Capital Financial Holdings, Inc
Form 10-Q
November 14, 2014

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, 2014

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 þ No o

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 þ No o

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 | o | Accelerated filer | o |
| Non-accelerated filer | o | Smaller reporting company | þ |

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

As of September 30, 2014, 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, 2014 | December 31, 2013 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $1,093,608 | $1,665,123 |
| Accounts receivable (net of an allowance of $24,000 for 2014 and 2013) | 1,834,368 | 1,733,765 |
| Prepaids | 47,935 | 77,915 |
| | | |
| Total current assets | $2,975,911 | $3,476,803 |
| PROPERTY AND EQUIPMENT | | |
| Property and equipment | $423,607 | $387,974 |
| Less accumulated depreciation | (323,824 ) | (301,207 ) |
| Net property and equipment | $99,783 | $86,767 |
| | | |
| OTHER ASSETS | | |
| Goodwill | $2,132,026 | $2,132,026 |
| Severance escrow | 257,605 | 257,412 |
| Baron notes receivable | 500,000 | - |
| Deferred tax asset – non-current | 339,179 | 501,403 |
| Other assets (net of accumulated amortization of $214,444 for 2014 and 2013) | 180,841 | 180,663 |
| | | |
| Total other assets | $3,409,651 | $3,071,504 |
| | | |
| TOTAL ASSETS | $6,485,345 | $6,635,074 |

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

| | (Unaudited) September 30, 2014 | December 31, 2013 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable | $189,384 | $340,244 |
| Commissions payable | 1,836,391 | 1,861,049 |
| Other current liabilities | 62,713 | 48,096 |
| Settlements payable | - | 22,000 |
| Line of credit | 252,179 | 200,723 |
| Total current liabilities | $2,340,667 | $2,472,112 |
| TOTAL LIABILITIES | $2,340,667 | $2,472,112 |
| | | |
| 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 1,446 shares issued and outstanding, respectively | 1,241 | 1,241 |
| Additional paid in capital – common stock | 10,221,515 | 10,221,515 |
| Accumulated deficit | (6,303,078 ) | (6,284,794 ) |
| Less Treasury stock, 3,050,000 preferred shares at $0.4262 | (1,300,000 ) | (1,300,000 ) |
| TOTAL STOCKHOLDERS' EQUITY | $4,144,678 | $4,162,962 |
| | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $6,485,345 | $6,635,074 |

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, 2014 | 2013 |
|---|---|---|
| OPERATING REVENUES | | |
| Fee income | $242,620 | 255,660 |
| Commissions | 5,197,621 | 4,804,955 |
| Interest and other income | 179,477 | 192,555 |
| | | |
| Total revenue | $5,619,718 | 5,253,170 |
| | | |
| OPERATING EXPENSES | | |
| Compensation and benefits | $445,915 | 309,549 |
| Commission expense | 4,730,498 | 4,470,304 |
| General and administrative expenses | 295,476 | 256,487 |
| Depreciation and amortization | 7,778 | 5,733 |
| | | |
| Total operating expenses | $5,479,667 | 5,042,073 |
| | | |
| OPERATING INCOME | $140,051 | 211,097 |
| | | |
| OTHER INCOME (EXPENSES) | | |
| Interest expense | $(2,418) | (1,701) |
| Interest income | 10,477 | - |
| | | |
| INCOME OF OPERATIONS BEFORE INCOME TAX EXPENSE | 148,110 | 209,396 |
| INCOME TAX EXPENSE | $(135,775) | (84,728) |
| NET INCOME | $12,335 | 124,668 |
| | | |
| NET INCOME PER COMMON SHARE: | | |
| Basic | $10 | 93 |
| Diluted | $10 | 93 |
| | | |
| SHARES USED IN COMPUTING NET PER COMMON SHARE: | | |
| Basic | 1,241 | 1,341 |
| Diluted | 1,241 | 1,341 |

