

Capital Financial Holdings, Inc
Form 10-Q
August 13, 2010

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 period ended June 30, 2010

OR

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

For the transition period from _____ to _____

Commission file number: 0-25958

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

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

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

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

(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
[
X
]
No
[
]

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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		[
	X	
]		

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

[

X

]

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes		[
]		
No		[
	X	
]		

As of July 31, 2010, there were 14,455,943 common shares of the issuer outstanding.

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PART I—FINANCIAL INFORMATION

Item 1.

Financial Statements

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

ASSETS

(Unaudited)

June 30,

December 31,

2010

2009

CURRENT ASSETS

Cash and cash equivalents

\$

2,142,749

\$

1,968,738

Accounts receivable (net of an allowance of \$24,000 for 2010 and 2009)

1,593,929

1,242,630

Income taxes receivable

67,704

173,502

Deferred tax asset—current

-

45,032

Current portion of long-term receivable

254,247

254,247

Prepays

27,860

27,849

Total current assets

\$

4,086,489

\$

3,711,998

LONG-TERM ASSETS

LT receivable—MF Division Sale

\$

762,740

762,740

Less: current portion shown above

(254,247)

(254,247)

Total long-term assets

\$

508,493

508,493

PROPERTY AND EQUIPMENT

\$

1,719,974

\$

1,711,245

Less accumulated depreciation

(571,685)

(536,395)

Net property and equipment

\$

1,148,289

\$

1,174,850

OTHER ASSETS

Goodwill

\$

3,382,021

\$

3,431,641

Deferred tax asset—non-current

462,212

474,755

Other assets (net of accumulated amortization
of \$214,444 for 2010 and \$209,422 for 2009)

268,584

198,991

Total other assets

\$

4,112,817

\$

4,105,387

TOTAL ASSETS

\$

9,856,088

\$

9,500,728

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

(Unaudited)

June 30,

December 31,

2010

2009

CURRENT LIABILITIES

Accounts payable

\$

333,861

\$

103,726

Commissions Payable

1,454,397

1,115,134

Other current liabilities

48,566

54,765

Current portion of long-term debt

232,878

278,117

Total current liabilities

\$

2,069,702

\$

1,551,742

LONG-TERM LIABILITIES

Note payable

\$

293,056

\$

307,902

Convertible promissory note

950,000

950,000

Other long-term liabilities

338,995

475,157

Less current portion of long-term debt

(232,878)

(278,117)

Total long-term liabilities

\$

1,349,173

\$

1,454,942

TOTAL LIABILITIES

\$

3,418,875

\$

3,006,684

STOCKHOLDERS' EQUITY

Series A preferred stock—5,000,000 shares authorized, \$.0001 par value;

\$

305

\$

305

3,050,000 and 3,050,000 shares issued and outstanding, respectively

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;

1,446

1,446

14,455,943 and 14,455,943 shares issued and outstanding, respectively

Additional paid in capital—common stock

10,446,301

10,396,335

Accumulated deficit

(5,535,534)

(5,428,737)

TOTAL STOCKHOLDERS' EQUITY

\$

6,437,213

\$

6,494,044

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$

9,856,088

\$

9,500,728

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

Three Months Ended

June 30,

2010

2009

OPERATING REVENUES

Fee income

\$

259,984

\$

247,244

Commissions

4,726,922

3,931,541

Other income

168,716

199,184

Total revenue

\$

5,155,622

\$

4,377,969

OPERATING EXPENSES

Compensation and benefits

\$

343,759

\$

424,548

Commission expense

4,427,541

3,672,710

General and administrative expenses

196,678

275,784

Depreciation and amortization

22,418

26,957

Total operating expenses

\$

4,990,396

\$

4,399,999

OPERATING INCOME (LOSS)

\$

165,226

\$

(22,030)

OTHER EXPENSES

Interest expense

\$

(20,268)

\$

(66,035)

INCOME (LOSS) OF CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE

\$

144,958

\$

(88,065)

INCOME TAX BENEFIT (EXPENSE)

(105,695)

34,521

NET INCOME (LOSS) BEFORE DISCONTINUED OPERATIONS

\$

39,263

\$

(53,544)

DISCONTINUED OPERATIONS

Income from operation of discontinued mutual fund segment (net of tax)

\$

-

\$

262,043

NET INCOME

\$

39,263

\$

208,499

NET INCOME (LOSS) OF CONTINUING OPERATIONS PER COMMON SHARE:

Basic

\$

.00

\$

(.01)

Diluted

\$

.00

\$

(.01)

SHARES USED IN COMPUTING NET INCOME (LOSS) OF CONTINUING OPERATIONS PER COMMON SHARE:

Basic

14,638,937

14,531,573

Diluted

17,688,937

14,531,573

NET INCOME PER COMMON SHARE:

Basic

\$

.00

\$

.01

Diluted

\$

.00

\$

.01

SHARES USED IN COMPUTING NET INCOME PER COMMON SHARE:

