Capital Financial Holdings, Inc
Form 10-Q
May 23, 2018

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 March 31, 2018

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.)

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

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

____
(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

As of May _15_, 2018, there were 1,241 common shares of the issuer outstanding.

FORM 10-Q

CAPITAL FINANCIAL HOLDINGS, INC.

INDEX

2

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

CAPITAL FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	(Unaudited) March 31, 2018	December 31, 2017
CURRENT ASSETS		
Cash and cash equivalents	$1,825,423	$1,794,896
Accounts receivable (net of an allowance of $24,000 for 2018 and 2017)	1,724,824	1,824,995
Prepaids	84,024	55,466
Total current assets	$3,634,271	$3,675,357
PROPERTY AND EQUIPMENT		
Land	$98,409	$98,409
Building	1,096,945	1,096,946
Furniture, fixtures and equipment	345,128	348,363
Less accumulated depreciation	(287,132)	(271,747)
Net property and equipment	$1,253,350	$1,271,971
OTHER ASSETS		
Deferred tax asset – non-current	$240,887	$187,931
Total other assets	$240,887	$187,931
TOTAL ASSETS	$5,128,508	$5,135,259

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited)	
	March 31, 2018	December 31, 2017
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$443,010	$496,875
Commissions payable	1,947,829	2,029,467
Income taxes payable	57,308	10,859
Other current liabilities	8,442	1,749
Total current liabilities	$2,456,589	$2,538,951
NON CURRENT LIABILITIES		
Building mortgage	$664,643	$672,426
Total noncurrent liabilities	$664,643	$672,426
TOTAL LIABILITIES	3,121,232	$3,211,377
STOCKHOLDERS' EQUITY		
Series A preferred stock – 5,000,000 shares authorized, $.0001 par value; 3,050,000 and 3,050,000 shares issued and outstanding, respectively	$305	$
Additional paid in capital – Series A preferred stock	1,524,695	1,524,695
Common stock – 1,000,000,000 shares authorized, $.0001 par value; 1,241 and 1,241 shares issued and outstanding, respectively	1,241	1,241
Additional paid in capital – common stock	10,221,515	10,221,515
Accumulated deficit	(8,440,480)	(8,523,873)
Less Treasury stock, 3,050,000 preferred shares at $0.4262	(1,300,000)	(1,300,000)
TOTAL STOCKHOLDERS' EQUITY	$2,007,276	1,923,883
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5,128,508	5,135,259

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) Three Months Ended March 31,	
	2018	2017
REVENUES		
Fee income	$450,012	$315,791
Commission income	3,474,364	3,508,998
Other income		–
Other fee income	21,109	98,647
Total revenue	$3,945,485	$3,923,436
EXPENSES		
Compensation and benefits	318,611	386,497
Commission expense	3,250,644	3,282,574
General and administrative expenses	222,830	294,111
Depreciation	15,385	11,398
Total operating expenses	$3,807,470	$3,974,580
INCOME (LOSS) OF CONTINUING OPERATIONS	$138,015	$(51,144)
OTHER INCOME/EXPENSES		
Interest expense	$(8,173)	$(5,794)
Other income		547
Total other income (expense)		$(5,247)
INCOME (LOSS) OF CONTINUING OPERATIONS BEFORE INCOME TAX	$129,842	$(56,391)
INCOME TAX BENEFIT (EXPENSE)	$(46,449)	$(13,404)
NET INCOME (LOSS) BEFORE DISCONTINUED OPERATIONS	$83,393	$(69,795)
DISCONTINUED OPERATIONS	$–	$(22,315)
NET INCOME (LOSS)	$83,393	(92,110)
NET INCOME (LOSS) PER COMMON SHARE, BASIC AND DILUTED:		
Continuing	$67	(56)
Discontinued	$–	(18)

