<u>Numerator</u>	<u>Denominator</u>	<u>Per Share Amount</u>
Net (Loss) Income of continuing operations	\$ 48,634			65,534		
Less: Preferred Stock Dividends						
Income of Continuing Operations Available to Common Shareholders – Basic and diluted Earnings per Share	<u>\$ 48,634</u>	<u>1,241</u>	<u>39</u>	<u>65,534</u>	<u>1,241</u>	<u>\$ 53</u>
	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	<u>Numerator</u>	<u>Denominator</u>	<u>Per Share Amount</u>	<u>Numerator</u>	<u>Denominator</u>	<u>Per Share Amount</u>
Net (Loss) Income of continuing operations	\$ (41,366)			(31,232)		
Less: Preferred Stock Dividends						
Income of Continuing Operations Available to Common Shareholders – Basic and diluted Earnings per Share	<u>\$ (41,366)</u>	<u>1,241</u>	<u>(33)</u>	<u>(31,232)</u>	<u>1,241</u>	<u>\$ (25)</u>

Options and warrants to purchase 377 common shares at exercise prices between \$3,500 and \$14,300 were outstanding at September 30, 2017, but were not included in the computation of diluted earnings per share for the quarter ending September 30, 2017 and September 30, 2016, because their effect was anti-dilutive.

NOTE 10 – RULE 4110 (c)(1)

The Company operates under the provision of FINRA Rule 4410 (c)(1) and, accordingly, the member is restricted from withdrawing equity capital for a period of one year from the date such equity capital is contributed, unless otherwise permitted by FINRA in writing. Subject to the requirements of paragraph (c)(2) of this Rule, this paragraph shall not preclude a member from withdrawing profits earned. On December 28, 2016, the board of the holding company of Capital Financial Services, Inc. approved capital contribution in the amount of \$65,000 to be transferred to the Company.

NOTE 11 – REGULATORY MATTERS

The broker dealer (“BD”) segment of Capital Financial Services, Inc. is subject to periodic examinations by its regulators, the Financial Industry Regulatory Authority (“FINRA”) and 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 November 28, 2016 the broker dealer provided its last response to the routine examination report.

On May 19, 2017, FINRA, the regulatory authority for the Company’s subsidiary Capital Financial Services, Inc. (the broker dealer subsidiary) issued its post examination report for the FINRA examination of the broker dealer subsidiary which began in April 2017. In that report FINRA noted exceptions in its risk assessment of the firm in the following areas: 1) the need for an adequate anti-money laundering program to detect and report suspicious activity, 2) three instances of procedural inadequacy regarding due diligence or suitability with respect to REIT offerings participated in by the broker dealer subsidiary and 3) one instance of inadequate disclosure to a customer of variable annuity fees by a registered representative of the broker dealer subsidiary. The broker dealer subsidiary is working to resolve the forgoing exception issues with FINRA as well as to make improvements in its procedural processes.

NOTE 12 – BUILDING PURCHASE

On November 16, 2016, the Company closed on the acquisition of a commercial office building and associated property (the “Office Building”) located at 1821 Burdick Expressway West, Minot, North Dakota from Evanmark Enterprises, LLC, an entity unrelated to the Company. The contract purchase price for the Office Building was \$975,000, exclusive of closing costs of \$9,091, with all built-in fixtures and other furniture, fixtures and equipment in the building remaining with the property. The Company paid \$509,091 at closing toward the purchase price of the Office Building with the remaining \$475,000 of the purchase price financed by a commercial real estate loan from American Bank Center (“American Bank”) in the principal amount of \$675,000, \$475,000 of which was applied to the purchase price of the Office Building and \$200,000 of which was utilized for renovations to the building. The loan carries a fixed interest rate of 4.879% per annum for five (5) years with the rate to be adjusted at the end of the five (5) year period based on the Wall Street Journal Prime interest rate plus 1.759%. American Bank has a first priority mortgage on the Office Building. On April 7, 2017 the Company was notified by the City of Minot that the address on this property was changing from 1801 Burdick Expressway W to 1821 Burdick Expressway W. Effective in June 2017, the Company’s broker-dealer subsidiary began paying rent to the Company of \$8,500 per month on a month-to-month basis for a portion of the office facility owned by the Company. The broker-dealer utilizes approximately 5,817 square feet of office space for its operations out of the 6,188 square feet in the office facility utilized in the Company’s operations. Rent Income and Rent Expense related to this Company/Subsidiary arrangement are eliminated in the consolidated financial statements. Approximately 4,152 square feet in a separate section of the building remains vacant and is available as an office rental unit or expansion.

NOTE 13 – SEGMENT REPORTING

The Company organizes its current business units into three reportable segments: broker dealer services, natural resources (discontinued operation as of December 31, 2016), 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 sought 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. As of December 31, 2016, this operation met the definition of discontinued operation. 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.

