UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **June 30, 2017**

[ ] Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to__________

Commission File Number: **000-55370**

Capital Art, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**27-0746744**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

6445 South Tenaya Way, B-130
Las Vegas, Nevada 89113
(Address of principal executive offices)

702-722-6113
(Registrant's telephone number)

____
(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

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [ ] Yes [X] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company.

[ ] Large accelerated filer	[ ] Accelerated filer
[ ] Non-accelerated filer	[X] Smaller reporting company
[X] Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 325,476,408 common shares as of January 4, 2018

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Our unaudited consolidated financial statements included in this Form 10-Q are as follows:

F-1	Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016 (unaudited);
F-2	Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016 (unaudited);
F-3	Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited); and
F-4	Notes to Consolidated Financial Statements (unaudited).

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-Q. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended June 30, 2017 are not necessarily indicative of the results that can be expected for the full year.

CAPITAL ART, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash	$ 1,029	$ 54,034
Accounts receivable, net	149,687	91,501
Inventory, net	13,241	10,741
Prepaid expenses	63,317	18,341
Due from related party	78,920	78,920
Total Current Assets	306,194	253,537
Property and equipment, net	2,746,954	2,843,587
Security deposit	6,356	6,356
Intangible Assets, net	348,000	369,750
Total Assets	**$ 3,407,504**	**$ 3,473,230**
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 533,875	$ 602,153
Payable to Globe Photo, Inc.	10,000	10,000
Due to related parties	177,245	32,245
Notes payable - related parties	463,715	471,284
Notes payable, net of debt discount	497,500	494,335
Derivative liability	47,259	57,922
Loans payable, net of unamortized discount	553,776	349,818
Total Current Liabilities	2,283,370	2,017,757
Total Liabilities	2,283,370	2,017,757
Stockholders' Equity		
Preferred stock, $0.0001 par value, 50,000,000 shares authorized; none issued and outstanding at June 30, 2017 and December 31, 2016	—	—
Common stock par value $0.0001: 450,000,000 shares authorized; 325,570,524 and 325,570,524 issued and 325,476,408 and 325,570,524 outstanding as of June 30, 2017 and December 31, 2016 respectively	32,557	32,557
Additional paid in capital	4,097,711	4,097,711
Treasury stock; 94,116 and 0 shares as of June 30, 2017 and December 31, 2017, respectively.	(32,000)	—
Accumulated deficit	(2,974,134)	(2,674,795)
Shareholders' Equity	$ 1,124,134	1,455,473
Total Liabilities and Stockholders' Equity	**$ 3,407,504**	**$ 3,473,230**

The accompanying notes are an integral part of these unaudited consolidated financial statements

CAPITAL ART, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
License revenue	$ 55,065	$ 53,404	$ 101,542	$ 92,899
Image revenue	250,414	240,812	356,502	299,666
Total revenue	305,479	294,216	458,044	392,565
Cost of revenue	138,017	138,910	272,815	295,152
Gross margin	167,462	155,306	185,229	97,413
Operating expenses				
Product development, sales and marketing	51,521	43,095	93,359	126,203
General and administrative	134,242	182,972	300,553	329,114
Depreciation and amortization	18,843	17,713	37,296	36,629
Total operating expenses	204,606	243,780	431,208	491,946
Loss from operations	(37,144)	(88,474)	(245,979)	(394,533)
Other income (expenses)				
Interest expense	(25,285)	(34,864)	(64,023)	(50,414)
Change in fair value of derivative liabilities	20,430	(25,000)	10,663	(27,000)
Other income (expenses)	(4,855)	(59,864)	(53,360)	(77,414)
Net loss	$ (41,999)	$ (148,338)	$ (299,339)	$ (471,947)
Per-share data				
Basic and diluted loss per share	**$ (0.00)**	**$ (0.00)**	**$ (0.00)**	**$ (0.00)**
Weighted average number of common shares outstanding - basic and diluted	**325,476,408**	**325,341,224**	**325,507,778**	**325,341,224**

The accompanying notes are an integral part of these unaudited consolidated financial statements