Basic

14,638,937

14,531,573

Diluted

17,688,937

17,581,573

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

(Unaudited)

Six Months Ended

June 30,

2010

2009

OPERATING REVENUES

Fee income

\$

505,349

\$

505,020

Commissions

8,884,767

7,904,020

Other income

301,069

320,603

Total revenue

\$

9,691,185

\$

8,729,642

OPERATING EXPENSES

Compensation and benefits

\$

680,483

\$

849,168

Commission expense

8,350,774

7,490,272

General and administrative expenses

485,891

544,852

Depreciation and amortization

43,959

56,021

Total operating expenses

\$

9,561,107

\$

8,940,313

OPERATING INCOME (LOSS)

\$

130,078

\$

(210,671)

OTHER EXPENSES

Interest expense

\$

(40,659)

\$

(133,723)

INCOME (LOSS) BEFORE INCOME TAX EXPENSE

\$

89,419

\$

(344,394)

INCOME TAX BENEFIT (EXPENSE)

(150,467)

135,002

NET LOSS BEFORE DISCONTINUED OPERATIONS

\$

(61,048)

\$

(209,392)

DISCONTINUED OPERATIONS

Income from operation of discontinued mutual fund segment (net of tax)

\$

-

\$

270,750

NET INCOME (LOSS)

\$

(61,048)

\$

61,358

NET LOSS OF CONTINUING OPERATIONS PER COMMON SHARE:

Basic

\$

(.01)

\$

(.02)

Diluted

\$

(.01)

\$

(.02)

SHARES USED IN COMPUTING NET LOSS OF CONTINUING OPERATIONS PER COMMON SHARE:

Basic

14,638,937

14,529,830

Diluted

14,638,937

14,529,830

NET INCOME (LOSS) PER COMMON SHARE:

Basic

\$

(.01)

\$

.00

Diluted

\$

(.01)

\$

.00

SHARES USED IN COMPUTING NET INCOME (LOSS) PER COMMON SHARE:

Basic

14,638,937

14,529,830

Diluted

14,638,937

17,579,830

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

Six Months Ended

June 30,

2010

2009

CASH FLOWS FROM OPERATING ACTIVITIES

Net income (loss)

\$

(61,048)

61,358

Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:

Depreciation and amortization

43,959

56,021

Loss on sale of assets

-

8,043

(Increase) decrease in:

Accounts receivable

(351,299)

149,928

Income taxes receivable

105,797

(47,493)

Prepays

(10)

34,135

Deferred tax asset

57,575

49,305

Other assets

(78,263)

(43,520)

Increase (decrease) in:

Service fees payable

-

7,344

Commissions Payable

339,263

(71,311)

Accounts payable

230,136

(60,757)

Income taxes payable

-

-

Other liabilities

(6,199)

(198,277)

Net cash provided (used) by operating activities

\$

279,911

\$

(55,224)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment

\$

(8,729)

\$

(5,396)

Net cash used by investing activities

\$

(8,729)

\$

(5,396)

CASH FLOWS FROM FINANCING ACTIVITIES

Issuance of common stock

\$

-

\$

(1,894)

Reduction of notes payable

(14,846)

(12,740)

Reduction of long-term liability

(36,575)

(45,150)

Reduction of subordinated corporate notes

-

(200,000)

Repayments from ESOP

-

3,346

Preferred dividends paid

\$

(45,750)

\$

(45,750)

Net cash used by financing activities

\$

(97,171)

\$

(302,188)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

\$

174,011

\$

(362,808)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

\$

1,968,738

\$

2,840,108

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$

2,142,749

\$

2,477,300

SUPPLEMENTAL SCHEDULE OF NONCASH

INVESTING AND FINANCING ACTIVITIES:

Decrease in goodwill

\$

49,620

\$

50,250

Decrease in other long-term liabilities

99,587

107,347

Increase in paid-in-capital

49,967

57,097

Preferred stock dividends declared

22,875

22,875

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2010 and 2009

NOTE 1—BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Capital Financial Holdings, Inc., a North Dakota corporation, and its subsidiary (collectively, the "Company"), included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the footnotes thereto contained in the Annual Report on Form 10-K for the year ended December 31, 2009, of Capital Financial Holdings, Inc., as filed with the SEC. The condensed consolidated balance sheet at December 31, 2009, 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 six months ended June 30, 2010, are not necessarily indicative of operating results for the entire year.

NOTE 2—RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

A summary of our significant accounting policies is included in Note 1 on pages F-10 through F-11 of our 2009 Form 10-K.

The Company adopted Accounting Standards Codification ("ASC") 805, Business Combinations. ASC 805 generally requires an acquirer to recognize the identifiable assets acquired, liabilities assumed, contingent purchase consideration and any noncontrolling interest in the acquiree at fair value on the date of acquisition. It also requires an acquirer to recognize as expense most transaction and restructuring costs as incurred, rather than include such items in the cost of the acquired entity. For the Company, ASC 805 applies prospectively to business combinations for which the acquisition date is on or after October 1, 2009. The adoption of ASC 805 did not have a material impact on the Company's condensed consolidated financial statements.