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and diluted	1,241	1,241

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5

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

	(Unaudited) Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$83,393	$(92,110)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation	15,387	11,398
Depletion		(29,354)
Provision (benefit) for deferred income taxes	(52,956)	7,777
Effects on operating cash flows due to changes in:		
Accounts receivable	100,172	201,615
Income taxes payable (receivable)	46,449	2,405
Prepaids	(28,561)	12,557
Severance escrow		(64)
Accounts payable	(53,865)	25,707
Commissions payable	(81,638)	(17,814)
Other liabilities	6,694	32,078
Net cash provided by (used for) operating activities	$35,075	$154,195
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal (Purchase) of property and equipment	$3,235	(3,880)
Reduction in Mortgage Debt	(7,783)	–
Deductions to oil and gas properties		105,438
Net cash used for investing activities	$(4,548)	$101,558
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash provided by (used for) financing activities	$0	$–0 –
NET [INCREASE/DECREASE] IN CASH AND CASH EQUIVALENTS	$30,527	$255,753
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	$1,794,896	$1,368,176
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$1,825,423	$1,623,929

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$	$
Income taxes	$	$
SUPPLEMENTAL SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES		
Cash paid for interest on building mortgage	8,173	5,974

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6

CAPITAL FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Capital Financial Holdings, Inc., a North Dakota corporation, and its subsidiary Capital Financial Services, Inc. (“CFS”) (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, 2017, of Capital Financial Holdings, Inc., as filed with the SEC. The condensed consolidated balance sheet at December 31, 2017, 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 March 31, 2018, are not necessarily indicative of operating results for the entire year.

NOTE 2 – ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

A summary of our significant accounting policies is included in Note 1 of our 2017 Form 10-K filed on April 18, 2018.

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

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

NOTE 3 – BUSINESS VENTURES

On June 9, 2014, the Company launched a new wholly-owned operating subsidiary, Capital Natural Resources, Inc. (“CNR”).

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

NOTE 4 – DISCONTINUED OPERATIONS

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

The summarized balance sheet for discontinued operations is presented below:

	2018	2017
Current Assets		
Accounts receivable$	$	$(19,168)
Current Long term receivable		–
Prepaids		–
Total current assets	$	$(19,168)
Property and Equipment		
Oil and natural gas properties, Full Cost Method of Accounting	$–	$–
Less accumulated depletion	–	–
Equipment	–	–
Less accumulated depreciation	–	–
Other property holdings	–	–
Net property and equipment	$–	$–
Total Assets	$	$(19,168)
Current liabilities		
Accounts payable	$	$45
Total current liabilities	$	$45
Noncurrent liabilities		
Asset retirement obligation	$–	–
Total noncurrent liabilities	$–	$–
Stockholder’s Equity		
Common Stock	$	$270,400
Accumulated deficit		$(289,613)
Total stockholder’s equity	$	$(19,213)
Total liabilities and stockholder’s equity	$	$(19,168)

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

The summarized income for the three months ended March 31, 2018 and March 31, 2017 from discontinued operations is presented below:

	2018	2017
Operating Revenues		

Oil lease income	$–	$13,676
Total operating revenue	$–	13,676
Operating Expenses		
Compensation and benefits	$–	–
Lease operating expense	–	–
General and administrative	–	–
Depletion	–	–
Depreciation	–	–
Loss from discontinued operations	–	(22,315)
Total operating expenses	$–	$(22,315)
Operating loss	$–	$(22,315)
Other income (expenses)		
Interest expense	$–	$–
Interest income	–	–
Total other income (expenses)	$–	$–
Loss of discontinued operations before income tax expense	$–	$(22,315)
Income tax (expense) benefit	$–	–
Net loss	$–	(22,315)

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

NOTE 5 - 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 three months ended March 31, 2017 and 2016. Changes are due to the stock buyback and reverse stock split.

Option activity for the twelve months ended December 31, 2017 and the three months ended March 31, 2018 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, 2017	207	$8,692	$4,435	$–
Granted	–	–	–	
Exercised	–	–	–	
Canceled	39	–	–	
Outstanding on December 31, 2017	168	$5,000	$3,844	$–
Granted	–	–	–	
Exercised	–	–	–	
Canceled	1	–	–	
Outstanding on March 31, 2018	167	$4,538	$4,190	$-

Exercisable options totaled 167 at December 31, 2017 and totaled 167 at March 31, 2018.

NOTE 6 – 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.

At March 31, 2018, the Company has approximately $398,000 in federal net operation loss carry forward which begins to expire in 2036.