CAPITAL ART, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended	
	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (299,339)	$ (471,947)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	225,585	213,147
Amortization of debt discount	24,318	9,824
Allowance for bad debts	—	11,100
Change in fair value of embedded derivative	(10,663)	27,000
Changes in operating assets and liabilities:		
Accounts receivable	(58,186)	97,299
Prepaid expenses	(44,976)	(54,373)
Inventory	(2,500)	(44,032)
Security deposit	—	7,225
Accounts payable and accrued liabilities	(68,278)	11,175
Net Cash Used In Operating Activities	(234,039)	(193,582)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of archival images, property and equipment	(107,202)	(93,721)
Advances to related parties	—	(14,000)
Net Cash Used In Investing Activities	(107,202)	(107,721)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans payable	200,000	—
Repayment of loans payable	(7,195)	—
Proceeds from related party advances	164,725	17,000
Repayment of related party advances	(19,725)	—
Proceeds from notes payable	25,000	212,500
Repayment of note payable	(35,000)	—
Proceeds from note payable - related party	—	115,000
Repayment of note payable - related party	(7,569)	(7,479)
Repayment of payable to Globe Photo, Inc.	—	(60,000)
Purchase of treasury stock	(32,000)	—
Net Cash Provided By Financing Activities	288,236	277,021
Net Change in Cash	(53,005)	(24,282)
Cash - Beginning of Period	54,034	32,570
Cash - End of Period	$ 1,029	$ 8,288
SUPPLEMENTARY CASH FLOW INFORMATION:		
Cash Paid During the Period for:		
Interest	$ 10,609	$ 6,905

The accompanying notes are an integral part of these unaudited consolidated financial statements

Capital Art, Inc.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(unaudited)

1. ORGANIZATION AND BUSINESS OPERATIONS

Capital Art, Inc. (formerly Movie Star News, LLC) ("we", "our", the "Company") sells and manages classic and contemporary, limited edition photographic images and reproductions, with a focus on iconic celebrity images. The Company also makes available its images for publications and merchandizing. The Company aims to become a leading global photography marketing and distribution company by acquiring rights and ownership to collections of rare iconic negatives and photographs, and to establish worldwide wholesale and retail sales channels.

Going Concern

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business.

Management evaluated all relevant conditions and events that are reasonably known or reasonably knowable, in the aggregate, as of the date the consolidated financial statements are issued and determined that substantial doubt exists about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent on the Company's ability to generate revenues and raise capital. The Company has not generated sufficient revenues from product sales to provide sufficient cash flows to enable the Company to finance its operations internally. As of June 30, 2017, the Company had $1,029 cash on hand. At June 30, 2017 the Company has an accumulated deficit of $2,974,134 . For the six months ended June 30, 2017 the Company had a net loss of $299,339 and cash used in operations of $234,039 . These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company intends to invest its working capital resources in sales and marketing in order to increase the distribution and demand for its products. If the Company fails to generate sufficient revenue and obtain additional capital to continue at its expected level of operations, the Company may be forced to scale back or discontinue its sales and marketing efforts. However, there is no guarantee the Company will generate sufficient revenues or raise capital to continue operations. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the consolidated financial statements prepared in accordance with GAAP have been or omitted pursuant to such rules and regulations. As such, the information included in the consolidated financial statements for the six months ended June 30, 2017 should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Form 10-K for the Company's fiscal year ended December 31, 2016 as filed with the SEC pursuant to Rule 12(b) under the Securities Act of 1934.

The consolidated balance sheet as of December 31, 2016, included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP.

The accompanying unaudited consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the year ended December 31, 2017.

The accompanying consolidated financial statements represent the results of operations, financial position and cash flows of Capital Art, Inc., and its 100% owned subsidiary Capital Art, LLC and Globe Photos, LLC for the three and six months ended June 30, 2017 and 2016. All inter-company balances and transactions have been eliminated.

