

Capital Financial Holdings, Inc  
Form 10-Q  
August 13, 2009

**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 June 30, 2009

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.**  
**(Formerly known as INTEGRITY MUTUAL FUNDS, INC.)**  
(Exact name of registrant as specified in its charter)

North Dakota

45-0404061

(State or other jurisdiction

(I.R.S. Employer

of incorporation or organization)

Identification No.)

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

(701) 852-5292  
(Registrant's telephone number, including area code)

(INTEGRITY MUTUAL FUNDS, INC.)

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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 July 31, 2009, there were 14,455,943 common shares of the issuer outstanding.

**FORM 10-Q**

**CAPITAL FINANCIAL HOLDINGS, INC. (Formerly known as INTEGRITY MUTUAL FUNDS, INC.)**

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**PART I—FINANCIAL INFORMATION**

**Item 1.**

**Financial Statements**

**CAPITAL FINANCIAL HOLDINGS, INC. (Formerly known as INTEGRITY MUTUAL FUNDS, INC.), AND  
SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS**

**ASSETS**

(Unaudited)

June 30,

December 31,

2009

2008

**CURRENT ASSETS**

Cash and cash equivalents

\$

2,477,300

\$

2,840,108

Accounts receivable

1,409,245

1,559,173

Income taxes receivable

75,674

28,181

Prepays

40,689

74,824

Total current assets

\$  
4,002,908  
\$  
4,502,286

**PROPERTY AND EQUIPMENT**

\$  
1,877,026  
\$  
2,302,375

Less accumulated depreciation

(624,657)  
(998,871)

Net property and equipment

\$  
1,252,369  
\$  
1,303,504

**OTHER ASSETS**

Goodwill

\$  
5,490,532

	\$
	5,540,781
Deferred tax asset	
	935,840
	985,145
Other assets (net of accumulated amortization	
	236,702
	200,715
of \$201,888 for 2009 and \$194,355 for 2008)	
Total other assets	\$
	6,663,074
	14

\$  
6,726,641

**TOTAL ASSETS**

\$  
11,918,351  
\$  
12,532,431

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

(Unaudited)

June 30,

December 31,

2009

2008

**CURRENT LIABILITIES**

Service fees payable

\$

62,498

16



	\$
	55,154
Accounts payable	
	183,276
	315,344
Other current liabilities	
	1,266,366
	1,464,643
Current portion of long-term debt	
	275,063
	286,797

Total current liabilities

\$  
1,787,203  
\$  
2,121,938

**LONG-TERM LIABILITIES**

Note payable

\$  
321,456  
\$  
334,196

Subordinate corporate notes

	1,800,000
	2,000,000
Convertible promissory note	
	950,000
	950,000
Other long-term liabilities	
	552,347
	704,844
Less current portion of long-term debt	
	(275,063)
	(286,797)

Total long-term liabilities

\$  
3,348,740  
\$  
3,702,243

**TOTAL LIABILITIES**

\$  
5,135,943  
\$  
5,824,181

**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

	10,429,231
	10,374,028
Receivable—unearned ESOP shares	
	(45,339)
	(48,685)
Accumulated deficit	
	(5,127,930)
	(5,143,539)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	
	\$
	6,782,408

\$  
6,708,250

**TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY**

\$  
11,918,351  
\$  
12,532,431

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**CAPITAL FINANCIAL HOLDINGS, INC. (Formerly known as INTEGRITY MUTUAL FUNDS, INC.), AND  
SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

Three Months Ended

June 30,

2009

2008

**OPERATING REVENUES**



Fee income

\$

915,343

\$

1,496,241

Commissions

4,207,530

7,419,555

Other income

266,814

344,992

Total revenue

\$

5,389,687

\$

9,260,788

**OPERATING EXPENSES**

Compensation and benefits

\$

661,950

\$

867,412

Commission expense

3,821,499

7,038,807

Sub-advisory expenses

53,505

128,689

General and administrative expenses

459,035

470,545

Sales commissions amortized

-

47,808

Depreciation and amortization

26,957

28,935

Total operating expenses

\$  
5,022,946  
\$  
8,582,196

**OPERATING INCOME (LOSS)**

\$  
366,741  
\$  
678,592

**OTHER EXPENSES**

Interest expense

\$  
(66,035)  
\$  
(82,074)

Net other expenses

\$  
(66,035)  
\$  
(82,074)