9

NOTE 7 - 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 March 31, 2018			Three Months Ended March 31, 2017		
	Numerator	Denominator	Per Share Amount	Numerator	Denominator	Per Share Amount
Net (Loss) Income of continuing operations	$83,393			$(69,795)		
Less: Preferred Stock Dividends				–		
Income of Continuing Operations Available to Common Shareholders – Basic and diluted Earnings per Share	$67	1,241	$( )	$(69,795)	1,241	$(56)

Options and warrants to purchase 377 common shares at exercise prices between $3,500 and $14,300 were outstanding at March 31, 2018, but were not included in the computation of diluted earnings per share for the quarter ending March 31, 2018 and March 31, 2017, because their effect was anti-dilutive.

NOTE 8 – RULE 4110 (c)(1)

The Company operates under the provision of FINRA Rule 4410 (c)(1) and, accordingly, the member is restricted from withdrawing equity capital for a period of one year from the date such equity capital is contributed, unless otherwise permitted by FINRA in writing. Subject to the requirements of paragraph (c)(2) of this Rule, this paragraph shall not preclude a member from withdrawing profits earned.

NOTE 9 – REGULATORY MATTERS

The broker dealer (“BD”) segment of Capital Financial Services, Inc. is subject to periodic examinations by its regulators, the Financial Industry Regulatory Authority (“FINRA”) and the Securities Exchange Commission (“SEC”).

During the second quarter of 2018, FINRA began conducting a routine examination of the broker dealer segment. The examination is still ongoing.

NOTE 10 – BUILDING PURCHASE

On November 16, 2016, the Company closed on the acquisition of a commercial office building and associated property (the “Office Building”) located at 1801 Burdick Expressway West, Minot, North Dakota from Evanmark

Enterprises, LLC, an entity unrelated to the Company. The contract purchase price for the Office Building was $975,000, exclusive of closing costs of $9,091, with all built-in fixtures and other furniture, fixtures and equipment in the building remaining with the property. The Company paid $509,091 at closing toward the purchase price of the Office Building with the remaining $475,000 of the purchase price financed by a commercial real estate loan from American Bank Center ("American Bank") in the principal amount of $675,000, $475,000 of which was applied to the purchase price of the Office Building and $200,000 of which was utilized for renovations to the building. Renovations to the building at cost of $221,264 were made in 2017 to bring the total cost of the land and building to $1,195,355. The loan carries a fixed interest rate of 4.879% per annum for five (5) years with the rate to be adjusted at the end of the five (5) year period based on the Wall Street Journal Prime interest rate plus 1.759%. American Bank has a first priority mortgage on the Office Building.

NOTE 11 – SEGMENT REPORTING

The Company organizes its current business units into two reportable segments: broker dealer services and holding company. The broker-dealer services segment distributes securities and insurance products to retail investors through a network of registered representatives through its wholly-owned subsidiary, Capital Financial Services, Inc. ("CFS"), a Wisconsin corporation. The holding company encompasses cost associated with its office building, business development and acquisitions, dispositions of subsidiary entities and results of discontinued operations, dividend income and recognized gains or losses.

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

As of, and for the three months ended, March 31, 2018	Holding Company	Broker-Dealer Services	Total
Commissions and fee income	$–	3,924,376	3,924,376
Other fee income	$–	21,109	21,109
Interest expense	$8,173	–	8173
Depreciation	$5,760	9,656	15,386
Income (loss) before income tax benefit (expense)	$(49,590)	179,432	129,842
Income tax benefit (expense)	$-	46,449	46,449
Net income (loss) of continued operations	$(49,590)	132,983	83,393
Segment assets of continued operations	$1,763,981	3,364,527	5,128,508

NOTE 12 – LEGAL PROCEEDINGS

The Company operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. Issuers of certain alternative products sold by the Company are in Bankruptcy or may have other financial difficulties. As a result of such alleged failings of alternative products and the uncertainty of client recovery from the various product issuers, the Company is subject to several legal and/or arbitration proceedings. These proceedings include customer suits, investments alleged to be unsuitable, and bankruptcies and other issues brought by claimants. The Company vigorously contests the allegations of the various proceedings and believes that there are multiple meritorious legal and fact based defenses in these matters. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. The Company makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reasonably estimated. The current proceedings are subject to uncertainties and, as such, the Company is unable to estimate the possible loss or range of loss that may result from the outcome of these cases; however, results in these cases that are against the interests of the Company could have a severe negative impact on the financial position of the Company. As of March 31, 2018, the Company was a defendant in five on-going suits or arbitrations as discussed above.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