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

In December of 2007, the FASB established new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, these new standards require the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement.

These new standards are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of these new standards has not had a significant effect on the Company's consolidated financial statements.

NOTE 3—RECLASSIFICATION

Certain amounts in the 2009 condensed consolidated financial statements have been reclassified to conform to the 2010 presentation. These reclassifications had no effect on the Company's net income (loss).

NOTE 4—INCOME TAXES

The Company has completed various acquisitions in prior years, which have been classified as goodwill at the time of acquisition. The Company amortizes certain goodwill for tax purposes. The Company tests goodwill for impairment annually for book purposes, during the second quarter of each fiscal year. The annual test is done at the reporting unit level using a fair value approach, in accordance with the FASB accounting and reporting standards. Deferred tax assets or deferred tax liabilities may result from these timing differences.

The Company has adopted the FASB accounting and reporting standards for share-based payment (See Note 8—Stock Warrants, Stock Splits, and Stock Options.) As a result, the Company expenses stock-based employee compensation for book purposes on the grant date, but does not expense them for tax purposes until such options are exercised. Deferred tax assets are a result of these timing differences.

NOTE 5—BUSINESS ACQUISITIONS

On April 22, 2005, the Company acquired the management rights to the IPS Millennium Fund and the IPS New Frontier Fund from IPS Advisory, Inc. ("IPS Advisory"), and merged them into a new Integrity Fund called the Integrity Growth & Income Fund. The two funds had combined assets of approximately \$57 million at the time of acquisition. The purchase agreement called for total consideration of approximately 656,000 common shares of the Company. The Company provided IPS Advisory with 250,000 common shares upon closing. The remaining consideration of approximately 406,000 common shares, which was subject to adjustment based on retention of assets in the fund, was to be issued as follows: 203,000 common shares at the one-year anniversary of the closing date, and 203,000 common shares at the two-year anniversary of the closing date. The shares are subject to a put option, which allows the holders of the shares to put them back to the Company at a price equal to the market price of the Company's shares as of the closing date, which was \$.36 per share. The put option is exercisable with respect to one-third of the shares per year starting on the third anniversary of the closing date. The Company will also provide IPS Advisory with a stock option incentive bonus based on growth in assets in the Fund based on the following schedule: 150,000 options on the Company's common shares if assets of the Fund reach \$100 million and 150,000 options on the Company's common shares if the assets of the Fund reach \$200 million. The options will have a strike price of \$.65 per share and mature 10 years from the closing date. The securities issued in connection with this transaction were issued on a private placement basis. In April of 2006, the one-year anniversary payment of 158,603 common shares was made, which reflected the assets of the acquired funds at the one-year anniversary. In June of 2007, the two-year anniversary payment of 138,797 common shares was made, which reflected the assets of the acquired funds at the two-year anniversary. In April 2010 the put option mentioned above expired, which resulted in the liability of this acquisition to be reduced to \$0.

On March 7, 2007, the Company acquired certain assets of United Heritage Financial Services, Inc. (UHFS), a wholly owned subsidiary of United Heritage Financial Group, Inc., of Meridian, Idaho. UHFS had approximately 120 independent registered representatives who became part of Capital Financial Services, Inc. (CFS), the retail brokerage division of the Company. Pursuant to the agreement, in exchange for receipt of the assets of UHFS set forth above, the Company agreed to issue 500,000 restricted CFH shares and pay a deferred cash earn out payment totaling a maximum of \$900,000, to be paid in 21 quarterly installments. On March 7, 2007, the Company issued 500,000 restricted common shares to United Heritage Financial Group, Inc. As a result of this issuance of shares, \$175,000 was recorded by the Company as goodwill relating to the purchase of the assets. As of June 30, 2010, the Company had made twelve quarterly installment payments totaling \$290,446. The liability relating to this acquisition is valued at approximately \$338,995 as of June 30, 2010, and has also been recorded by the Company as goodwill. As of June

30, 2010, the total goodwill recorded relating to this acquisition was \$903,269.