**INCOME (LOSS) BEFORE INCOME TAX EXPENSE**

\$  
300,705  
\$  
596,518

**INCOME TAX EXPENSE**

(92,206)  
(259,997)

**NET INCOME (LOSS)**

\$  
208,499  
\$  
30

**NET INCOME (LOSS) PER SHARE:**

Basic

\$

.01

\$

.02

Diluted

\$

.01

31

\$  
.02

**AVERAGE COMMON SHARES OUTSTANDING:**

Basic

14,531,573

14,517,629

Diluted

14,531,573

17,567,629



**CAPITAL FINANCIAL HOLDINGS, INC. (Formerly known as INTEGRITY MUTUAL FUNDS, INC.), AND  
SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

Six Months Ended

June 30,

2009

2008

**OPERATING REVENUES**

Fee income

\$  
1,802,207  
\$  
3,297,910

Commissions

8,302,799  
14,900,570

Other income

398,689  
549,363

Total revenue

\$

10,503,695

\$

18,747,843

**OPERATING EXPENSES**

Compensation and benefits

\$

1,327,300

\$

1,680,213

Commission expense

7,742,932

	14,193,801
Sub-advisory expenses	
	103,635
	298,568
General and administrative expenses	
	949,362
	1,131,018
Sales commissions amortized	
	-
	139,264
Depreciation and amortization	
	56,021
	57,630

Total operating expenses

\$  
10,179,250  
\$  
17,500,494

**OPERATING INCOME (LOSS)**

\$  
324,445  
\$  
1,247,349

**OTHER EXPENSES**

Interest expense

\$  
(133,723)  
\$  
(164,897)

Net other expenses

\$  
(133,723)  
\$  
(164,897)

**INCOME (LOSS) BEFORE INCOME TAX EXPENSE**

\$  
190,722  
\$  
1,082,452

**INCOME TAX EXPENSE**

(129,364)  
  
(461,644)

**NET INCOME (LOSS)**

\$  
61,358  
\$  
39

**NET INCOME (LOSS) PER SHARE:**

Basic

\$  
.00

\$  
.04

Diluted

\$  
.00

40



\$  
.03

**AVERAGE COMMON SHARES OUTSTANDING:**

Basic

14,529,830

14,515,886

Diluted

17,579,830

17,985,947

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**CAPITAL FINANCIAL HOLDINGS, INC. (Formerly known as INTEGRITY MUTUAL FUNDS, INC.), AND  
SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

Six Months Ended

June 30,

2009

2008

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income (loss)

\$

61,358

42

\$

620,808

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

Depreciation and amortization

56,021

57,630

Sales commissions amortized/charged off

-

139,264

Loss on sale of assets

43

8,043

-

(Increase) decrease in:

Accounts receivable

149,928

50,463

Income taxes receivable

(47,493)

-

Prepays

34,135

15,940

Deferred tax asset

49,305

60,235

Deferred sales commissions capitalized, net of CDSC collected

-

8,986

Other assets

(43,520)

Increase (decrease) in:

Service fees payable

7,344

(29,896)

Accounts payable

(132,068)

(100,304)

Income taxes payable

	-
	66,607
Other liabilities	
	(198,277)
	15,505
Net cash provided (used) by operating activities	
	\$
	(55,224)
	\$
	904,651

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of property and equipment

\$

(5,396)

\$

(57,416)

Net cash provided (used) by investing activities

\$

(5,396)

\$

(57,416)



**CASH FLOWS FROM FINANCING ACTIVITIES**

Issuance of common stock

\$

(1,894)

\$

256

Reduction of short-term borrowing

-

(25,000)

Reduction of notes payable

(12,740)

(11,884)

49

Reduction of long-term liability

(45,150)

(67,443)

Reduction of subordinated corporate notes

(200,000)

-

Reduction of subordinate commercial notes

-

(561,000)

Repayments from ESOP

3,346

50

3,347

Preferred dividends paid

\$

(45,750)

\$

(45,750)

Net cash provided (used) by financing activities

(302,188)

(707,474)

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

(362,808)

139,761

**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR**

\$

2,840,108

3,143,250

**CASH AND CASH EQUIVALENTS AT END OF PERIOD**

\$  
2,477,300  
\$  
3,283,011

**SUPPLEMENTAL SCHEDULE OF NONCASH**

**INVESTING AND FINANCING ACTIVITIES:**

Increase (decrease) in goodwill

\$

(50,250)

\$

(21,421)