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

| | (Unaudited) Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|
| OPERATING REVENUES | | |
| Fee income | $817,456 | 776,260 |
| Commissions | 14,894,807 | 14,751,599 |
| Interest and other income | 468,058 | 430,534 |
| | | |
| Total revenue | $16,180,321 | 15,958,393 |
| | | |
| OPERATING EXPENSES | | |
| Compensation and benefits | $1,091,835 | 968,430 |
| Commission expense | 13,892,303 | 13,599,949 |
| General and administrative expenses | 887,417 | 898,132 |
| Depreciation and amortization | 22,617 | 18,779 |
| | | |
| Total operating expenses | $15,894,172 | 15,485,290 |
| | | |
| OPERATING INCOME | $286,149 | 473,103 |
| | | |
| OTHER INCOME (EXPENSES) | | |
| Interest expense | $(11,705) | (5,607) |
| Interest income | 10,477 | - |
| | | |
| INCOME OF CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE | 284,921 | 467,496 |
| INCOME TAX EXPENSE | $(303,206) | (193,372) |
| NET INCOME (LOSS) | $(18,285) | 274,124 |
| | | |
| NET INCOME (LOSS) PER COMMON SHARE: | | |
| Basic | $(15) | 194 |
| Diluted | $(15) | 194 |
| | | |
| SHARES USED IN COMPUTING NET PER COMMON SHARE: | | |
| Basic | 1,241 | 1,410 |
| Diluted | 1,241 | 1,410 |

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, 2014 | 2013 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | $(18,285) | 274,124 |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | |
| Depreciation | 22,617 | 18,779 |
| Deferred income taxes | 162,224 | 19,911 |
| (Increase) decrease in: | | |
| Accounts receivable | (100,603) | (443,672) |
| Prepaids & other | 29,803 | 35,851 |
| Severance escrow | (193) | (3,151) |
| Accounts payable | (150,860) | 84,537 |
| Commissions payable | (24,658) | 526,388 |
| Other liabilities | 14,617 | (68,944) |
| Net cash (used in) provided by operating activities | $(65,338) | 443,823 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | $(35,633) | (23,637) |
| Baron notes receivable | (500,000) | - |
| Net cash used in investing activities | $(535,633) | (23,637) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of short-term borrowings | 51,456 | (125,668) |
| Decrease in settlements payable | (22,000) | 22,000 |
| Proceeds from short-term borrowings | - | 297,048 |
| Payments on short-term borrowings | - | (24,293) |
| Retirement of shares | - | (224,991) |
| Repayment of promissory note | - | (67,173) |
| Net cash (used in) provided by financing activities | $29,456 | (123,077) |
| | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | $(571,515) | 297,109 |
| | | |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | $1,665,123 | 1,221,606 |
| | | |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $1,093,608 | 1,518,715 |
| | | |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Cash paid for interest on promissory note | $- | $5,512 |
| Cash paid for interest on line of credits | 5,763 | - |
| Cash paid for interest on taxes | 5,933 | |

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2014 and 2013

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”). All significant intercompany balances and transactions have been eliminated in consolidated. 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, 2013, of Capital Financial Holdings, Inc., as filed with the SEC. The condensed consolidated balance sheet at December 31, 2013, 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, 2014, 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 of our 2013 Form 10-K filed on March 18, 2014.

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 was issued in August of 2014. The Company has not adopted this update as of September 30, 2014, as it was not applicable to the Company at this time. It is not known at this time whether the updated pronouncement will have an impact on the Company.

NOTE 3 - RECLASSIFICATION

Certain amounts in the 2013 condensed consolidated financial statements have been reclassified to conform to the 2014 presentation. These reclassifications had no effect on the Company’s net income (loss).

NOTE 4 – BARON NOTES RECEIVABLE

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. The new subsidiary is expected to diversify the business operations of the Company and is unrelated to any current or past business. On June 17, 2014, the Company acquired an additional 400,000 shares, .001 par value common stock of CNR for the amount of $40,000. On July 21, 2014, the Company acquired an additional 3,750,000 shares, .001 par value of common stock of

CNR for the amount of $375,000. As of September 30, 2014, the Company owned 5,150,000 shares of CNR.

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. As of September 30, 2014, notes held with Baron Energy, Inc. carried a balance of $500,000. At maturity, the notes are convertible at the option of the note holder into specified non-operating minority working interests in approximately 8,000 acres of 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 approximately 8,000 acres of 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 the quarter ended September 30, 2014, was $10,477.