The historical results of Capital Natural Resources, Inc. have been reflected as discontinued operations.

As of, and for the three months ended:	<u>Holding Company</u>	<u>Broker- Dealer Services</u>	<u>Total</u>
September 30, 2017			
Commissions and fee income	-	3,645,683	3,645,683
Other fee income	-	102,580	102,580
Other income	166	67,123	67,289
Interest expense	(8,453)	-	(8,453)
Depreciation	(1,464)	10,111	8,647
Income before income tax expense	49,040	50,099	99,139
Income tax expense	(31,572)	(18,933)	(50,505)
Net income (loss) of continued operations	17,468	31,166	48,634
Segment assets of continued operations	1,835,630	3,045,393	4,881,023

As of, and for the three months ended:	<u>Holding Company</u>	<u>Broker- Dealer Services</u>	<u>Total</u>
September 30, 2016			
Commissions and fee income	-	4,600,219	4,600,219
Other fee income	-	112,841	112,841
Other income	16	27,064	27,080
Depreciation	996	11,192	12,188
Income (loss) before income tax benefit (expense)	(128,262)	222,541	94,279
Income tax benefit (expense)	44,379	(73,124)	(28,745)
Net income (loss) of continued operations	(83,883)	149,417	65,534
Segment assets of continued operations	1,388,992	3,386,800	4,775,792

As of, and for the nine months ended:	<u>Holding Company</u>	<u>Broker- Dealer Services</u>	<u>Total</u>
September 30, 2017			
Commissions and fee income	-	11,116,544	11,116,544
Other fee income	-	312,299	312,299
Other income	260	71,710	71,970
Interest expense	20,714	-	20,714
Depreciation	13,061	30,993	44,054
Income (loss) before income tax benefit (expense)	(273,778)	241,738	(32,040)
Income tax benefit (expense)	85,433	(94,759)	(9,326)
Net income (loss) of continued operations	(188,345)	146,979	(41,366)
Segment assets of continued operations	1,835,630	3,045,393	4,881,023

As of, and for the nine months ended:	<u>Holding Company</u>	<u>Broker- Dealer Services</u>	<u>Total</u>
September 30, 2016			
Commissions and fee income	-	13,020,135	13,020,135
Other fee income	-	232,275	232,275
Other income	(3,480)	29,680	26,200
Depreciation	2,218	33,533	35,751
Income (loss) before income tax benefit (expense)	(318,520)	331,383	12,863
Income tax benefit (expense)	85,807	(129,902)	(44,095)
Net income (loss) of continued operations	(232,713)	201,481	(31,232)
Segment assets of continued operations	1,388,992	3,386,800	4,775,792

NOTE 14 – 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, investments alleged to be unsuitable, and bankruptcies and other issues brought by claimants. 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, 2017, the Company is a defendant in five on-going suits or arbitrations as discussed above. In April 2017, the Company issued payment of \$62,673 on a pending litigation matter as a deposit with the court pursuant to a court order and recorded a \$63,000 accrual for the matter as of December 31, 2016. On August 22, 2017 the matter was settled by payment of an additional \$60,000.

On April 5, 2011, several broker-dealers and their principals/officers, including the Company and John Carlson, who was then President and Chief Compliance Officer of the Company, 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 fraudulent 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. The parties acknowledged that as between the Company and Mr. Carlson, one hundred percent (100%) of the settlement proceeds paid to them was for the alleged damage or harm to goodwill (and loss of goodwill). The settlement proceeds were received on December 4, 2014 and charged against goodwill carried on the consolidated financial statements of Capital Financial Holdings, Inc., the parent of the Company. 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. The actions were for declaratory relief in connection with a dispute over whether Arch was entitled to any portion of the settlement proceeds that the Company received in exchange for dismissing the lawsuit with Mayer Hoffman. On approximately September 14, 2016 the Company and Arch agreed to settle the matter, on October 14, 2016 a Stipulation and Order for Dismissal was filed with the Court and on October 24, 2016 the Court entered an order dismissing the case, including all claims, counterclaims and third party claims with prejudice with no costs assessed to any party.

NOTE 15 – SUBSEQUENT EVENTS

None.

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 1821 Burdick Expressway W, Minot, North Dakota 58701. As of September 30, 2017, the Company had 19 full-time employees consisting of officers, principals, data processing, compliance, accounting, and clerical support staff.

The Company organized its business units into three reportable segments: broker dealer services, natural resources (discontinued operation as of December 31, 2016), 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 sought 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. As of December 31, 2016, this operation met the definition of discontinued operations. 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 as of September 30, 2017 supported approximately 152 investment representatives and investment advisors.