Increase (decrease) in other long-term liabilities

(107,347)

(111,421)

Increase (decrease) in common stock

57,097

90,000

Preferred stock dividends declared

22,875

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**CAPITAL FINANCIAL HOLDINGS, INC. (Formerly known as INTEGRITY MUTUAL FUNDS, INC.), AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**June 30, 2009 and 2008**

**NOTE 1—BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements of Capital Financial Holdings, Inc. (Formerly known as Integrity Mutual Funds, Inc.), a North Dakota corporation, and its subsidiaries (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, 2008, of Integrity Mutual Funds, Inc., as filed with the SEC. The condensed consolidated balance sheet at December 31, 2008, 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, 2009, are not necessarily indicative of operating results for the entire year.

**NOTE 2—RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

In December of 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141R, "Business Combinations." SFAS No. 141R will significantly change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Statement No. 141R will change the accounting treatment for certain specific items, including:

Acquisition costs will be generally expensed as incurred;

Non-controlling interests (formerly known as "minority interests") will be valued at fair value at the acquisition date;

Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;

In-process research and development will be recorded at fair value as an indefinite-lived intangible assets at the acquisition date;



Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and

Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

SFAS No. 141R also includes a substantial number of new disclosure requirements. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, a calendar year-end company is required to record and disclose business combinations following existing GAAP until January 1, 2009. The adoption of SFAS No. 141R has not had a significant effect on the Company's consolidated financial statements.

In December of 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51." SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, SFAS No. 160 requires 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. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS No. 160 has not had a significant effect on the Company's consolidated financial statements.

### **NOTE 3—RECLASSIFICATION**

Certain amounts in the 2008 condensed consolidated financial statements have been reclassified to conform to the 2009 presentation. These reclassifications had no effect on the Company's net income or loss.

### **NOTE 4—INCOME TAXES**

The Company has completed various acquisitions in prior years, whereby the Company acquired the management rights to several mutual funds. These management rights 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 provisions of SFAS No. 142. Deferred tax assets or deferred tax liabilities may result from these timing differences.

The Company has adopted FASB Statement No. 123R, "Share-Based Payment" (See Note 7—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.

The Company has stated operating loss carryforwards that will expire over the next six to twenty years if unused. Deferred tax assets are a result of these timing differences.

### **NOTE 5—BUSINESS ACQUISITIONS**

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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. The liability relating to this acquisition is valued at \$49,967 as of June 30, 2009 and has been recorded by the Company as goodwill.

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 IMFD 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, 2009, the Company had made nine quarterly installment payments totaling \$235,571. The liability relating to this acquisition is valued at approximately \$502,380 as of June 30, 2009, and has also been recorded by the Company as goodwill. As of June 30, 2009, the total goodwill recorded relating to this acquisition was \$1,011,779.

### NOTE 6—GOODWILL

The changes in the carrying amount of goodwill for the six months ended June 30, 2009, are as follows:

	Mutual Fund Services
Broker-Dealer Services	
	Total

Balance as of January 1, 2009

	\$
	2,000,000
	\$
	3,540,782
	\$
	5,540,782
Goodwill acquired during the period	
	-
	-
	-
Goodwill acquisition price adjustment during the period (see Note 5)	
	-
	(50,250)
	(50,250)
Impairment losses	
	-
	-

Balance as of June 30, 2009

-

\$

2,000,000

\$

3,490,532

5,490,532

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.

As a result of ongoing volatility in the financial industry and a significant reduction in assets under management in the Company's sponsored mutual funds, the Company determined it was necessary to perform an interim goodwill impairment test. In December of 2008, the Company recorded a non-cash goodwill impairment loss of \$5,312,606 in the Mutual Fund Services segment. The fair value of that reporting unit was estimated by using an independent third-party appraisal.