NOTE 6—DISCONTINUED OPERATIONS

On March 6, 2009, Capital Financial Holdings, Inc. (the "Company") entered into a Definitive Agreement (the "Agreement") with Corridor Investors, LLC ("Buyer"), pursuant to which Buyer agreed to purchase from Seller, and Seller agreed to sell to Buyer: (i) all of the issued and outstanding shares of each of three subsidiaries of the Company, Integrity Fund Services, Inc., a share transfer agency, Integrity Funds Distributor, Inc., a FINRA member broker dealer and Integrity Mutual Funds, Inc. of Nevada, a non-operating entity (the "Companies"); (ii) all of Seller's right, title and interest in and to certain tangible assets and (iii) the sale of certain assets of Integrity Money Management, Inc. related to its mutual fund advisory business. The purpose of the Agreement was to facilitate a change in advisor as well as to transfer, together with the operating subsidiaries, the combined mutual fund service business of the Seller currently provided to The Integrity Funds, Integrity Managed Portfolios, ND Tax-Free Fund, Inc., Montana Tax-Free Fund, Inc. and Integrity Fund of Funds, Inc. ("the Funds"), which are investment companies registered with the Securities and Exchange Commission ("SEC") under the Investment Company Act of 1940. As of July 31, 2009, the required Fund shareholder approval from the various Funds had been received to consummate the change in advisor along with the transfer of the mutual fund service to the Buyer. As per the Agreement, at closing on July 31, 2009, the Buyer paid \$1,525,480 (60 BPS of the aggregate net assets, totaling \$254,246,596 as of July 30, 2009) to the Company and will pay three additional payments consisting of 10 BPS of the aggregate net assets as of July 30, 2010, 2011, and 2012 over the next three years. With the closing and transfer of entities, the Company is no longer involved in the mutual fund service business. The Company continues to operate as a Broker-Dealer through its wholly owned subsidiary Capital Financial Services, Inc. As a result of the transfer, post closing of the transaction, Integrity Fund Services, Inc., Integrity Funds Distributor, Inc. and Integrity Money Management, Inc., which constitutes the mutual fund division of the Company, will be reflected in the Company's future consolidated financial statements as a discontinued operation.

The results of the mutual fund segment are reported in the Company's Consolidated Statements of Operations separately as discontinued operations. In accordance with GAAP, the Consolidated Balance Sheets have not been restated.

Summarized financial information for discontinued operations is as follows:

Three Months ended
June 30, 2010

Three Months ended
June 30, 2009

Total revenues, net of interest expense

\$

—

\$

1,038,195

Gain from discontinued operations, net of tax

—

262,043

Total gain on discontinued operations, net of tax

\$

—

\$

262,043

Six Months ended
June 30, 2010

Six Months ended
June 30, 2009

Total revenues, net of interest expense

\$

—

\$

1,820,056

Gain from discontinued operations, net of tax

—

270,750

Total gain on discontinued operations, net of tax

\$

—

\$

270,750

NOTE 7—GOODWILL

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The changes in the carrying amount of goodwill for the six months ended June 30, 2010, are as follows:

Balance as of January 1, 2010

\$

3,431,641

Goodwill acquisition price adjustment during the period (see Note 5)

(49,620)

Balance as of June 30, 2010

\$

3,382,021

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.

NOTE 8—STOCK WARRANTS, STOCK SPLITS, AND STOCK OPTIONS

In December of 2005, the Company adopted the FASB accounting and reporting standards for share-based payment, which requires the measurement and recognition of 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 six months ended June 30, 2010 and 2009.

Option activity for the twelve months ended December 31, 2009 and the six months ended June 30, 2010 was as follows:

Number of
Options

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Weighted Average Exercise Price per Share

Weighted Average Grant Date Fair Value

Aggregate
Intrinsic Value

Outstanding on January 1, 2009

5,888,113

\$

.54

\$

.28

\$

1,081,950

Granted

-

-

-

Exercised

-

-

-

Canceled

-

-

-

Outstanding on December 31, 2009

5,888,113

\$

.54

\$

.28

\$

-

Granted

-

-

-

Exercised

-

-

-

Canceled

-

-

-

Outstanding on June 30, 2010

5,888,113

\$

.54

\$

.28

\$

-

Exercisable options totaled 5,888,113 at both December 31, 2009 and June 30, 2010.

NOTE 9—DEBT

Long-term debt at June 30, 2010 and December 31, 2009 was as follows:

Rate

Current Portion

2010

2009

First Western Bank

6.50%

31,008

293,056

307,902

Convertible promissory note

6.50%

—

950,000

950,000

IPS Acquisition

—

—

49,967

Future payments on acquisitions

201,870

338,995

425,190

Totals

\$

232,878

\$

1,582,051

\$

1,733,059

Summaries of the terms of the long-term debt agreements follow:

First Western Bank—In June of 1999, the Company converted its outstanding balance of \$500,000 borrowed on its bank line-of-credit to long-term debt. The debt was refinanced in September of 2009 and currently carries an interest rate of 6.50%, with monthly payments of \$4,105. On October 1, 2014, the remaining balance will be due in full.

Subordinate Corporate Notes—The Company approved a \$2 million intra-state subordinate corporate note offering limiting the sale in North Dakota, to North Dakota residents only. The subordinate corporate notes did not represent ownership in the Company. On June 23, 2009 and July 30, 2009 redemptions were processed, totaling \$200,000 and \$300,000 respectively. On September 30, 2009 the Company elected pursuant to the terms of its Corporate Note obligations to call and prepay its remaining \$1,500,000 Corporate Note obligation. This amount consists of all of outstanding Corporate Notes originally due January 1, 2011. By prepaying the Corporate Notes from available cash, the current asset position of the Company was reduced by \$1,591,613 and the Corporate Note liability of the same amount was eliminated. There was no prepayment charge or other cost to the Company associated with the prepayment.

