EDGAR Submission Header Summary

Submission Type	10-Q
Live File	on
Return Copy	on
Submission Contact	ISSUER DIRECT CORP
Submission Contact Phone Number	919-481-4000
Exchange	NONE
Confirming Copy	off
Filer CIK	0000944696
Filer CCC	xxxxxxxx
Period of Report	09/30/13
Smaller Reporting Company	off
Notify via Filing website Only	off

Documents

10-Q	cpfh_10q.htm
	Quarterly Report
EX-31.1	cpfh_ex311.htm
	Certification
EX-31.2	cpfh_ex312.htm
	Certification
EX-32.1	cpfh_ex321.htm
	Certification
EX-32.2	cpfh_ex322.htm
	Certification

Module and Segment References

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, 2013

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	**45-0404061**
(State or other jurisdiction of incorporation or organization)	(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	☐	Accelerated filer	☐
Non-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 ☑

On July 15, 2013 the Company filed Articles of Amendment with the North Dakota Secretary of State effecting a 10,000 to 1 reverse stock split effective August 14, 2013. As a result of that filing and as of September 30, 2013, 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 SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	(Unaudited) September 30, 2013	December 31, 2012
CURRENT ASSETS		
Cash and cash equivalents	$ 1,518,715	$ 1,221,606
Accounts receivable (net of an allowance of $24,000 for 2013 and 2012)	1,751,829	1,308,157
Deferred tax asset – current	5,088	8,933
Prepaids	47,454	38,077
Total current assets	$ 3,323,086	$ 2,576,773
PROPERTY AND EQUIPMENT		
Property and equipment	$ 348,248	$ 328,347
Less accumulated depreciation	(294,528)	(279,485)
Net property and equipment	$ 53,720	$ 48,862
OTHER ASSETS		
Goodwill	$ 2,132,026	$ 2,132,026
Severance escrow	257,347	254,196
Deferred tax asset – non-current	523,066	539,132
Other assets (net of accumulated amortization of $214,444 for 2013 and 2012)	180,663	225,890
Total other assets	$ 3,093,102	$ 3,151,244
TOTAL ASSETS	$ 6,469,908	$ 5,776,879

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) September 30, 2013	December 31, 2012
CURRENT LIABILITIES		
Accounts payable	$ 256,927	$ 172,390
Commissions payable	1,827,582	1,301,194
Other current liabilities	30,377	99,320
Short-term debt	272,755	-
Current portion of long-term liabilities	-	125,668
Total current liabilities	$ 2,387,641	$ 1,698,572
LONG-TERM LIABILITIES		
Promissory note	-	67,173
Other long-term liabilities	22,000	-
Total long-term liabilities	$ 22,000	$ 67,173
TOTAL LIABILITIES	$ 2,409,641	$ 1,765,745
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, $10 and $.0001 par value respectively; 1,241 and 1,446 shares issued and outstanding, respectively	124,100	1,446
Additional paid in capital – common stock	10,098,656	10,446,302
Accumulated deficit	(6,387,489)	(6,661,614)
Less Treasury stock, 3,050,000 preferred shares at $0.4262	(1,300,000)	(1,300,000)
TOTAL STOCKHOLDERS' EQUITY	$ 4,060,267	$ 4,011,134
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,469,908	$ 5,776,879

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) Three Months Ended September 30,	
OPERATING REVENUES	**2013**	**2012**
Fee income	$ 255,660	225,008
Commissions	4,804,955	4,414,585
Interest and other income	192,555	84,771
Total revenue	$ 5,253,170	4,724,365
OPERATING EXPENSES		
Compensation and benefits	$ 309,549	260,034
Commission expense	4,470,304	4,070,011
General and administrative expenses	256,487	249,553
Depreciation and amortization	5,733	6,913
Total operating expenses	$ 5,042,073	4,586,510
OPERATING INCOME	$ 211,097	137,855
OTHER (EXPENSES)		
Interest expense	$ (1,701)	(3,120)
INCOME OF CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	209,396	134,735
INCOME TAX (EXPENSE)	$ (84,728)	(52,015)
NET INCOME	$ 124,668	82,720
NET INCOME PER COMMON SHARE:		
Basic	$ 93	100
Diluted	$ 93	100
SHARES USED IN COMPUTING NET PER COMMON SHARE:		
Basic	1,341	1,446
Diluted	1,341	1,446