**NOTE 7—STOCK WARRANTS, STOCK SPLITS, AND STOCK OPTIONS**

In December of 2005, the Company adopted FASB Statement No. 123R, "Share-Based Payment," ("SFAS No. 123R") 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. SFAS No. 123R supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB25"). Total compensation costs and deferred tax benefits recognized for stock-based compensation awards for the six months ended June 30, 2009 and 2008, were as follows:

	2009	
		2008
Compensation costs		
\$		
		-

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\$

-

Less: deferred tax benefit

-

-

Compensation costs, net of taxes

\$

-

\$

-

Option activity for the twelve months ended December 31, 2008 and the six months ended June 30, 2009 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, 2008

5,888,113

\$

.54

61

	\$
	.28
	\$
	1,081,950
Granted	-
	-
	-
Exercised	-
	-
	-
Canceled	-

	-
	-
Outstanding on December 31, 2008	5,888,113
	\$
	.54
	\$
	.28
	\$
	-
Granted	-
	-
	-
Exercised	-

	-
	-
Canceled	-
	-
	-
Outstanding on June 30, 2009	5,888,113
	\$
	.54
	\$
	.28
	\$
	-

Exercisable options at December 31, 2008 and June 30, 2009 were 5,888,113 and 5,888,113, respectively.

**NOTE 8—DEBT**

Long-term debt at June 30, 2009 and December 31, 2008 was as follows:



Rate  
Current Portion  
2009  
2008

First Western Bank

7.25%

26,796

65

	321,456
	334,196
Subordinate corporate notes	9.25%
	-
	1,800,000
	2,000,000
Convertible promissory note	6.50%
	-
	950,000
	950,000
Future payments on acquisitions	

248,267

552,347

704,844

Totals

\$

275,063

\$

3,623,803

\$

3,989,040

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 October of 2005 and currently carries an interest rate of 7.25%, with monthly payments of \$4,105. On October 1, 2010, the remaining balance will be due in full.

**Subordinate Corporate Notes**—In May of 2005, 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 do not represent ownership in the Company. As of June 30, 2009, \$1,800,000 in subordinate corporate notes were outstanding. The subordinate corporate notes carry an interest rate of 9.25% per annum, payable annually, and mature January 1, 2011. The Company can call the subordinate corporate notes at par anytime after December 1, 2007.

**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 9—EARNINGS PER SHARE**

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

Three Months Ended June 30, 2009

Three Months Ended June 30, 2008

Numerator

Denominator

Per Share Amount

Numerator

Denominator

Per Share Amount

Net Income (Loss)

\$

208,499

\$

336,521

Less: Preferred Stock Dividends

(22,875)

(22,875)

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

\$

185,624

14,531,573

\$

.01

\$

313,646

14,517,629

\$

.02

Effect of Dilutive Securities:

Convertible Promissory Note Interest (net of taxes)

-

-

-

-

Preferred Stock Dividends

-

-

22,875

3,050,000

Stock Options and Warrants

	-
	-
	-
	-
Income (Loss) Available to Common Shareholders—Diluted Earnings per Share	
\$	
	185,624
	14,531,573
\$	
.01	
\$	
	336,521
	17,567,629
\$	
.02	



Six Months Ended June 30, 2009

Six Months Ended June 30, 2008

Numerator

Denominator

Per Share Amount

Numerator

Denominator

Per Share Amount

Net Income

\$

61,358

\$

620,808

Less: Preferred Stock Dividends

(45,750)

(45,750)

Income Available to Common Shareholders—Basic Earnings per Share

\$

15,608

14,529,830

\$

.00

\$

575,058

14,515,886

\$

.04

Effect of Dilutive Securities:

Convertible Promissory Note Interest (net of taxes)

-

-

-

-

Preferred Stock Dividends

45,750

3,050,000

45,750

3,050,000

Stock Options and Warrants

-

-

-  
420,061

Income Available to Common Shareholders—Diluted Earnings per Share

\$

61,358  
17,579,830

\$

.00

\$

620,808  
17,985,947

\$

.03

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, 2009, 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 are 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, 2009 because their effect was anti-dilutive.

Additionally, the Company had outstanding at June 30, 2009, a \$950,000 convertible promissory note. The unsecured note carries an interest rate of 6.5% per year, 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 common shares of the Company at a conversion price of \$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.

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.

## **Item 2.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **GENERAL**

Capital Financial Holdings, Inc. (Formerly known as Integrity Mutual Funds, Inc.), derives the majority of its revenues and net income from sales of mutual funds, insurance products, and various other securities in Capital Financial Services, Inc. ("CFS"), the Company's broker-dealer subsidiary. Capital Financial Holdings, Inc. (Formerly known as Integrity Mutual Funds, Inc.) also derives revenues and net income from providing investment management, distribution, shareholder services, fund accounting, and other related administrative services to the open-end investment companies known as "Integrity Mutual Funds," "Integrity Managed Portfolios," and "The Integrity Funds," hereinafter collectively referred to as "the Funds." Integrity Mutual Funds currently consists of three open-end investment companies, including ND Tax-Free Fund, Inc., Montana Tax-Free Fund, Inc., and Integrity Fund of Funds, Inc. Integrity Managed Portfolios currently consists of one open-end investment company containing six separate series, including the Kansas Municipal Fund, Kansas Insured Intermediate Fund, Nebraska Municipal Fund, Oklahoma Municipal Fund, Maine Municipal Fund, and New Hampshire Municipal Fund. The Integrity Funds currently consists of one open-end investment company containing three separate series, including the Williston Basin/Mid-North America Stock Fund, Integrity High Income Fund, and Integrity Growth & Income Fund.