NOTE 5 - GOODWILL

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.

The Company's policy is to test goodwill for impairment using a fair value approach at the reporting unit level. The Company performs its goodwill impairment test in two steps. Step one compares the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the unit determined in step one is lower than its carrying value, the Company proceeds to step two, which then compares the carrying value of goodwill to its implied fair value. Any excess of carrying value of goodwill over its implied fair value at a reporting unit is recorded as impairment.

The valuation methodology the Company utilizes in testing the Company's goodwill for impairment is based on the income approach. The income approach is based on a discounted cash flow methodology in which expected future net cash flows are discounted to present value, using a discounted rate that compensates for the risk in attaining the projected cash flows. This approach is dependent upon a number of significant management estimates about future performance including but not limited to, market performance, income taxes, capital spending and working capital changes.

The Company tests goodwill for impairment annually during the second quarter of each fiscal year. If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, goodwill will be evaluated for impairment between annual tests. There were no events that occurred nor a change in circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying value during the third quarter in 2014. In compliance with its annual testing policy, the Company performed a complete two step analysis on its goodwill. It was determined that the Company's book value was below the fair market value for the Company, indicating that no impairment was required.

NOTE 6 – 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 cash redemption of less than whole shares which resulted from the 1:10,000 reverse stock split, which occurred on August 14, 2013. The line of credit has a variable interest rate of 1.509 percent above Wall Street Journal U.S. Prime Rate. The Company makes monthly interest payments. The loan matured August 8, 2014. The Company set up monthly payments with an automatic payment of $25,000. There are no financial covenants associated with the line of credit. On July 9, 2014, the Company made a monthly payment of $25,000 to the line of credit. On July 17, 2014, the Company made a final payment to the line of credit in the amount of $29,422 closing this line of credit. As of September 30, 2014, there is no longer an outstanding balance on this line of credit.

On July 14, 2014, the Company signed new loan documents for a line of credit with American Bank Center in the amount of $300,000.The line of credit 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, 2014. The Company makes monthly interest payments. The loan matures with the principal due on July 14, 2015. The Company has set up monthly payments with an automatic payment of $25,000. As of September 30, 2014, the outstanding balance was $252,179 and interest expense on this line of credit was $2,064.

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, 2014 and 2013. Changes are due to the stock buyback and reverse stock split.

Option activity for the twelve months ended December 31, 2013 and the nine months ended September 30, 2014 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, 2013 | 539 | $5,400 | $2,800 | $- |
| Granted | - | - | - | |
| Exercised | - | - | - | |
| Canceled | - | - | - | |
| Outstanding on December 31, 2013 | 539 | $5,400 | $2,800 | $- |
| Granted | - | - | - | |
| Exercised | - | - | - | |
| Canceled | 124 | - | - | |
| Outstanding on September 30, 2014 | 415 | $5,400 | $2,800 | $- |

Exercisable options totaled 538.8113 at December 31, 2013 and totaled 414.5613 at September 30, 2014.

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.

The provision for income taxes is based on earnings before income taxes reported for financial statement purposes and consisted of the following: as of September 30, 2014, current income tax expense was $106,425 and deferred tax expense was $196,781. Of the $196,781 recorded as deferred tax expense approximately $150,000 was due to the stock options associated with stock compensation valued under the Black Scholes model that were reduced as of September 30, 2014.

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, 2014 | | | Three Months Ended September 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Numerator | Denominator | Per Share Amount | Numerator | Denominator | Per Share Amount |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net (Loss) Income | $12,335 | | | 124,668 | | |
| Less: Preferred Stock Dividends | | | | | | |
| Income Available to Common Shareholders – Basic Earnings per Share | $12,335 | 1,241 | 10 | 124,668 | 1,341 | $93 |
| Effect of Dilutive Securities: | | | | | | |
| Preferred Stock Dividends | | | | | | |
| Stock Options and Warrants | | | | | | |
| Income Available to Common Shareholders – Diluted Earnings per Share | $12,335 | 1,241 | 10 | 124,668 | 1,341 | $93 |