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

The Company has been engaged in the financial services business since 1987. The Company was incorporated September 22, 1987, as a North Dakota corporation. The Company's principal offices are located at 1821 Burdick Expressway W, Minot, North Dakota 58701. As of March 31, 2018, the Company had 16 full-time employees consisting of officers, principals, data processing, compliance, accounting, and clerical support staff.

The Company organized its business units into two reportable segments: broker dealer services and holding company. The broker-dealer services segment distributes securities and insurance products to retail investors through a network of registered representatives through its wholly-owned subsidiary, Capital Financial Services, Inc. ("CFS"), a Wisconsin corporation. The holding company encompasses cost associated with its office building, business development and acquisitions, dispositions of subsidiary entities and results of discontinued operations, dividend income and recognized gains or losses.

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

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

CFS is a full-service brokerage firm. CFS is registered with the SEC as an investment advisor and broker-dealer and also with FINRA as a broker-dealer. CFS specializes in providing investment products and services to independent investment representatives, financial planners, and investment advisors and currently supports approximately 144 investment representatives and investment advisors.

Results Of Continued Operations

	Three Months Ended March 31,	
	2018	2017
Net Gain (Loss)	$83,393	$(92,110)
Gain (Loss) per share:		
Basic and diluted	$67	$(56)

The Company reported a net income for the three months ended March 31, 2018, of $83,393, compared to a net loss of $69,795 for the same quarter in 2017. The net income for the three months ended March 31, 2018 compared to net loss in the same period in 2017 is primarily due to increased advisory revenues and decreased compensation benefits and general and administrative expenses.

Operating revenues

Total operating revenues for the three months ended March 31, 2018 were $3,945,485, an increase of 1% from $3,923,436 for the same period ended March 31, 2017. The decrease for the three-month period net revenue categories are listed below.

Fee income

Fee income for the three months ended March 31, 2018, was $450,012, an increase of 42% from $315,791 for the same period ended March 31, 2017. The increase is due to an increase in fee income received by the broker dealer segment as a result of higher values of client assets under management.

The Company earns investment advisory fees in connection with the broker dealer’s registered investment advisor. The Company pays the registered representatives a portion of this fee income as commission expense and retains the balance. These fees constituted approximately 11% of the Company’s consolidated revenues for the three months ended March 31, 2018 and 8% of the Company’s consolidated revenues for the three months ended March 31, 2017. There is no fee income attributable to the other segments.

Commission income

Commission income includes broker dealer segment commissions. The Company pays the registered representatives a percentage of this income as commission expense and retains the balance. Commission income for the three months ended March 31, 2018 was $3,474,364, a decrease of 1% from $3,508,998 for the same period ended March 31, 2017. The decrease was due primarily to the decrease in commissions received by the broker dealer segment due to reductions in the number of registered representatives. Commission revenues constituted approximately 88% of the Company's consolidated revenues for the three months ended March 31, 2018. There is no commission income attributable to the other segments.

Other fee income

Other operating fee income for the three months ended March 31, 2018 was $21,109, a decrease of 79% from $98,647 for the same period ended March 31, 2017. The increase was primarily due to a decrease in the income received related to alternative investment products. There is no other operating fee income attributable to the holding segments. Other operating fee income constituted less than 1% of the Company’s consolidated revenues for the three months ended March 31, 2018.

Rent income

Effective in June 2017, the Company’s broker-dealer subsidiary began paying rent to the Company of $8,500 per month on a month-to-month basis for a portion of the office facility owned by the Company. The broker-dealer utilizes approximately 5,817 square feet of office space for its operations out of a total of 6,188 square feet utilized by the Company in the office facility. Rent Income and Rent Expense related to this Company/Subsidiary arrangement are eliminated in the consolidated financial statements.