Convertible Promissory Note—In October of 2006, the Company issued a \$950,000 convertible promissory note to PawnMart, Inc., in a private placement. The unsecured note carries an interest rate of 6.5% per annum, payable semi-annually, and matures on October 15, 2016. The holder of the note has the right, at any time after October 15, 2009, to convert the note in whole or in part, into \$0.0001 par value common shares of the Company. The conversion price shall be equal to \$0.50 per share. The entire principal amount of this note shall be automatically converted into common shares at the conversion price on October 15, 2016.

Future Payments on Acquisitions—see Note 5—Business Acquisitions

NOTE 10—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 June 30, 2010

Three Months Ended June 30, 2009

Numerator

Denominator

Per Share Amount

Numerator

Denominator

Per Share Amount

Net Income (Loss)

\$

39,263

\$

208,499

Less: Preferred Stock Dividends

(22,875)

(22,875)

Income (Loss) Available to Common Shareholders—Basic Earnings per Share

\$

16,388

14,638,937

\$

.00

\$

14,531,573

\$

.01

Effect of Dilutive Securities:

Convertible Promissory Note Interest (net of taxes)

-

-

-

-

Preferred Stock Dividends

22,875

3,050,000

22,875

3,050,000

Stock Options and Warrants

-

-

-

-

Income (Loss) Available to Common Shareholders—Diluted Earnings per Share

\$

39,263

17,688,937

\$

.00

\$

208,499

17,581,573

\$

.01

Six Months Ended June 30, 2010

Six Months Ended June 30, 2009

Numerator

Denominator

Per Share Amount

Numerator

Denominator

Per Share Amount

Net Income (Loss)

\$

(61,048)

\$

61,358

Less: Preferred Stock Dividends

(45,750)

(45,750)

Income (Loss) Available to Common Shareholders—Basic Earnings per Share

\$

(106,798)

14,638,937

\$

(.01)

\$

15,608

14,529,830

\$

.00

Effect of Dilutive Securities:

Convertible Promissory Note Interest (net of taxes)

-

-

-

-

Preferred Stock Dividends

-

-

45,750

3,050,000

Stock Options and Warrants

-

-

-

-

Income (Loss) Available to Common Shareholders—Diluted Earnings per Share

\$

(106,798)

14,638,937

\$

(.01)

\$

61,358

17,579,830

\$

.00

Options and warrants to purchase 8,486,113 common shares at exercise prices between \$0.35 and \$1.43 were outstanding at June 30, 2009, but were not included in the computation of diluted earnings per share for the quarter ending June 30, 2009. The options and warrants were not included in the calculations because their exercise prices were greater than the average market price of the common shares during those periods.

The Company had outstanding, at June 30, 2010, 3,050,000 Series A preferred shares. The preferred shares are entitled to receive a cumulative dividend at a rate of 6% per year, payable quarterly. The preferred shares became convertible to the Company's common shares at the rate of one share of common shares for one share of Series A preferred shares at any time after September 30, 2009.

The Series A preferred shares were not included in the computation of diluted earnings per share for the quarter ended June 30, 2010 because their effect was anti-dilutive.

The convertible promissory note was not included in the computation of diluted earnings per share for the quarter ended June 30, 2009 because the conversion price was greater than the average market price of the common shares during those periods.

NOTE 11—FAIR VALUE DISCLOSURES

FASB ASC 820 defines fair value, establishes 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, as specified by FASB ASC 820, 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 will allow CFS to sell the investment to the General Managing Partner of the limited partnership; and this feature will become available three years from the date of the first income distribution, which was December of 2007. The fair market value of this \$76,876 investment is estimated to be \$45,000 based on discounted cash flows; however this amount could fluctuate with the prices of oil and natural gas. CFS will continue to carry the investment on its books at the \$45,000 value until the "presentment" feature can be utilized.

Carrying Value at June 30, 2010

Quarter ended
June 30, 2010

Total

Level 1

Level 2

Level 3

Total Losses

Other Investment

\$

45,000

\$

-

\$

-

\$

45,000

\$

-

NOTE 12—SUBSEQUENT EVENTS

No significant events have occurred subsequent to the Company's quarter-end. Subsequent events have been evaluated through August 13, 2010, which is the date these financial statements were issued.

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 organizes its current business units into two reportable segments: broker-dealer services and oil and gas activities. The broker-dealer services segment distributes securities and insurance products to retail investors through a network of registered representatives. The oil and gas activities segment will seek opportunities in petroleum and natural gas exploration and production.

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.