The Company organizes its current business units into two reportable segments: mutual fund services and broker-dealer services. The mutual fund services segment provides investment advisory, distribution, shareholder services, fund accounting, and other related administrative services to the Funds. The broker-dealer services segment distributes securities and insurance products to retail investors through a network of registered representatives.

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**

Mutual Fund

Broker-Dealer

As of, and for the three months ended:

Services

Services

Total

**June 30, 2009**

Revenues from external customers

\$

1,016,450

\$

4,373,236

\$

5,389,686

Inter-segment revenues

-

15,453

79

	15,453
Interest expense	
	66,035
	-
	66,035
Depreciation and amortization	
	20,807
	6,150
	26,957
Income (loss) before income tax benefit (expense)	
	124,882
	175,824
	300,706
Income tax benefit (expense)	
	(23,306)
	80



	(68,900)
	(92,206)
Net income (loss)	
	101,575
	106,924
	208,499
Segment assets	
	8,670,197
	3,326,546
	11,996,743
Expenditure for segment assets	
	0
	1,575
	1,575
<b>June 30, 2008</b>	

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Revenues from external customers

\$

1,131,181

\$

7,784,615

\$

8,915,796

Inter-segment revenues

-

5,406

5,406

Interest expense

82,074

-

82,074

Sales commissions amortized

47,808

-

82

	47,808
Depreciation and amortization	
	24,476
	4,459
	28,935
Income (loss) before income tax benefit (expense)	
	(59,298)
	655,816
	596,518
Income tax benefit (expense)	
	2,837
	257,160
	259,997
Net income (loss)	
	(62,135)



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Services

Services

Total

**June 30, 2009**

Revenues from external customers

\$

1,773,578

\$

8,730,118

\$

10,503,695

Inter-segment revenues

-

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)	
	25,709
	165,013
	190,722
Income tax benefit (expense)	
	(64,664)
	(64,700)
	(129,364)
Net income (loss)	
	(38,954)



Services

Total

**June 30, 2008**

Revenues from external customers

\$

2,499,131

\$

15,699,349

\$

18,198,480

Inter-segment revenues

(8,672)

21,844

13,172

Interest expense

164,897

-

164,897



Sales commissions amortized

139,264

-

139,264

Depreciation and amortization

49,221

8,409

57,630

Income (loss) before income tax benefit (expense)

(6,381)

1,088,833

1,082,452

Income tax benefit (expense)

34,784

426,860

89

	461,644
Net income (loss)	
	(41,165)
	661,973
	620,808
Segment assets	
	13,622,043
	4,415,004
	18,037,047
Expenditure for segment assets	
	36,577
	20,839
	57,416

**Reconciliation of Segment Information**

For the Three Months Ended

June 30, 2009

June 30, 2008

Revenues:

Total revenues for reportable segments

\$

5,405,140

\$

9,266,194

Elimination of inter-company revenues

(15,453)

(5,406)

Consolidated total revenues

\$

5,389,687

\$

9,260,788

Profit:

Total reportable segment income (loss)

\$

208,499

\$

336,521

Assets:

Total assets for reportable segments

\$

11,996,743

\$

		18,037,047
Elimination of inter-company receivables		
		(78,392)
		(78,392)
Consolidated assets		
	\$	
		11,918,351
	\$	
		17,958,655

For the Six Months Ended

		June 30, 2009
		June 30, 2008
Revenues:		
Total revenues for reportable segments		
	\$	
		10,523,271
	\$	



Assets:

Total assets for reportable segments

\$

11,996,743

\$

18,037,047

Elimination of inter-company receivables

(78,392)

(78,392)

Consolidated assets

\$

11,918,351

\$

17,958,655

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A substantial portion of the Company's revenues depends upon the amount of assets under its management. Assets under management can be affected by the addition of new funds to the group, the acquisition of another investment management company, purchases and redemptions of mutual fund shares, and investment performance, which may depend on general market conditions.