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) Nine Months Ended September 30, 2013	2012
OPERATING REVENUES		
Fee income	$ 776,260	719,044
Commissions	14,751,599	12,860,441
Interest and other income	430,534	172,632
Total revenue	$ 15,958,393	13,752,118
OPERATING EXPENSES		
Compensation and benefits	$ 968,430	835,699
Commission expense	13,599,949	11,769,459
General and administrative expenses	898,132	981,066
Depreciation and amortization	18,779	28,844
Goodwill impairment	-	314,531
Total operating expenses	$ 15,485,290	13,929,599
OPERATING INCOME (LOSS)	$ 473,103	(177,481)
OTHER (EXPENSES)		
Interest expense	$ (5,607)	(29,048)
INCOME (LOSS) OF CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	467,496	(206,529)
INCOME TAX (EXPENSE)	$ (193,372)	(18,229)
NET INCOME (LOSS)	$ 274,124	(224,758)
NET INCOME PER COMMON SHARE:		
Basic	$ 194	(200)
Diluted	$ 194	(200)
SHARES USED IN COMPUTING NET PER COMMON SHARE:		
Basic	1,410	1,446
Diluted	1,410	1,446

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) Nine Months Ended September 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 274,124	(224,758)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	18,779	28,840
Goodwill impairment	-	314,531
Loss of sale of building	-	69,469
Provision for income taxes	19,911	72,374
(Increase) decrease in:		
Accounts receivable	(443,672)	(143,718)
Prepaids & other	35,851	9,644
Severance escrow	(3,151)	(24,565)
Accounts payable	84,537	35,096
Commissions payable	526,388	321,620
Other liabilities	(68,944)	43,994
Net cash provided by operating activities	$ 443,823	502,527
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	$ (23,637)	(12,688)
Proceeds from sale of building	-	931,245
Net cash (used in) provided by investing activities	$ (23,637)	918,557
CASH FLOWS FROM FINANCING ACTIVITIES		
Reduction of notes payable	(125,668)	(61,590)
Increase in settlements payable	22,000	-
Proceeds from short-term borrowings	297,048	-
Payments on short-term borrowings	(24,293)	-
Repayment of promissory note	(67,173)	(1,077,092)
Retirement of shares	(224,991)	-
Net cash used in financing activities	$ (123,077)	(1,138,682)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 297,109	282,402
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	$ 1,221,606	929,030
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,518,715	1,211,432

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2013 and 2012

NOTE 1 – BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Capital Financial Holdings, Inc., a North Dakota corporation, and its subsidiary (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, 2012, of Capital Financial Holdings, Inc., as filed with the SEC. The condensed consolidated balance sheet at December 31, 2012, 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 three months ended September 30, 2013, are not necessarily indicative of operating results for the entire year.

NOTE 2 – RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

A summary of our significant accounting policies is included in Note 1 on pages 10 and 11 of our 2012 Form 10-K.

The Company adopted ASC 820-10, Fair Value Measurements and Disclosures, for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of ASC 820-10 did not have a material impact on the Company's condensed consolidated financial statements.

The Company adopted ASU 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 simplifies how an entity tests indefinite-lived intangibles assets other than goodwill for impairment. Another objective of ASU 2012-02 is to improve the consistency of impairment testing guidance among long-term asset categories. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 did not have a material impact on the Company's condensed consolidated financial statements.

NOTE 3 – RECLASSIFICATION

Certain amounts in the 2012 condensed consolidated financial statements have been reclassified to conform to the 2013 presentation. These reclassifications had no effect on the Company's net income (loss).