| | Nine Months Ended September 30, 2014 | | | Nine Months Ended September 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Numerator | Denominator | Per Share Amount | Numerator | Denominator | Per Share Amount |
| Net (Loss) Income | $(18,285 ) | | | 274,124 | | |
| Less: Preferred Stock Dividends | | | | | | |
| Income Available to Common Shareholders – Basic Earnings per Share | $(18,285 ) | 1,241 | (15 ) | 274,124 | 1,410 | $194 |
| Effect of Dilutive Securities: | | | | | | |
| Preferred Stock Dividends | | | | | | |
| Stock Options and Warrants | | | | | | |
| Income Available to Common Shareholders – Diluted Earnings per Share | $(18,285 ) | 1,241 | (15 ) | 274,124 | 1,410 | $194 |

Options and warrants to purchase 624,3613 common shares at exercise prices between $3,500 and $14,300 were outstanding at September 30, 2014, but were not included in the computation of diluted earnings per share for the quarter ending September 30, 2014 and September 30, 2013, because their effect was anti-dilutive.

NOTE 10 – 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 the 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 which was included in other assets at December 31, 2013. Since then, CFS 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 was $12,214, based on discounted cash flows. In May of 2013, CFS opted to exercise the “presentment” feature and was paid the current value of the investment in the amount of $11,923. No balance remains as of September 30, 2014.

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, 2014 | | | | Quarter ended September 30, 2014 Total Losses |
|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | |
| Severance Escrow | $257,605 | $257,605 | - | - | - |

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

NOTE 11 – LEGAL PROCEEDINGS

The Company operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. Issuers of certain alternative products sold by the Company are in Bankruptcy or may have other financial difficulties. As a result of such alleged failings of alternative products and the uncertainty of client recovery from the various product issuers, the Company is subject to several legal and/or arbitration proceedings. These proceedings include customer suits and arbitrations related to the failure of Medical Capital, other alternative investments alleged to be unsuitable, the bankruptcy proceedings of the various DBSI entities and the bankruptcy of other various entities. The Company vigorously contests the allegations of the various proceedings and believes that there are multiple meritorious legal and fact based defenses in these matters. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. The Company makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reasonably estimated. The current proceedings are subject to uncertainties and, as such, the Company is unable to estimate the possible loss or range of loss that may result from the outcome of these cases; however, results in these cases that are against the interests of the Company could have a severe negative impact on the financial position of the Company. As of October 28, 2014, the Company is a defendant in four on-going suits or arbitrations as discussed above. The Company expects to vigorously defend and ultimately prevail in these cases. During 2012, the Company settled a lawsuit that required a $22,000 payment in 2013 and an additional $22,000 payment during 2014. The additional and final payment was booked as a current liability as of December 31, 2013, and payment was made on April 25, 2014, in the amount of $22,000. No further payments will be required on the aforementioned settled proceedings.

NOTE 12 – SUBSEQUENT EVENTS

On November 12, 2014, the Company issued a press release entitled “Capital Financial Holdings, Inc. Announces Capital Dividend” announcing that the Board of Directors approved a cash capital dividend of $50 per share payable on the company’s common stock. The dividend is payable on approximately December 24, 2014 to shareholders of record as of the record date, December 12, 2014. The ex-dividend date for the dividend is December 10, 2014.

NOTE 13 - OPERATING SEGMENTS

Segment Information

| As of, and for the three months ended: | Holding Company | Natural Resource Activities | Broker-Dealer Services | Total |
|---|---|---|---|---|
| 30-Sep-14 | | | | |
| Revenues from external customers | 28 | 10477 | 5,619,690 | 5,630,195 |
| Interest expense | (2,409) | - | (9) | (2,418) |
| Depreciation and amortization | 764 | - | 7,014 | 7,778 |
| Income (loss) before income tax benefit (expense) | (151,538) | 1,114 | 298,534 | 148,110 |
| Income tax benefit (expense) | (20,473) | 1,736 | (117,038) | (135,775) |
| Net income (loss) | (172,012) | 2,851 | 181,496 | 12,335 |