RESULTS OF CONTINUED OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	48,634	65,534	(41,366)	(31,232)
Income (loss) per share: Basic and diluted	39	53	(33)	(25)

The Company reported a net income for the three months ended September 30, 2017, of \$48,634, compared to a net income of \$65,534 for the same quarter in 2016. The Company reported a net loss for the nine months ended September 30, 2017, of \$41,366 compared to a net loss of \$31,232 for the same quarter in 2016. The decrease in net income for the three months ended September 30, 2017 compared to 2016 is due primarily to reduce revenues related to the broker dealer segment. The increase in net loss for the nine months ended September 30, 2017 compared to net loss in the same period in 2016 is primarily due to increased compensation and benefits and general and administrative expenses.

Operating revenues

Total operating revenues for the three months ended September 30, 2017 were \$3,748,263, a decrease of 20% from \$4,713,060 for the same period ended September 30, 2016. Total operating revenues for the nine months ended September 30, 2017 were \$11,428,843, a decrease of 14% from \$13,252,410 for the same period ended September 30, 2016. The changes for the three and nine month period net revenue categories are listed below.

Fee income

Fee income for the three months ended September 30, 2017 was \$431,944, an increase of 48% from \$292,645 for the same period ended September 30, 2016. Fee income for the nine months ended September 30, 2017 was \$1,144,548, an increase of 29% from \$888,734 for the same period ended September 30, 2016. The increase is 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 12% and 10% of the Company's consolidated revenues for the three and nine months ended September 30, 2017 respectively and approximately 6% and 7% of the Company's consolidated revenues for the three and nine months ended September 30, 2016 respectively. 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, 2017 was \$3,213,739, a decrease of 25% from \$4,307,574 for the same period ended September 30, 2016. Commission income for the nine months ended September 30, 2017 was \$9,971,996, a decrease of 18% from \$12,131,401 for the same period ended September 30, 2016. The decreases were due primarily to the decrease in commissions received by the broker dealer segment due to regulatory and market conditions. Commission revenues constituted approximately 86% and 87% of the Company's consolidated revenues for the three and nine months ended September 30, 2017 respectively and approximately 91% and 92% of the Company's consolidated revenues for the three and nine months ended September 30, 2016 respectively. There is no commission income attributable to the other segments.

Other fee income

Other operating fee income for the three months ended September 30, 2017 was \$102,580, a decrease of 9% from \$112,841 for the same period ended September 30, 2016. Other operating fee income for the nine months ended September 30, 2017 was \$312,299, an increase of 34% from \$232,275 for the same period ended September 30, 2016. The decreases and increases were primarily due to increases and decreases in the income received related to alternative investment products. There is no other operating fee income attributable to the holding segments. Other operating fee income constituted approximately 3% of the Company's consolidated revenues for the three and nine months ended September 30, 2017 and approximately 2% of the Company's consolidated revenues for the three and nine months ended September 30, 2016.

Operating expenses

Total operating expenses for the three months ended September 30, 2017 were \$3,694,368, a decrease of 20% from \$4,645,861 for the three months ended September 30, 2016. Total operating expenses for the nine months ended September 30, 2017 were \$11,507,047, a decrease of 13% from \$13,264,800 for the nine months ended September 30, 2016. 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, 2017 was \$344,674, a slight decrease from \$345,020 for the same period ended September 30, 2016. Consolidated compensation and benefits expense for the nine months ended September 30, 2017 was \$1,102,698, an increase of 6% from \$1,044,677 for the same period ended September 30, 2016.

Compensation and benefits for the holding segment for the three months ended September 30, 2017 was a credit of \$60,061, an increase of 592% from a credit of \$8,682 for the same period ended September 30, 2016. Compensation and benefits for the holding segment for the nine months ended September 30, 2017 was \$14,012, a decrease of 80% from an expense of \$68,955 for the same period ended September 30, 2016. The increase and decrease is primarily due to changes in employee compensation in the form of paid time off was allocated to this segment.

Compensation and benefits for the broker dealer segment for the three months ended September 30, 2017 was \$404,735, a 14% increase from \$353,702 for the same period ended September 30, 2016. Compensation and benefits for the broker dealer

segment for the nine months ended September 30, 2017 was \$1,088,686, a 12% increase from \$975,723 for the same period ended September 30, 2016. The increases were due to the recording of paid time off benefits allocated to this segment.

Commission expense

Commission expense for the three months ended September 30, 2017 was \$3,028,630, a decrease of 24% from \$3,978,901 for the same period ended September 30, 2016. Commission expense for the nine months ended September 30, 2017 was \$9,373,638, a decrease of 18% from \$11,387,667 for the same period ended September 30, 2016. The decrease is a result of the lower revenues received and to lower commissions paid to independent representatives in the broker dealer segment during the period ended September 30, 2017. 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, 2017 were \$320,917, an increase of 4% from \$309,752 for the same period ended September 30, 2016. Consolidated general and administrative expenses for the nine months ended September 30, 2017 were \$986,657, an increase of 24% from \$796,705 for the same period ended September 30, 2016. The increase resulted from the net increases in the expense categories described below.