Segment Information

As of, and for the three months ended:

Holding
Company

Oil & Gas
Activities

Broker-Dealer
Services

Total

June 30, 2010

Revenues from external customers

\$

69,925

\$

1,132

\$

5,083,484

\$

5,154,541

Inter-segment revenues

(1,081)

	-
	1,081
	1,081
Interest expense	
	20,268
	-
	-
	20,268
Depreciation and amortization	
	12,061
	3,431
	6,926
	22,418
Income (loss) before income tax benefit (expense)	

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(111,546)

(36,187)

292,691

144,958

Income tax benefit (expense)

(5,049)

14,654

(115,300)

(105,695)

Net income (loss) before discontinued operations

(116,595)

(21,533)

177,391

39,263

Discontinued operations

	-
	-
	-
	-
Net income (loss) after discontinued operations	
	(116,595)
	(21,533)
	177,391
	39,263
Segment assets	
	7,119,695
	965,386
	2,849,399
	10,934,480

Expenditure for segment assets

-

-

-

-

As of, and for the three months ended:

Holding
Company

Oil & Gas
Activities

Broker-Dealer
Services

Total

June 30, 2009

Revenues from external customers

\$

(10,721)

\$

-

\$

4,373,236

\$

4,362,515

Inter-segment revenues

(15,453)

	-
	15,453
	15,453
Interest Expense	
	66,035
	-
	-
	66,035
Depreciation and amortization	
	20,807
	-
	6,150
	26,957
Income (loss) before income tax benefit (expense)	
	(263,888)

	-
	175,824
	88,064
Income tax benefit	
	103,421
	-
	(68,900)
	34,521
Net loss before discontinued operations	
	(160,468)
	-
	106,924
	(53,544)
Discontinued operations	

	-
	-
	-
	262,043
Net loss after discontinued operations	
	(160,468)
	-
	106,924
	208,499
Segment assets	
	8,670,197
	-
	3,326,546
	11,996,743
Expenditure for segment assets	

-

-

1,575

1,575

As of, and for the six months ended:

Holding
Company

Oil & Gas
Activities

Broker-Dealer
Services

Total

June 30, 2010

Revenues from external customers

\$

105,651

\$

1,796

\$

9,582,657

\$

9,690,104

Inter-segment revenues

(1,081)

-

	1,081
	1,081
Interest expense	
	40,659
	-
	-
	40,659
Depreciation and amortization	
	26,744
	3,647
	13,568
	43,959
Income (loss) before income tax benefit (expense)	
	(274,701)

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(37,587)

401,707

89,419

Income tax benefit (expense)

(7,467)

15,000

(158,000)

(150,467)

Net income (loss) before discontinued operations

(282,169)

(22,587)

243,708

(61,048)

Discontinued operations

-

	-
	-
	-
Net income (loss) after discontinued operations	
	(282,169)
	(22,587)
	243,708
	(61,048)
Segment assets	
	7,119,695
	965,386
	2,849,399
	10,934,480
Expenditure for segment assets	

-

-

8,729

8,729

As of, and for the six months ended:

Holding
Company

Oil & Gas
Activities

Broker-Dealer
Services

Total

June 30, 2009

Revenues from external customers

\$

(20,051)

\$

-

\$

8,730,118

\$

8,710,067

Inter-segment revenues

(19,576)

-

	19,576
	19,576
Interest Expense	
	133,723
	-
	-
	133,723
Depreciation and amortization	
	43,773
	-
	12,248
	56,021
Income (loss) before income tax benefit (expense)	
	(509,407)
	-

	165,013
	(344,394)
Income tax benefit	
	199,702
	-
	(64,700)
	135,002
Net loss before discontinued operations	
	(309,705)
	-
	100,313
	(209,392)
Discontinued operations	
	-

	-
	-
	270,750
Net loss after discontinued operations	
	(309,705)
	-
	100,313
	61,358
Segment assets	
	8,670,197
	-
	3,326,546
	11,996,743
Expenditure for segment assets	
	2,418

-

2,978

5,396

Reconciliation of Segment Information

For the Three Months Ended

June 30, 2010

June 30, 2009

Revenues:

Total revenues for reportable segments

\$

5,156,704

\$

4,393,422

Elimination of inter-company revenues

(1,081)

(15,453)

Consolidated total revenues

\$

5,155,623

\$

4,377,969

Profit:

Total reportable segment income

\$

39,263

\$

208,499

Assets:

Total assets for reportable segments

\$

10,934,480

\$

11,996,743

Elimination of inter-company receivables

(1,078,392)

(78,392)

Consolidated assets

\$

9,856,088

\$

11,918,351

For the Six Months Ended

June 30, 2010

June 30, 2009

Revenues:

Total revenues for reportable segments

\$

9,692,266

\$

8,749,218

Elimination of inter-company revenues

(1,081)

(19,576)

Consolidated total revenues

\$

9,691,185

\$

8,729,642

Profit:

Total reportable segment income (loss)

\$

(61,048)

\$

61,358

Assets:

Total assets for reportable segments

\$

10,934,480

\$

11,996,743

Elimination of inter-company receivables

(1,078,392)

(78,392)

Consolidated assets

\$

9,856,088

\$

11,918,351

RESULTS OF OPERATIONS

Three Months Ended
June 30,

Six Months Ended
June 30,

2010

2009

2010

2009

Net income (loss)

\$

39,263

\$

208,499

\$

(61,048)

\$

61,358

Income per share:

Basic

\$

.00

\$

.01

\$

(.01)

\$

.00

Diluted

\$

.00

\$

.01

\$

(.01)

\$

.00

The Company reported net income for the quarter ended June 30, 2010, of \$39,263, compared to net income of \$208,499 for the same quarter in 2009. The Company reported a net loss for the six months ended June 30, 2010 of \$61,048, compared to net income of \$61,358 for the same period in 2009.