| As of, and for the three months ended: | Holding Company | Natural Resource Activities | Broker-Dealer Services | Total |
|---|---|---|---|---|
| 30-Sep-13 | | | | |
| Revenues from external customers | 2,799 | - | 5,250,371 | 5,253,170 |
| Interest Expense | (1,701) | - | - | (1,701) |
| Depreciation and amortization | 714 | - | 5,019 | 5,733 |
| Income (loss) before income tax benefit (expense) | (137,684) | - | 347,080 | 209,396 |
| Income tax benefit (expense) | 51,238 | - | (135,966) | (84,728) |
| Net income (loss) | (86,446) | - | 211,114 | 124,668 |

| As of, and for the nine months ended: | Holding Company | Natural Resource Activities | Broker-Dealer Services | Total |
|---|---|---|---|---|
| 30-Sep-14 | | | | |
| Revenues from external customers | 883 | 10,477 | 16,179,438 | 16,190,798 |
| Interest expense | (11,696) | - | (9) | (11,705) |
| Depreciation and amortization | 2,679 | - | 19,938 | 22,617 |
| Income (loss) before income tax benefit (expense) | (336,790) | (10,061) | 631,772 | 284,921 |
| Income tax benefit (expense) | (61,656) | 6,117 | (247,667) | (303,206) |
| Net income (loss) | (398,446) | (3,944) | 384,105 | (18,285) |

| As of, and for the nine months ended: | Holding Company | Natural Resource Activities | Broker-Dealer Services | Total |
|---|---|---|---|---|
| 30-Sep-13 | | | | |
| Revenues from external customers | 4,541 | - | 15,953,852 | 15,958,393 |
| Interest Expense | (5,607) | - | - | (5,607) |

| | | | | |
|---|---|---|---|---|
| Depreciation and amortization | 2,275 | - | 16,504 | 18,779 |
| Income (loss) before income tax benefit (expense) | (437,403) | - | 904,899 | 467,496 |
| Income tax benefit (expense) | 161,373 | - | (354,745) | (193,372) |
| Net income (loss) | (276,030) | - | 550,154 | 274,124 |

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, 2014, the Company had 16 full-time employees and 1 part-time employee consisting of officers, securities distribution, data processing, compliance, accounting, and clerical support staff.

The Company organizes its current business units into two reportable segments: broker dealer services and natural resources. The broker-dealer services segment distributes securities and insurance products to retail investors through a network of registered representatives. The natural resources segment seeks opportunities related to natural resources in the United States, including petroleum, natural gas and/or other minerals, water resources and land.

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.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 211 investment representatives and investment advisors.

RESULTS OF OPERATIONS

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income (loss) | 12,335 | 124,668 | (18,285 ) | 274,124 |
| Income (loss) per share: | | | | |
| Basic | 10 | 93 | (15 ) | 194 |
| Diluted | 10 | 93 | (15 ) | 194 |

The Company reported net income for the quarter ended September 30, 2014, of $12,335, compared to net income of $124,668 for the same quarter in 2013. The Company reported net loss of $18,285 for the nine months ended September 30, 2014, compared to a net income of $274,124 during the same period in 2013. The reason for the significant change in net income for the nine months ended September 30, 2014 compared to the net income in the same period in 2013 is primarily due to the $150,000 tax expenses recorded from the stock options valued under the Black Scholes model forfeited in 2014 (see Note 8 – Income Taxes) and the increase in compensation and benefits.

Operating revenues

Total operating revenues for the quarter ended September 30, 2014 were $5,630,195, an increase of approximately 7% from $5,253,170 for the quarter ended September 30, 2013. Total operating revenues for the nine month period ended September 30, 2014 were $16,190,798, an increase of approximately1% from $15,958,393 during the same period in 2013. 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, 2014 was $242,620, a decrease of approximately 5% from $255,660 for the quarter ended September 30, 2013. Fee income for the nine month period ended September 30, 2014 was $817,456, an increase of approximately 5% from $776,260 during the same period in 2013. The changes were due to fluctuations in fee income received by CFS as a result of higher or lower 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 2014.