**ASSETS UNDER MANAGEMENT**

By Investment Objective

As of June 30,

2009

2008

% Change

**FIXED INCOME**

Tax-Free Funds

\$

174,772,598

\$



	183,295,109
	(4.6%)
Taxable Funds (Corporate/Government)	
	41,153,879
	79,156,595
	(48.0%)
TOTAL FIXED INCOME FUNDS	
\$	
	215,926,477
\$	
	262,451,704
	(17.7%)

EQUITY

Equity Funds

\$

27,696,700

\$

39,807,018

(30.4%)

Fund of Funds

7,075,080

11,241,757

(37.1%)

TOTAL EQUITY FUNDS

\$

	34,771,780
\$	
	51,048,775
	(31.9%)

TOTAL ASSETS UNDER MANAGEMENT

\$		250,698,257
\$		313,500,479
		(20.0%)

Average for the Six Month Periods

\$		245,560,456
\$		

350,440,348

(29.9%)

Assets under the Company's management were \$250,698,257 at June 30, 2009, an increase of 4.5% from \$239,800,815 at December 31, 2008, and a decrease of 20% from \$313,500,479 at June 30, 2008.

**RESULTS OF OPERATIONS**

Three Months Ended  
June 30,

Six Months Ended  
June 30,

2009

2008

2009

2008

Net income

\$

208,499

\$

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	336,521
\$	
	61,358
\$	
	620,808
Income per share:	

Basic

\$	.00
\$	.02
\$	.00
\$	.04

Diluted

\$	.01
	101

\$	.02
\$	.01
\$	.03

The Company reported net income for the quarter ended June 30, 2009, of \$208,499, compared to net income of \$336,521 for the same quarter in 2008. The Company reported net income for the six months ended June 30, 2009 of \$61,358, compared to net income of \$620,808 for the same period in 2008.

**Operating revenues**

Total operating revenues for the quarter ended June 30, 2009 were \$5,389,687, a decrease of 42% from \$9,260,788 for the quarter ended June 30, 2008. The decrease resulted from decreased commission and fee income relating to CFS, the Company's broker-dealer division, as well as a reduction in fee income received by the mutual fund division.

***Fee Income***

Fee income for the quarter ended June 30, 2009 was \$915,343, a decrease of 39% from \$1,496,241 for the quarter ended June 30, 2008. The decrease was due primarily to a reduction in fee income received by the mutual fund division due to lower net asset levels in the Funds. If net asset levels in the Funds continue to decline, fee income will also decline.

The Company receives fees for providing investment advisory services to the Funds. In some cases, a portion of the investment advisory fees received by the Company are paid to outside investment advisors for advisory services provided to the Funds. These fees constituted 3% of the Company's consolidated revenues for the six months ended June 30, 2009.

The Company also earns investment advisory fees in connection with CFS' registered investment advisor. The Company pays the registered representatives a portion of this fee income as commission expense and retains the balance. These fees constituted 5% of the Company's consolidated revenues for the six months ended June 30, 2009.

The Company receives fees from the Funds for providing transfer agency, fund accounting, and other administrative services. These fees constituted 7% of the Company's consolidated revenues for the six months ended June 30, 2009.

The Company earns Rule 12b-1 fees in connection with the distribution of Fund shares. A portion of these fees are paid out to other broker-dealers, with the remaining amount retained by the Company to pay for expenses related to the distribution of the Funds. These fees constituted 4% of the Company's consolidated revenues for the six months ended June 30, 2009.

***Commission Income***

Commission income includes CFS commissions and 12b-1 fees associated with the sale of mutual funds, insurance products, and various other securities. The Company pays the registered representatives a percentage of this income as commission expense and retains the balance. Commission income also includes underwriting fees associated with

sales of Fund shares subject to front-end sales loads ("FESLs"), and the dealer commission associated with sales of Fund shares subject to FESLs, which is paid out to other broker-dealers as commission expense. Commission income for the quarter ended June 30, 2009 was \$4,207,530, a decrease of 43% from \$7,419,555 for the quarter ended June 30, 2008. The decrease was due primarily to a decrease in commissions received by CFS due to market conditions. Future market conditions will continue to impact commission levels. Commission revenues constituted 78% of the Company's consolidated revenues for the six months ended June 30, 2009.