Operating revenues

Total operating revenues for the quarter ended June 30, 2010 were \$5,155,622, an increase of 18% from \$4,377,969 for the quarter ended June 30, 2009. The increase for the quarter resulted from increased commission and fee income relating to CFS, the Company's broker-dealer division. Total operating revenues for the six months ended June 30, 2010 were \$9,691,185, an increase of 11% from \$8,729,642 for the six months ended June 30, 2009. The increase for the six-month period resulted from an increase in commission and fee income relating to CFS, the Company's broker-dealer division.

Fee Income

Fee income for the quarter ended June 30, 2010 was \$259,984, an increase of 5% from \$247,244 for the quarter ended June 30, 2009. The increase was due to an increase in fee income received by CFS, due to an increase in assets under management. Fee income for the six months ended June 30, 2010 was \$505,349, an increase of .01% from \$505,020 for the six months ended June 30, 2009. The increase was due to an increase in fee income received by CFS, due to an increase in 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 in 2010.

Commission Income

Commission income includes CFS. The Company pays the registered representatives a percentage of this income as commission expense and retains the balance. Commission income for the quarter ended June 30, 2010 was \$4,726,922, a 20% increase from \$3,931,541 in 2009. The increase was due to an increase in commissions received by CFS due to market conditions. Commission income for the six months ended June 30, 2010 was \$8,884,767, an

increase of 12% from \$7,904,020 for the six months ended June 30, 2009. The increase for the six-month period was due to the increase in commissions received by CFS due to market conditions. Future market conditions will continue to impact commission levels. Commission revenues constituted 92% of the Company's consolidated revenues in 2010.

Other Income

Other income for the quarter ended June 30, 2010 was \$168,716, a decrease of 15% from \$199,184 for the quarter ended June 30, 2009. Other income for the six months ended June 30, 2010 was \$301,069, a decrease of 6% from 320,603 for the six months ended June 30, 2009. The decreases were due primarily to a decrease in due diligence and marketing allowances received by CFS. Other income constituted 3% of the Company's consolidated revenues for the six months ended June 30, 2009.

Operating expenses

Total operating expenses for the quarter ended June 30, 2010 were \$4,990,396, an increase of 13% from \$4,399,999 for the quarter ended June 30, 2009. Total operating expenses for the six months ended June 30, 2010 were \$9,561,107, an increase of 7% from \$8,940,313 for the six months ended June 30, 2009. The increase resulted from the net increases in the expense categories described in the paragraphs below.

Compensation and benefits

Compensation and benefits expense for the quarter ended June 30, 2010 was \$343,759, a decrease of 19% from \$424,548 for the quarter ended June 30, 2009. The decrease resulted primarily from a reduction in incentive overrides paid to certain employees for the recruitment of new registered representatives in CFS, as well as a reduction in the number of employees over the past twelve months. Compensation and benefits expense for the six months ended June 30, 2010 was \$680,483, a decrease of 20% from \$849,168 for the six months ended June 30, 2009. The decrease resulted primarily from a reduction in incentive overrides paid to certain employees for the recruitment of new registered representatives in CFS, as well as a reduction in the number of employees over the past twelve months.

Commission expense

Commission expense for the quarter ended June 30, 2010 was \$4,427,541 an increase of 21% from \$3,672,710 for the quarter ended June 30, 2009. Commission expense for the six months ended June 30, 2010 was \$8,350,774, an increase of 11% from \$7,490,272 for the six months ended June 30, 2009. The increases in commission expense for the quarter and six months ended June 30, 2010, correspond with the increase in fee and commission income for the quarter and six months ended June 30, 2009.

General and administrative expense

Total general and administrative expenses for the quarter ended June 30, 2010 were \$196,678, a decrease of 29% from \$275,784 for the quarter ended June 30, 2009. Total general and administrative expenses for the six months ended June 30, 2010 were \$485,891, a decrease of 11% from \$544,852 for the six months ended June 30, 2009. The decreases for the quarter ended June 30, 2010 were due primarily to a decrease in license and registrations fees paid by CFS, and printing and public relation fees paid by CFH. The decrease for the six months ended June 30, 2010 was due primarily to the decrease in amounts CFS paid for outside services.

Depreciation and amortization

Depreciation and amortization expense for the quarter ended June 30, 2010 was \$22,418, a decrease of 17% from \$26,957 for the quarter ended June 30, 2009. Depreciation and amortization expense for the six months ended June 30, 2010 was \$43,959, a decrease of 22% from \$56,021 for the six months ended June 30, 2009.