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, 2014 was $5,197,621, an increase of approximately 8% from $4,804,955 for the quarter ended September 30, 2013. Commission income for the nine month period ended September 30, 2014 was $14,894,807, an increase from $14,751,599 during the same period in 2013. The fluctuations were due primarily to the increase and decrease in commissions received by CFS due to market conditions. Commission revenues constituted approximately 92% of the Company's consolidated revenues for 2014.

Other income

Interest and other income for the quarter ended September 30, 2014 was $179,477, a decrease of approximately 6% from $192,555 for the quarter ended September 30, 2013. Interest and other income for the nine month period ended September 30, 2014 was $468,058, an increase of approximately 8% from $430,534 during the same period in 2013. The fluctuations were due to increases and decreases in the marketing income received related to alternative investment products. Interest and other income constituted 2% of the Company's consolidated revenues for the nine months ended September 30, 2014.

Operating expenses

Total operating expenses for the quarter ended September 30, 2014 were $5,479,667, an increase of approximately 8% from $5,042,073 for the quarter ended September 30, 2013. Total operating revenues for the nine month period ended September 30, 2014 were $15,894,172, an increase of approximately 2% from $15,485,290 during the same period in 2013. 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, 2014 was $445,915, an increase of approximately 44% from $309,549 for the quarter ended September 30, 2013. Compensation and benefits expense for the nine month period ended September 30, 2014 was $1,091,835, an increase of approximately 12% from $968,430 during the same period in 2013. Compensation and benefits expense for CNR for the quarter and nine month period ended September 30, 2014, was $9,271 and $19,207 respectively, compared to zero for the quarter and nine month period ended September 30, 2013. Compensation and benefits expense for CFS for the quarter ended September 30, 2014 was $362,245, an increase of approximately 28% from $282,833 for the quarter ended September 30, 2013. Compensation and benefits expense for CFS for the nine month period ended September 30, 2014 was $936,005, an increase of approximately 5% from $888,790 for the nine month period ended September 30, 2013. The increases described above in all reported periods resulted from an increase in wages, bonuses and benefits to employees and payroll taxes.

Commission expense

Commission expense for the quarter ended September 30, 2014 was $4,730,498, an increase of approximately 5% from $4,470,304 for the quarter ended September 30, 2013. Commission expense for the nine month period ended September 30, 2014 was $13,892,303, an increase of approximately 2% from $13,599,949 during the same period in 2013. The increase in commission expense corresponds with the increase in commission income for the quarter and nine months ended September 30, 2014.

General and administrative expense

Total general and administrative expenses for the quarter ended September 30, 2014 were $295,476, an increase of approximately 15% from $256,487 for the quarter ended September 30, 2013. Total general and administrative expenses for the nine month period ended September 30, 2014 were $887,417, approximately a1% decrease from $898,132 during the same period in 2013. The increases in the quarter were due primarily to an increase in the legal expenses incurred through litigation and settlement costs. General and administrative expenses for CNR for the quarter ended and nine month period ended September 30, 2014 were $91and $1,331 respectively compared to zero for the quarter ended and nine month period ended September 30, 2013.

Depreciation and amortization

Depreciation and amortization expense for the quarter ended September 30, 2014 was $7,778, an increase of approximately 35% from $5,733 for the quarter ended September 30, 2013. Depreciation and amortization expense for the nine month period ended September 30, 2014 was $22,617, an increase of approximately 20% from $18,779 during the same period in 2013. The primary difference corresponds with the purchase of computer equipment and computer software.

Other income

Interest income

Interest income for the quarter ended September 30, 2014 was $10,477, an increase of 100% from zero for the quarter ended September 30, 2013. Interest income for the nine month period ended September 30, 2014 was $10,477, and increase of 100% from the same period in 2013. The interest income recorded in 2014 is derived from the interest received on the Baron Energy, Inc. promissory notes issued to CNR.

Liquidity and capital resources

Net cash used in operating activities was $65,338 for the nine months ended September 30, 2014, as compared to net cash provided by operating activities of $443,823 during the nine months ended September 30, 2013. The primary difference corresponds to the tax expense recorded for the forfeited stock options under the Black Scholes Model.