NOTE 4 – BUSINESS ACQUISITIONS

On March 7, 2007, the Company acquired certain assets of United Heritage Financial Services, Inc. (UHFS), a wholly owned subsidiary of United Heritage Financial Group, Inc., of Meridian, Idaho. UHFS had approximately 120 independent registered representatives who became part of Capital Financial Services, Inc. (CFS), the retail brokerage division of the Company. Pursuant to the agreement, in exchange for receipt of the assets of UHFS set forth above, the Company agreed to issue 500,000 restricted CFH shares and pay a deferred cash earn out payment totaling a maximum of $900,000, to be paid in 21 quarterly installments. As of September 30, 2013 the Company had made twenty-one quarterly installment payments. There is no longer a liability relating to this acquisition as of June 30, 2013. Due to the goodwill impairment charge that was recorded on December 31, 2010 and March 31, 2012(See Note 5-Goodwill), as of September 30, 2013 the total goodwill recorded relating to this acquisition was $456,410.

NOTE 5 – GOODWILL

The changes in the carrying amount of goodwill for the six months ended June 30, 2013, are as follows:

Balance as of January 1, 2013	$	2,132,026
Impairment loss on goodwill		-
Goodwill acquisition price adjustment during the period (See Note 4)		-
Balance as of September 30, 2013	$	2,132,026

The Company's goodwill represents the excess of purchase prices over the fair value of the identifiable net assets of previously acquired broker/dealer businesses. The goodwill is not amortized; instead it is tested for impairment annually or more frequently if the fair value of a reporting unit is below its carrying value. Absent any impairment indicators, the Company performs its annual goodwill impairment testing as of June 30 of each year.

During the third quarter of 2013, the Company tested for impairment indicators and noted that there were none.

NOTE 6 – PROMISSORY NOTE

On October 21, 2011, the Company issued a promissory note to PawnMart, Inc. in exchange for the repurchase of the 3,050,000 shares of preferred stock. The note carries an interest rate of 7%, with quarterly payments of $66,801. On March 30, 2012 the Company revised the agreement with PawnMart, Inc. to release the building as security on the original note. The Company made a payment of $925,922. In April of 2012, the Company made a $100,000 payment. The Company was to make quarterly payments of $34,000 with the last payment being $34,965 until maturity April 1, 2014. On March 1, 2013, the Company made a payment of $118,000. On March 28, 2013 the Company paid the promissory note in full plus accrued interest for a total payment of $46,353. Interest expense on this note was $5,512 in 2013 and $31,826 in 2012. There is no longer a liability related to this note.

NOTE 7 – LINE OF CREDIT

On August 9, 2013, the Company signed loan documents for a line of credit with a local bank, American Bank Center, in the amount of $300,000 in order to help fund the stock split. The line of credit has a variable interest rate of 1.509 percent above Wall Street Journal U.S. Prime Rate which was 3.25% as of September 30, 2013. The Company makes monthly interest payments. The loan matures with the principal due on August 8, 2014. The Company has set up monthly payments with an automatic payment of $25,000. As of September, the Company had outstanding $272,755 against its line of credit in order to help fund the buyback on the Company's common stock. As of September 30, 2013 interest expense on this line of credit was $707. There are no financial covenants associated with the line of credit.

NOTE 8 – 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. Changes are due to the stock buyback and reverse stock split. The following reconciles amounts reported in the financial statements:

	Three Months Ended September 31, 2013			Three Months Ended September 31, 2012		
	Numerator	Denominator	Per Share Amount	Numerator	Denominator	Per Share Amount
Net (Loss) Income	$ 124,668			82,720		
Less: Preferred Stock Dividends						
Income Available to Common Shareholders – Basic Earnings per Share	$ 124,668	1,341	93	82,720	1,446	$ 100
Effect of Dilutive Securities:						
Preferred Stock Dividends						
Stock Options and Warrants						
Income Available to Common Shareholders – Diluted Earnings per Share	$ 124,668	1,341	93	82,720	1,446	$ 100

	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Numerator	Denominator	Per Share Amount	Numerator	Denominator	Per Share Amount
Net (Loss) Income	$ 274,124			(224,758)		
Less: Preferred Stock Dividends						
Income Available to Common Shareholders – Basic Earnings per Share	$ 274,124	1,410	194	(224,758)	1,446	$ (200)
Effect of Dilutive Securities:						
Preferred Stock Dividends						
Stock Options and Warrants						
Income Available to Common Shareholders – Diluted Earnings per Share	$ 274,124	1,410	194	(224,758)	1,446	$ (200)

Options and warrants to purchase 748.6113 common shares at exercise prices between $3,500 and $14,300 were outstanding at September 31, 2013, but were not included in the computation of diluted earnings per share for the quarter ending September 30, 2013, because their effect was anti-dilutive.