Capital Art, Inc.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(unaudited)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Inventory

The Company's inventory is comprised of rare photos of movie stars and other famous people, and is stated at the lower of cost or net realizable value. Direct labor and raw material costs associated with the process of making the photos available for sale are also included in inventory at cost. These costs are expensed to cost of sales pro-ratably as sold.

Revenue Recognition

The Company recognizes revenue related to product sales when (i) the seller's price is substantially fixed, (ii) shipment has occurred causing the buyer to be obligated to pay for product, (iii) the buyer has economic substance apart from the seller, and (iv) there is no significant obligation for future performance to directly bring about the resale of the product by the buyer as required by ASC 605 – Revenue Recognition. Cost of sales, rebates and discounts are recorded at the time of revenue recognition or at each financial reporting date.

The Company's other revenue represent payments based on net sales from brand licensees for content reproduction rights. These license agreements are held in conjunction with third parties that are responsible for collecting fees due and remitting to the Company its share after expenses. Revenue from licensed products and royalties are recognized when realized or realizable based on royalty reporting received from licensees.

Basic and Diluted Loss per Share

The Company computes income and loss per share in accordance with ASC 260 - Earnings per Share. ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the consolidated statements of operations. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. Diluted EPS excludes all dilutive potential shares if their effect is antidilutive. During periods of net loss, all common stock equivalents are excluded from the diluted EPS calculation because they are antidilutive.

A reconciliation of weighted-average basic shares outstanding to weighted-average diluted shares outstanding follows:

	Six Months Ended June 30,	
	2017	**2016**
Basic weighted average common shares outstanding	325,507,778	325,341,224
Effect of dilutive securities	—	—
Diluted weighted average common and potential common shares outstanding	325,507,778	325,341,224

Capital Art, Inc.
Notes to Consolidated Financial Statements
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Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations and includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. ASU 2016-08 is effective January 1, 2018 to be in alignment with the effective date of ASU 2014-09.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments in ASU 2016-10 clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. ASU 2016-10 is effective January 1, 2018 to be in alignment with the effective date of ASU 2014-09.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts from Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments in this update affect the guidance in ASU 2014-09, which is not yet effective. The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2016-12 do not change the core principle of the guidance in Topic 606, but instead affect only the narrow aspects noted in Topic 606. ASU 2016-12 is effective January 1, 2018 to be in alignment with the effective date of ASU 2014-09. Management evaluated ASU 2016-08, ASU2016-09, ASU 2016-10, and ASU 2016-12 and determined the adoption will not have a material impact on the Company's consolidated financial statements.

In December 2016, the FASB issued ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers". The effective date and transition requirements for the amendments are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). Accounting Standards Update No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments including requirements to measure most equity investments at fair value with changes in fair value recognized in net income, to perform a qualitative assessment of equity investments without readily determinable fair values, and to separately present financial assets and liabilities by measurement category and by type of financial asset on the balance sheet or the accompanying notes to the financial statements. ASU 2016-01 will be effective for the Company beginning on January 1, 2018, and will be applied by means of a cumulative effect adjustment to the balance sheet, except for effects related to equity securities without readily determinable values, which will be applied prospectively. Management has reviewed this pronouncement and have determined that it would not have a material impact to the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which requires an entity to recognize long-term lease arrangements as assets and liabilities on the balance sheet of the lessee. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all long-term leases, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The amendments also require certain new quantitative and qualitative disclosures regarding leasing arrangements. ASU 2016-02 will be effective for the Company beginning on January 1, 2019. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. Management does not believe the adoption of ASU 2016-02 will have a material impact on the Company's consolidated financial statements.