Operating expenses

Total operating expenses for the three months ended March 31, 2018 were $3,807,470, a decrease of 4% from $3,974,580 for the three months ended March 31, 2017. The decrease resulted from the net decreases in the expense categories described below.

Compensation and benefits

Compensation and benefits expense for the three months ended March 31, 2018 was $318,611, a decrease of 18% from $386,497 for the same period ended March 31, 2017. The decrease was primarily due to decreases in management compensation

Commission expense

Commission expense for the three months ended March 31, 2018 was $3,250,644, a decrease of 1% from $3,282,574 for the same period ended March 31, 2017. The decrease is a result of lower commissions paid to independent representatives in the broker dealer segment during the period ended March 31, 2018.

General and administrative expense

General and administrative expenses for the three months ended March 31, 2018 were $222,830, a decrease of 24% from $294,111 for the same period ended March 31, 2017. The decrease resulted from decreases in legal and accounting expense.

Depreciation

Depreciation expense for the three months ended March 31, 2018 was $15,385, an increase of 35% from $11,398 for the same period ended March 31, 2017. The increase in depreciation expenses was due to increased depreciation on the Company’s Office Building.

Interest expense

Interest expense for the three months ended March 31, 2018 was $8,173 an increase of 41% from $5,794 for the same period ended March 31, 2017. The increase is due to the interest payments made on the building mortgage during 2017.

Liquidity and capital resources

Net cash provided by operating activities was $35,075 for the three months ended March 31, 2018, as compared to net cash provided by operating activities of $154,195 during the three months ended March 31, 2017. The primary difference corresponds to reductions in commissions payable and accounts payables.

Net cash used in investing activities was $4,548 for the three months ended March 31, 2018, as compared to net cash provided by investing activities of $101,558 for the three months ended March 31, 2017. The primary difference is attributable to increased mortgage debt in 2017 related to on the recently purchased office space compared to normal monthly loan payments made in 2018.

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

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

FORWARD-LOOKING STATEMENTS

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

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

Business strategies and investment policies,

Possible or assumed future results of operations and operating cash flows,

Financing plans and the availability of short-term borrowing,

Competitive position,

Potential growth opportunities,

Recruitment and retention of the Company's key employees,

Potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts,

Likelihood of success and impact of litigation,

Expected tax rates,

Expectations with respect to the economy, securities markets, the market for merger and acquisition activity, the market for asset management activity, and other industry trends,

Competition, and

Effect from the impact of future legislation and regulation on the Company.

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

General political and economic conditions which may be less favorable than expected;

The effect of changes in interest rates, inflation rates, the stock markets, or other financial markets;

Unfavorable legislative, regulatory, or judicial developments;

Adverse findings or rulings in arbitrations, litigation or regulatory proceedings;

Incidence and severity of catastrophes, both natural and man-made;

Changes in commodity pricing due to natural resource investments;

Changes in accounting rules, policies, practices, and procedures which may adversely affect the business; and

Terrorist activities or other hostilities which may adversely affect the general economy.

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

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable as a Smaller Reporting Company

ITEM 4. Controls and Procedures

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) and Rule 15c-14(c) under the Exchange Act) as of the end of the period covered by this report, pursuant to Rule 13a-15(b) of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of March 31, 2018, and that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed and summarized, and reported within the time periods specified by the SEC's rules and forms.

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

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

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

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

The information in response to this item can be found in Note 12 (Legal Proceedings) to Financial Statements in this Report, which information is incorporated by reference into this item.

ITEM 1A. Risk Factors

Not Applicable as a Smaller Reporting Company.

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

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

None.

Small Business Issuer Repurchases of Equity Securities:

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

Period	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
January 2018	–	–	–	$597,754
February 2018	–	–	–	$597,754
March 2018	–	–	–	$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

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

31.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act and Rules 13a-14(a) and 15d-14(a) of the Exchange Act
32.1	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act and 18 U.S.C. Section 1350
32.2	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act and 18 U.S.C. Section 1350

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

16

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: May 22, 2018	By /s/ Gordon Dihle Gordon Dihle Interim Chief Executive Officer & President (Principal Executive Officer)
Date: May 22, 2018	By /s/ Nicole Bertsch Nicole Bertsch Interim Chief Financial Officer (Principal Financial Officer)