#### ***Other income***

Other income for the quarter ended June 30, 2009 was \$266,814, a decrease of 23% from \$344,992 for the quarter ended June 30, 2008. The decreases were due primarily to a decrease in due diligence and marketing allowances received by CFS. Other income constituted 5% 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, 2009 were \$5,022,946, a decrease of 41% from \$8,582,196 for the quarter ended June 30, 2008. The decrease resulted from the net decreases in the expense categories described in the paragraphs below.

#### ***Compensation and benefits***

Compensation and benefits expense for the quarter ended June 30, 2009 was \$661,950, a decrease of 24% from \$867,412 for the quarter ended June 30, 2008. 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, 2009 was \$3,821,499 a decrease of 46% from \$7,038,807 for the quarter ended June 30, 2008. The decrease in commission expense corresponds with the decreases in commission and fee income.

#### ***Sub-advisory expense***

Total sub-advisory expenses for the quarter ended June 30, 2009 were \$53,505, a decrease of 58% from \$128,689 for the quarter ended June 30, 2008. The decrease was due to lower levels of sub-advisory fees paid, due to lower asset levels in certain Funds. Sub-advisory fees are paid to outside investment advisors for advisory services provided to some of the Funds.

#### ***General and administrative expense***

Total general and administrative expenses for the quarter ended June 30, 2009 were \$459,035, a decrease of 2% from \$470,545 for the quarter ended June 30, 2008. The decrease was due primarily to decreased 12-b-1 fees paid to other broker-dealers for selling the Funds, and decreased legal costs.

#### ***Sales commissions amortized***

Sales commissions paid to broker-dealers in connection with the sale of shares of the sponsored mutual funds sold without a front-end sales charge (B and C shares) are capitalized and amortized on a straight-line basis over a period not exceeding eight years, which approximates the period of time during which deferred sales commissions are

expected to be recovered from distribution plan payments received from various sponsored mutual funds and potential contingent deferred sales charges received from shareholders of the various sponsored mutual funds. Contingent deferred sales charges received by the Company are recorded as a reduction of unamortized deferred sales commissions. In accordance with Statement of Position 98-5, the commissions paid for the sale of Integrity Fund of Funds, Inc.'s shares have been expensed as incurred. The contingent deferred sales charges received from early redemptions from Integrity Fund of Funds, Inc. have been recorded as revenue. Sales commissions amortized during the quarter ended June 30, 2009 were \$0, a decrease of 100% from \$47,808 for the quarter ended June 30, 2008. The decrease was due primarily to decreased sales activity in the Funds.

### ***Depreciation and amortization***

Depreciation and amortization expense for the quarter ended June 30, 2009 was \$26,957, a decrease of 7% from \$28,935 for the quarter ended June 30, 2008.

### **Liquidity and capital resources**

Net cash used by operating activities was \$55,224 for the six months ended June 30, 2009, as compared to net cash provided by operating activities of \$904,651 during the six months ended June 30, 2008. The primary difference corresponds with the decrease in the commissions and fee income due to market conditions.

Net cash used by investing activities was \$5,396 for the six months ended June 30, 2009, compared to net cash used by investing activities of \$57,415 for the six months ended June 30, 2008. 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 \$302,188 for the six months ended June 30, 2009, compared to net cash used by financing activities of \$707,474 for the six months ended June 30, 2008. During the six months ended June 30, 2009, the Company paid out \$45,750 in preferred stock dividends, made two payments totaling \$45,150 relating to the United Heritage acquisition (see Note 5—Business Acquisitions) and repaid \$12,740 of bank debt.

At June 30, 2009, the Company held \$2,477,300 in cash and cash equivalents, as compared to \$2,840,108 at December 31, 2008. The Company is required to maintain certain levels of cash and liquid securities in its broker-dealer subsidiaries to meet regulatory net capital requirements.

In March of 2007, the Company borrowed \$120,085 from First Western Bank & Trust. As of December 31, 2008, the Company had repaid the loan in full. The Company currently has no lines of credit available.

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 advance sales commissions on Funds subject to CDSCs, acquire additional investment management or financial services firms, acquire the management rights to additional outside mutual funds, repurchase shares of the Company's common stock, and service debt.