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In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument would not, in and of itself, be considered a termination of the derivative instrument, provided that all other hedge accounting criteria continue to be met. ASU 2016-05 is effective for the Company beginning on January 1, 2017. Early adoption is permitted, including in an interim period. Management evaluated ASU 2016-05 and determined the adoption of this new accounting standard did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments, which aims to reduce the diversity of practice in identifying embedded derivatives in debt instruments. ASU 2016-06 clarifies that the nature of an exercise contingency is not subject to the "clearly and closely" criteria for purposes of assessing whether the call or put option must be separated from the debt instrument and accounted for separately as a derivative. ASU 2016-06 is effective for the Company beginning on January 1, 2017. Management evaluated ASU 2016-06 and determined the adoption of this this new accounting standard did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies several aspects of the accounting and presentation of share-based payment transactions, including the accounting for related income taxes consequences and certain classifications within the statement of cash flows. ASU 2016-09 is effective for the Company beginning on January 1, 2017. Management evaluated the impact of adopting ASU 2016-09 and determined the new accounting standard did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230)", requiring that the statement of cash flows explain the change in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2017 with early adoption permitted. The provisions of this guidance are to be applied using a retrospective approach which requires application of the guidance for all periods presented. Management has reviewed this pronouncement and have determined that it would not have a material impact to the financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting. The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. Management has reviewed this pronouncement and have determined that it would not have a material impact to the financial statements.

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(unaudited)

In July 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's derivative liability measured at fair value on a recurring basis was determined using the following inputs:

	Fair Value Measurements at June 30, 2017			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Put option derivative liability	$47,259	$ –	$ –	$ 47,259

	Fair Value Measurements at December 31, 2016			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Put option derivative liability	$57,922	$ –	$ –	$ 57,922

Capital Art, Inc.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(unaudited)

The following table provides a summary of the changes in fair value, including net transfers in and/or out, of the derivative financial instruments measured at fair value on a recurring basis using significant unobservable inputs:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Embedded Derivative Liability	
	June 30, 2017	December 31, 2016
Balance beginning of period	$ 57,922	$ 55,000
Change in fair market value of derivative liability	(10,663)	2,922
Balance end of period	$ 47,259	$ 57,922

4. PROPERTY AND EQUIPMENT, NET

Property and equipment as of June 30, 2017 and December 31, 2016 comprise of the following:

	March 31, 2017	December 31, 2016	Estimated Useful Lives
Frank Worth Collection	$ 2,770,000	$ 2,770,000	10 years
Other archival images	989,163	889,331	10 years
Leasehold improvements	12,446	12,446	7 years
Computer and other equipment	72,686	65,316	3 – 5 years
Furniture and fixtures	83,666	83,666	7 years
	3,927,961	3,820,759	
Less accumulated deprecation	(1,181,007)	(977,172)	
Total archival images, property and equipment, net	$ 2,746,954	$ 2,843,587	

Depreciation expense was $203,835, and $191,397 for the six months ended June 30, 2017 and 2016, respectively, of which $188,289 and $176,518 are reported in cost of revenue, respectively.

5. INTANGIBLE ASSETS – NET

Identifiable intangible assets comprise of the following at June 30, 2017 and December 31, 2016:

Capital Art, Inc.
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(unaudited)

	June 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net book value	Gross Carrying Amount	Accumulated Amortization	Net book value
Intangible assets with determinable lives:						
Content provider and photographic agreements	$ 400,000	$ 80,000	$ 320,000	$ 400,000	$ 60,000	$ 340,000
Copyrights	35,000	7,000	28,000	35,000	5,250	29,750
Total	$ 435,000	$ 87,000	$ 348,000	$ 435,000	$ 65,250	$ 369,750

Amortization expense in connection with the photographic agreements and copyrights for each of the six months ended June 30, 2017 and 2016 was $21,750 . Amortization expenses is included in depreciation and amortization. Estimated amortization expense over the next five years is $43,500 per year.

6. NOTES PAYABLE

On September 28, 2015, the Company entered into a promissory note agreement for working capital purposes with an unrelated party for total proceeds of $150,000. The note matured on September 28, 2016. Effective September 28, 2016, the note was extended to June 30, 2017 and is secured by approximately 240,000 vintage photographs. Interest accrues at the rate of 10% per annum and is payable monthly beginning October 28, 2015. Interest expense was $3,750 and $7,500 for the three and six months ended June 30, 2017 and 2016, respectively. Effective July 31, 2017 the note was extended to December 31, 2017 and is currently past due.