General and administrative expenses for the holding segment for the three months ended September 30, 2017 were \$28,800, a 79% decrease from \$135,964 for the same period ended September 30, 2016. The decreases were primarily due to reduced legal expenses over the period. General and administrative expenses for the holding segment for the nine months ended September 30, 2017 were \$259,354, a 7% increase from \$242,920 for the same period ended September 30, 2016. The increases were from an increase in expenses tied to outside services, legal expenses and utility expenses related to the new office building.

General and administrative expenses for the broker dealer segment for the three months ended September 30, 2017 were \$317,617, an increase of 83% from \$173,788 for the same period ended September 30, 2016. General and administrative expenses for the broker dealer segment for the nine months ended September 30, 2017 were \$761,304, an increase of 27% from \$553,784 for the same period ended September 30, 2016. The increases are from increases in rent, legal, outside services related to compliance and recruiting expenses.

For the three and nine month periods ended September 30, 2017 there was \$25,500 and \$34,000 respectively of general and administrative expenses related to the Company/Subsidiary arrangement for rent expense that were eliminated on the consolidated financial statements.

Depreciation

Consolidated depreciation expense for the three months ended September 30, 2017 was \$8,647, a decrease of 29% from \$12,188 for the same period ended September 30, 2016. Consolidated depreciation expense for the nine months ended September 30, 2017 was \$44,054, an increase of 23% from \$35,751 for the same period ended September 30, 2016. Decreases and increases resulted from the net changes in the expense categories described below.

Depreciation for the holding segment for the three months ended September 30, 2017 was a benefit of \$1,464, a decrease of 247% from an expense of \$996 for the same period ended September 30, 2016. The decrease in depreciation was due to fewer depreciable assets as a result of the disposal of assets during the three months ended September 30, 2017. Depreciation expense for the holding segment for the nine months ended September 30, 2017 was \$13,061, an increase of 489% from \$2,218 for the same period ended September 30, 2016. The increases in depreciation expenses were due to additional fixed assets purchased related to the new office building.

Depreciation expense for the broker dealer segment for the three months ended September 30, 2017 was \$10,111, a decrease of 10% from \$11,192 for the same period ended September 30, 2016. Depreciation expense for the broker dealer segment for the nine months ended September 30, 2017 was \$30,993, a decrease of 8% from \$33,533 for the same period ended September 30, 2016. The decreases are due to lower depreciable assets in 2017 than in 2016.

Interest expense

Interest expense for the three months ended September 30, 2017 was \$8,453, an increase of 100% from zero for the same period ended September 30, 2016. Interest expense for the nine months ended September 30, 2017 was \$20,714, an increase of 2,087% from \$947 for the same period ended September 30, 2016. The increase is due to the interest payments made on the building mortgage during 2017 by the holding segment. There were no interest payments made on the building mortgage in the three and nine month periods ended September 30, 2016. There is no interest expense attributable to the other segments.

Liquidity and capital resources

Net cash provided by operating activities was \$243,659 for the nine months ended September 30, 2017, as compared to net cash provided by operating activities of \$233,089 during the nine months ended September 30, 2016. The difference corresponds to operating activities attributed to discontinued operations, commissions payable and the timing of payment/reimbursement on the E&O insurance within the broker dealer segment and income taxes.

Net cash used in investing activities was \$133,066 for the nine months ended September 30, 2017, as compared to net cash provided by investing activities of \$477,561 for the nine months ended September 30, 2016. The primary difference corresponds with repayment of the Baron notes receivable in early 2016, improvements made on the recently purchased office space and the deductions to oil and gas properties attributed to discontinued operations in 2017.

Net cash provided by financing activities was 200,000 for the nine months ended September 30, 2017, as compared to net cash used in financing activities of \$50,000 for the nine months ended September 30, 2016. The primary difference corresponds with the proceeds of long-term borrowings for the improvements made on the recently purchased office space.

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.

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, 2017, 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 14 (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 2017	-	-	-	\$ 597,754
August 2017	-	-	-	\$ 597,754
September 2017	-	-	-	\$ 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
101.INS	XBRL Instance Document

101.SCH	XBRL Taxonomy Extension Schema
101 CAL	XBRL Taxonomy Extension Calculation Linkbase
101 DEF	XBRL Taxonomy Extension Definition Linkbase
101 LAB	XBRL Taxonomy Extension Label Linkbase Document
101 PRE	XBRL Taxonomy Extension Presentation Linkbase

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 14, 2017

By /s/ Gordon Dihle

Gordon Dihle
Chief Executive Officer & President
(Principal Executive Officer)

Date: November 14, 2017

By /s/ Elizabeth Colby

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