Net cash used in investing activities was $535,633 for the nine months ended September 30, 2014, compared to net cash used in investing activities of $23,637 for the nine months ended September 30, 2013. The primary difference corresponds with the launch of the new subsidiary, Capital Natural Resources, Inc. and the promissory notes with Baron Energy, Inc. in the amount of $500,000.

Net cash provided by financing activities was $29,456 for the nine months ended September 30, 2014, compared to net cash used in financing activities of $123,077 for the nine months ended September 30, 2013. The primary difference corresponds with the early repayment of the 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 cash redemption of less than whole shares which resulted from the 1:10,000 reverse stock split, which occurred on August 14, 2013. The line of credit has a variable interest rate of 1.509 percent above Wall Street Journal U.S. Prime Rate. The Company makes monthly interest payments. The loan matures August 8, 2014. The Company has set up monthly payments with an automatic payment of $25,000. There are no financial covenants associated with the line of credit. On July 9, 2014, the Company made a monthly payment of $25,000 to the line of credit. On July 17, 2014, the Company made a final payment to the line of credit in the amount of $29,422 closing this line of credit. As of September 30, 2014, there is no longer an outstanding balance on this line of credit.

On July 14, 2014, the Company signed new loan documents for a line of credit with American Bank Center in the amount of $300,000.The line of credit 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, 2014. The Company makes monthly interest payments. The loan matures with the principal due on July 14, 2015. The Company has set up monthly payments with an automatic payment of $25,000. As of September 30, 2014, the outstanding balance was $252,179 and interest expense on this line of credit was $3,048.

At September 30, 2014, the Company held $1,093,608 in cash and cash equivalents, as compared to $1,518,715 at September 30, 2013. The Company is required to maintain certain levels of cash and liquid securities in CFS to meet regulatory net capital requirements.

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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, 2014, 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 Company operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. Issuers of certain alternative products sold by the Company are in Bankruptcy or may have other financial difficulties. As a result of such alleged failings of alternative products and the uncertainty of client recovery from the various product issuers, the Company is subject to several legal and/or arbitration proceedings. These proceedings include customer suits and arbitrations related to the failure of Medical Capital, other alternative investments alleged to be unsuitable, the bankruptcy proceedings of the various DBSI entities and the bankruptcy of other various entities. The Company vigorously contests the allegations of the various proceedings and believes that there are multiple meritorious legal and fact based defenses in these matters. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. The Company makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reasonably estimated. The current proceedings are subject to uncertainties and, as such, the Company is unable to estimate the possible loss or range of loss that may result from the outcome of these cases; however, results in these cases that are against the interests of the Company could have a severe negative impact on the financial position of the Company. As of October 28, 2014, the Company is a defendant in four on-going suits or arbitrations as discussed above. The Company expects to vigorously defend and ultimately prevail in these cases. During 2012, the Company settled a lawsuit that required a $22,000 payment in 2013 and an additional $22,000 payment during 2014. The additional and final payment was booked as a current liability as of December 31, 2013, and payment was made on April 25, 2014, in the amount of $22,000. No further payments will be required on the aforementioned settled proceedings.

### 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 | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| | | | Programs | Programs |
| July 2014 | - | - | - | $ 597,754 |
| August 2014 | - | - | - | $ 597,754 |
| September 2014 | - | - | - | $ 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

| Exhibit No. | Description |
|---|---|
| 31.1 | CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act and Rules 13a-14(a) and 15d-14(a) of the Exchange Act |
| 31.2 | CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act and Rules 13a-14(a) and 15d-14(a) of the Exchange Act |
| 32.1 | CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act and 18 U.S.C. Section 1350 |
| 32.2 | CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act and 18 U.S.C. Section 1350 |

CAPITAL FINANCIAL HOLDINGS, INC.

SIGNATURES

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

CAPITAL FINANCIAL HOLDINGS, INC.

| | | |
|---|---|---|
| Date: November 14, 2014 | By: | /s/ John Carlson<br>John Carlson<br>Chief Executive Officer & President<br>(Principal Executive Officer) |
| Date: November 14, 2014 | By: | /s/ Elizabeth Redding<br>Elizabeth A. Redding<br>Chief Financial Officer & Corporate Secretary<br>(Principal Financial Officer) |