NOTE 9 – FAIR VALUE DISCLOSURES

The Company has adopted a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value in three broad levels:

• Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.

• Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

• Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

The application of valuation techniques applied to similar assets and liabilities has been consistently applied. The following is a description of the valuation methodologies used for instruments measured at fair value:

On February 12, 2009, CFS entered into a settlement agreement with a client, which resulted in CFS purchasing the client's investment in the Omega 2007 Drilling Program 1, LP. This limited partnership carries a "presentment" feature which allows CFS to sell the investment to the General Managing Partner of the limited partnership; and this feature has become available. CFS had determined, based off of information provided by the Limited Partnership that the fair market value of the $76,876 investment was estimated at $45,000 based on discounted cash flows at the time of purchase by CFS. Since then, CFS has determined, based off of information provided by the Limited Partnership that, as of March 19, 2013, the fair market value of this $76,876 investment is estimated to be $12,214 based on discounted cash flows; however this amount could fluctuate with the prices of oil and natural gas. This investment is included in other assets on the balance sheet. In May of 2013, CFS opted to exercise the "presentment"feature and was paid the current value of the investment in the amount of $11,922,98. As of June 17, 2013, this investment is no longer an asset of CFS.

The Company has accumulated cash for the possible future payments of severance and benefits for senior management, should they leave. This is an accrual the company has elected to set aside for possible future obligations. These funds are reflected as Severance Escrow on the balance sheet, and consist of cash accounts.

	Carrying Value at September 30, 2013				Quarter ended September 30, 2013
	Total	**Level 1**	**Level 2**	**Level 3**	**Total Losses**
Other Investment	$ -	$ -	$ -	$ -	$ -
Severance Escrow	257,347	257,347			

	Carrying Value at September 30, 2012								Quarter ended September 30, 2012	
	Total		Level 1		Level 2		Level 3		Total Losses	
Other Investment	$	45,000	$	-	$	-	$	45,000	$	-
Severance Escrow		254,196		254,196						

Reconciliation of Level 3 Balances:

Balance as of January 1, 2012	45,000
Loss on other investment	-
Balance as of December 31, 2012	45,000
Distributions	11,923
Loss on other investment	33,077
Balance as of September 30, 2013	-

NOTE 10 – LEGAL PROCEEDINGS

The Company operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. As a result, the Company is involved in various disputes and legal proceedings, including litigation, arbitration and regulatory investigations. Issuers of certain alternative products sold by the Company are in Chapter 11 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 bankruptcy of the KH Funding Company, and the bankruptcy proceedings of the various DBSI entities RMC Medstone, Medical Capital and Cole Credit Property Trust. 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. At September 30, 2013, the Company is a defendant in six on-going suits and arbitrations as discussed above. The Company expects any possible settlement, if any, to be below the maximum limits of coverage under our liability insurance policy and any amounts of shared coverage by the Company, to the insurance company is not material to the financial statements. However, the Company expects to prevail in these cases. During 2012, the Company settled lawsuits that will require $44,000 in payments during 2013 and 2014. During the third quarter of 2013, an agreement for one of the arbitrations mentioned above was reached and the Company will be making a payment in the amount of $20,000 in November in order to satisfy this agreement. No further payments will be required on the aforementioned settled lawsuits.

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 subsidiary.

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, the Company had17 full-time employees and 7 part-time employees consisting of officers, securities distribution, data processing, compliance, accounting, and clerical support staff.

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 218 investment representatives and investment advisors.