Sales of Fund shares with FESLs provide current distribution revenue to the Company in the form of the Company's share of the FESLs, and distribution revenue, over time, in the form of 12b-1 payments. Sales of Fund shares subject to CDSCs provide distribution revenue, over time, in the form of 12b-1 payments and, if shares are redeemed within



five years, CDSCs. However, the Company pays commissions on sales of Fund shares subject to CDSCs, reflects such commissions as deferred sales commissions on its balance sheet and amortizes such commissions over a period of up to eight years, thereby recognizing distribution expenses. Therefore, to the extent that sales of Fund shares subject to CDSCs increases over time relative to sales of shares subject to FESLs, current distribution expenses may increase relative to current distribution revenues in certain periods, which would negatively impact the Company's cash flow in such periods. In addition, the Company may need to find additional sources of funding if existing cash flow and debt facilities are insufficient to fund commissions payable to selling broker-dealers on shares subject to CDSCs if sales of Fund shares subject to CDSCs increase significantly.

## **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.

The Company derives 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 the management of, and provision of services to, the Funds. The fees earned by the Company are generally calculated as a percentage of assets under management. If the Company's assets under management decline, or do not grow in accordance with the Company's plans, fee revenues and earnings will be materially adversely affected. Assets under management may decline because redemptions of Fund shares exceed sales of Fund shares, or because of a decline in the market value of securities held by the Funds, or a combination of both.

In seeking to sell Fund shares and market its other services, the Company operates in the highly competitive financial services industry. The Company competes with over 8,700 open-end investment companies that offer shares to the investing public in the United States. The Company also competes with the financial services and other investment alternatives offered by stock brokerage and investment banking firms, insurance companies, banks, savings and loan associations, and other financial institutions, as well as investment advisory firms. Most of these competitors have substantially greater resources than the Company. The Company sells Fund shares principally through third-party broker-dealers. The Company competes for the services of such third-party broker-dealers with other sponsors of mutual funds who generally have substantially greater resources than the Company. Banks in particular have increased, and continue to increase, their sponsorship of proprietary mutual funds distributed through third-party distributors. Many broker-dealer firms also sponsor their own proprietary mutual funds, which may limit the Company's ability to secure the distribution services of such broker-dealer firms. In seeking to sell Fund shares, the Company also competes with increasing numbers of mutual funds that sell their shares without the imposition of sales loads. No-load mutual funds are attractive to investors because they do not have to pay sales charges on the purchase or redemption of such mutual fund shares. This competition may place pressure on the Company to reduce the FESLs and CDSCs charged upon the sale or redemption of Fund shares. However, reduced sales loads would make the sale of Fund shares less attractive to the broker-dealers upon whom the Company depends for the distribution of Fund shares. In the alternative, the Company might itself be required to pay additional fees, expenses, commissions, or charges in connection with the distribution of Fund shares, which could have a material adverse effect on the Company's earnings.

The fact that the investments of some Funds are geographically concentrated within a single state makes the market value of such investments particularly vulnerable to economic conditions within that state. In addition, the states in

which the investments of the Funds, as a group, are concentrated are themselves concentrated in certain regions of the United States. The Company's fee revenues may, therefore, be adversely affected by economic conditions within such regions.

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;

•  
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 that 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/Chief Financial Officer and the Assistant 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 Officer/Chief Financial Officer and the Assistant Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of June 30, 2009, 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**

None

**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 2009

-

-

-

\$597,754

May 2009

-

-

-

\$597,754

June 2009

-

-

-

\$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 May 28, 2009, 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

9,545,140

Vance A. Castleman

9,553,306

Jeffrey A. Cummer

9,698,828

Myron D. Thompson

9,555,306

Vaune M. Cripe

9,559,306

2.

To ratify the selection of Brady, Martz & Associates, P.C., as the Company's independent auditors for the fiscal year ending December 31, 2009.

For

10,127,188

Against

324,000

Abstain

186,598

**Item 5.**

**Other Information**

Material Event occurring after the quarter end.

In March of 2009 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 per the Agreement, closing occurred, the Buyer paid \$1,525,479.58 (60 BPS of the aggregate net assets, totaling \$254,246,596.41 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 constitute the mutual fund division of the Company, will be reflected in the Company's future consolidated financial statements as a discontinued operation.

**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. (Formerly known as INTEGRITY MUTUAL FUNDS, 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 (Formerly known as INTEGRITY MUTUAL FUNDS, INC.)**

Date:

August 12, 2009

By /s/ Bradley P. Wells

Bradley P. Wells

Chief Executive Officer, President and Chief Financial Officer

(Principal Executive & Financial Officer)