Liquidity and capital resources

Net cash provided by operating activities was \$279,911 for the six months ended June 30, 2010, as compared to net cash used by operating activities of \$55,224 during the six months ended June 30, 2009. The primary difference corresponds with the increase in the commissions and fee income due to market conditions.

Net cash used by investing activities was \$8,729 for the six months ended June 30, 2010, compared to net cash used by investing activities of \$5,396 for the six months ended June 30, 2009. During the six months ended June 30, 2009, the primary use of cash for investing activities was the purchase of additional computer equipment and office furniture.

Net cash used by financing activities was \$97,171 for the six months ended June 30, 2010, compared to net cash used by financing activities of \$302,188 for the six months ended June 30, 2009. During the six months ended June 30, 2009, the Company paid out \$45,750 in preferred stock dividends, made two payments totaling \$36,575 relating to the United Heritage acquisition (see Note 5—Business Acquisitions) and repaid \$14,846 of bank debt.

At June 30, 2010, the Company held \$2,142,749 in cash and cash equivalents, as compared to \$1,968,738 at December 31, 2009. The Company is required to maintain certain levels of cash and liquid securities in its broker-dealer subsidiaries to meet regulatory net capital requirements.

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 to acquire additional financial services firms, broker recruitment, asset acquisition opportunities for the Company's new oil and gas operations subsidiary, repurchase shares of the Company's common stock, and service debt. Management also expects to realize increases in expenses associated with regulatory compliance with Section 404 of the Sarbanes-Oxley Act of 2002, including increased legal, audit, staff, and 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.

Until July 31, 2009 the Company derived substantially all of its revenues from two sources; commission revenue earned in connection with sales of shares of mutual funds, insurance products, and various other securities and fees relating to management of, and provision of services to mutual funds. Following the disposition of the Mutual Fund Services Segment, the Company has two operating subsidiaries, Capital Financial Services, Inc. ("CFS" or the "broker-dealer subsidiary") a FINRA member broker-dealer and Capital Energy Resources, Inc. ("CER" or the "oil

and gas subsidiary).

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 representatives' customers. In the past, investment advisory services were performed by both Capital Financial Services, Inc. on an individual client basis and Integrity Money Management, Inc. on behalf of the mutual fund segment; services through Integrity Money Management, Inc. have been discontinued as a result of the disposition of the Mutual Funds Service Segment effective July 31, 2009.

A key component of the broker-dealer subsidiaries' 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.

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.

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-15(e) and Rule 15d-15(e) 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 & Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of March 31, 2010, 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.

There were no significant changes in the Company's internal controls over financial reporting during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II—OTHER INFORMATION

Item 1.

Legal Proceedings

The Company operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. As a result, the Company is involved in various disputes and legal proceedings, including litigation, arbitration and regulatory investigations, including a number of investigatory matters and legal proceedings arising out of customer allegations related to past commissioned sales of alternative investment products. In 2007 through the first quarter of 2009 a substantial amount (approximately 10% to 20%) of the Company's sales of commissioned products were in private placements of alternative products, two of which as of December 31, 2009 (Medical Capital Corporation and related issuer entities and Provident Royalties, LLC. and related issuer entities) were placed in receivership by action of the United States Securities and Exchange Commission and issuers of certain other alternative products sold by the Company are in Chapter 11 Bankruptcy or may have financial difficulties. Additionally, difficult economic conditions in general and the stock market decline have contributed to decline in broker-dealer subsidiary client portfolio values. 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 regulatory scrutiny and a number of recently instituted legal or arbitration proceedings, including two recently instituted proceedings seeking certification as class actions which name the Company as one of a number of defendants and allege various securities or conduct violations, one with respect to private placements of Medical Capital Corporation and related issuer entities and the other with regard to private placements of Provident Royalties, LLC and related issuer entities. The Company intends to vigorously contest 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 a range of loss that may result.

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:

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

April 2010

-

-

-

\$597,754

May 2010

-

-

-

\$597,754

June 2010

-

-

-

\$597,754

Total

-

-

-

\$597,754

Item 3.

Defaults Upon Senior Securities

None

Item 4.

Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders held on June 9, 2010, the following proposals were adopted by the margins indicated:

1.

To elect a Board of Directors of the Company.

Number of votes cast for:

Gregory Philipps

7,609,823

Jeffrey A. Cummer

7,613,861

Myron D. Thompson

7,661,252

Vaune M. Cripe

7,620,120

2.

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To ratify the selection of Brady, Martz & Associates, P.C., as the Company's independent auditors for the fiscal year ending December 31, 2010.

For

10,982,896

Against

446,966

Abstain

6,159

Item 5.

Other Information

None

Item 6.

Exhibits

Exhibits

10.1

Employment Agreement—Bradley Wells*

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

*Indicates Management Contract or Compensatory Plan

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: August 13, 2010

By:

/s/ Bradley P. Wells

Bradley P. Wells

Chief Executive Officer, Chief Financial Officer & President

(Principal Executive & Financial Officer)