RESULTS OF OPERATIONS

	Three Months Ended September 31,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	124,668	82,720	274,124	(224,758)
Income per share:				
Basic	93	100	194	(200)
Diluted	93	100	194	(200)

The Company reported net income for the quarter ended September 30, 2013, of $124,668, compared to net income of $82,720 for the same quarter in 2012. The Company reported net income of $274,124 for the nine months ended September 30, 2013, compared to a net loss of $224,758 during the same period in 2012.

Operating revenues

Total operating revenues for the quarter ended September 30, 2013 were $5,253,170, an increase of 8% from $4,724,365 for the quarter ended September 30, 2012. Total operating revenues for the nine month period ended September 30, 2013 were $15,958,393, an increase of 14% from $13,752,118 during the same period in 2012. The increases for the three and nine month periods resulted primarily from increases in commission income received by CFS, the Company's broker-dealer division.

Fee Income

Fee income for the quarter ended September 30, 2013 was $255,660, an increase of 14% from $225,008 for the quarter ended September 30, 2012. Fee income for the nine month period ended June 30, 2013 was $776,260, an increase of 8% from $719,004 during the same period in 2012. The increases were due to an increase in fee income received by CFS, as a result of higher values of client assets under management.

The Company earns investment advisory fees in connection with CFS' 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 5% of the Company's consolidated revenues for 2013.

Commission Income

Commission income includes CFS commissions. The Company pays the registered representatives a percentage of this income as commission expense and retains the balance. Commission income for the quarter ended September 30, 2013 was $4,804,955, an increase of 8% from $4,414,585 for the quarter ended September 30, 2012. Commission income for the nine month period ended September 30, 2013 was $14,751,599, an increase of 15% from $12,860,441 during the same period in 2012. The increases were due primarily to the increase in commissions received by CFS due to market conditions. Commission revenues constituted 92% of the Company's consolidated revenues for 2013.

Other income

Interest and other income for the quarter ended September 30, 2013 was $192,555, an increase of 127% from $84,771 for the quarter ended September 30, 2012. Interest and other income for the nine month period ended September 30, 2013 was $430,534, and increase of 149% from $172,632 during the same period in 2012. The increases were due to an increase in the marketing income received related to alternative investment products. Interest and other income constituted 3% of the Company's consolidated revenues for 2013.

Operating expenses

Total operating expenses for the quarter September 30, 2013 were $5,042,073, an increase of 10% from $4,586,510 for the quarter ended September 30, 2012. Total operating revenues for the nine month period ended June 30, 2013 were $15,485,290, and increase of 11% from $13,929,599 during the same period in 2012. The increases resulted from the net increase in the expense categories described below.

Compensation and benefits

Compensation and benefits expense for the quarter ended September 30, 2013 was $309,549, an increase of 19% from $260,034 for the quarter ended September 30, 2012. Compensation and benefits expense for the nine month period ended September 30, 2013 was $968,430, and increase of 16% from $835,699 during the same period in 2012. The increases resulted from an increase in wages and benefits to employees and payroll taxes.

Commission expense

Commission expense for the quarter ended September 30, 2013 was $4,470,304, an increase of 10% from $4,070,011 for the quarter ended September 30, 2012. Commission expense for the nine month period ended September 30, 2013 was $13,599,949, and increase of 16% from $11,769,459 during the same period in 2012. The increase in commission expense corresponds with the increase in commission income for the quarter and nine month period.

General and administrative expense

Total general and administrative expenses for the quarter ended September 30, 2013 were $256,487, an increase of 3% from $249,553 for the quarter ended September 30, 2012. The increases were due primarily to an increase in legal costs and outside service costs associated with the reverse stock split and the conversion. Total general and administrative expenses for the nine month period ended September 30, 2013 were $898,132, a decrease from $981,066 during the same period in 2012. The decreases were due primarily to a decrease in the legal expenses incurred through litigation costs, outside professional services, the due diligence expenses, the dues & subscription expenses and expenses no longer applicable in 2013 due to the sale of the building in 2012.

Depreciation and amortization

Depreciation and amortization expense for the quarter ended September 30, 2013 was $5,733, a decrease of 17% from $6,913 for the quarter ended September 30, 2012. Depreciation and amortization expense for the nine month period ended September 30, 2013 was $18,779, a decrease of 35% from $28,844 during the same period in 2012. The primary difference corresponds with the sale of the building and the disposal of assets that occurred during 2012.

Liquidity and capital resources

Net cash provided by operating activities was $443,823 for the nine months ended September 30, 2013, as compared to net cash provided by operating activities of $502,527 during the nine months ended September 30, 2012. The primary difference corresponds to the timing of payment/reimbursement on the E&O insurance, to the elimination of the Omega Drilling asset, and to the goodwill impairment recorded in 2012.

Net cash used in investing activities was $23,637 for the nine months ended September 30, 2013, compared to net cash provided by investing activities of $918,557 for the nine months ended September 30, 2012. The primary difference corresponds with the sale of the building and the disposal of assets that occurred during 2012.

Net cash used in financing activities was $123,077 for the nine months ended September 30, 2013, compared to net cash used in financing activities of $1,138,682 for the nine months ended September 30, 2012. The primary difference corresponds with the early repayment of the promissory note with PawnMart and the line of credit for the share buyback.

At September 30, 2013, the Company held $1,518,715 in cash and cash equivalents, as compared to $1,465,565 at September 30, 2012. The Company is required to maintain certain levels of cash and liquid securities in CFS to meet regulatory net capital requirements.

On August 9, 2013, the Company signed loan documents for a line of credit with a local bank, American Bank Center, in the amount of $300,000 in order to help fund the stock split. The line of credit has a variable interest rate of 1.509 percent above Wall Street Journal U.S. Prime Rate which was 3.25% as of September 30, 2013. The Company makes monthly interest payments. The loan matures with the principal due on August 8, 2014. The Company has set up monthly payments with an automatic payment of $25,000. As of September, the Company had outstanding $272,755 against its line of credit in order to help fund the buyback on the Company’s common stock. As of September 30, 2013 interest expense on this line of credit was $707. There are no financial covenants associated with the line of credit.

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 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 accounting rules, policies, practices, and procedures which may adversely affect the business;
- 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, 2013, 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, including any corrective actions with regard to significant deficiencies or material weaknesses.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. As a result, the Company is involved in various disputes and legal proceedings, including litigation, arbitration and regulatory investigations. Issuers of certain alternative products sold by the Company are in Chapter 11 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 bankruptcy of the KH Funding Company, and the bankruptcy proceedings of the various DBSI entities RMC Medstone, Medical Capital and Cole Credit Property Trust. 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. At September 30, 2013, the Company is a defendant in six on-going suits and arbitrations as discussed above. The Company expects any possible settlement, if any, to be below the maximum limits of coverage under our liability insurance policy and any amounts of shared coverage by the Company, to the insurance company is not material to the financial statements. However, the Company expects to prevail in these cases. During 2012, the Company settled lawsuits that will require $44,000 in payments during 2013 and 2014. During the third quarter of 2013, an agreement for one of the arbitrations mentioned above was reached and the Company will be making a payment in the amount of $20,000 in November in order to satisfy this agreement. No further payments will be required on the aforementioned settled lawsuits.

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 2013	-	-	-	$ 597,754
August 2013	-	-	-	$ 597,754
September 2013	-	-	-	$ 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

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, 2013	By	/s/ John Carlson John Carlson Chief Executive Officer & President (Principal Executive Officer)
Date:	November 14, 2013	By	/s/ Elizabeth Redding Elizabeth A. Redding Chief Financial Officer & Corporate Secretary (Principal Financial Officer)

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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 14, 2013

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 Redding, 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 14, 2013

By: /s/ Elizabeth Redding
Elizabeth Redding

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, 2013, 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, 2013, 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, 2013, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Capital Financial Holdings, Inc.

Dated: November 14, 2013

By: /s/ Jonathan Carlson
Jonathan Carlson

Exhibit 32.2

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, 2013, I, Elizabeth Redding, 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, 2013, 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, 2013, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Capital Financial Holdings, Inc.

Dated: November 14, 2013

By: /s/ Elizabeth Redding
Elizabeth Redding