In December 2015, the Company entered into a secured promissory note agreement with an unrelated party for working capital purposes for total proceeds of $120,000. The note matured on December 31, 2017 and is currently past due, bears interest at the rate of 10% per annum, and is payable on the 1st day of each month commencing in February 2016. On February 15, 2016, the Company entered into an additional promissory note agreement with the unrelated party for additional proceeds of $62,500 under the same terms as the first note. The notes are secured by certain inventory and archival images of the Company in the amount of up to $200,000. Interest expense was $4,563 and $3,788 and $9,125 and $8,346 for the three and six months ended June 30, 2017 and 2016, respectively. As of the date of this filing this note is still outstanding and currently in default.

In April 2016, the Company entered into two unsecured promissory note agreements with unrelated parties for working capital purposes for total proceeds of $75,000. The promissory notes matured in December 2017, is currently past due, and bear interest at the rate of 6% per annum. Interest expense was $1,125 and $1,089 and $2,250 and $1,089 for the three and six months ended June 30, 2017 and 2016, respectively.

On April 7, 2016, an unrelated party advanced the Company $75,000 plus an original issue discount of $25,000 for the purchase of a Marilyn Monroe archive. The advance is secured by the archive for which it was used and is to be repaid on or before April 7, 2017. As of May 3, 2017, the note was extended to December 31, 2017 and is currently past due. The Company has agreed to pay 50% of the proceeds derived from the Marilyn Monroe archives up to a guaranteed total of $100,000. Once the $100,000 is paid, the Company has no further obligations. As of June 30, 2017, $10,000 of the balance was repaid and $90,000 of the balance remains outstanding. During the six months ended June 30, 2017 and 2016 , $13,165 and $5,822 of the discount has been amortized to interest expense, respectively. The note is shown net of the unamortized portion of the discount of $0 and $19,178 as of June 30, 2017 and 2016, respectively.

On February 24, 2017, the Company entered into a short-term unsecured note with an unrelated party for working capital purposes for total proceeds of $25,000. During the three months ended March 31, 2017, the Company repaid $27,000, including $2,000 in interest expense. As of June 30, 2017, the note has been paid in full.

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7. RELATED PARTY TRANSACTIONS

Notes payable to related parties

Effective July 21, 2015, the Company entered into a promissory note agreement with a related party Dino Satallante, a beneficial interest shareholder of the Company, for total proceeds of $160,000. The Company utilized $80,000 of the proceeds for payments due in connection with the Globe Photo assets acquired. The remainder of the proceeds were used for working capital purposes. The note matured on July 20, 2016, with monthly interest only payments commencing July 22, 2015. Interest accrues at the rate of 12% per annum. The note is secured by the Globe Photo Assets. Total interest expense in connection with the secured promissory note agreement for the three and six months ended June 30, 2017 and 2016 was $4,800 and $9,600, respectively. Per the terms of the agreement the Company incurred loan fees totaling $8,000 to be amortized over the term of the loan. For the six months ended June 30, 2017, amortization expense in connection with the loan fees totaled $0 and $2,001, respectively. Effective July 20, 2016 the note was extended to December 31, 2017 and is currently past due. We considered ASC Topic 470-50, Debt Modifications and Extinguishments, and determined that the modification is not considered substantially different under the guidance and as such extinguishment accounting was not applied. The note is being shown net of unamortized loan fees of $0 as of June 30, 2017.

On August 1, 2013 the Company entered into an unsecured promissory note agreement with a related party Dino Satallante for $100,000. The loan bears interest at the rate of 5% per annum. During six months ended June 30, 2017, $7,569 of note principal was repaid. As of June 30, 2017, and December 31, 2016, $68,615 and $76,183 was outstanding under the unsecured promissory note agreement, respectively. Interest expense for the three and six months ended June 30, 2017 and 2016 was $811 and $1,214 and $1,715 and $2,091 respectively. The loan matured on July 14, 2014 and was extended to July 31, 2016. Effective July 31, 2016, the note agreement was extended to December 31, 2017 and is currently past due. We considered ASC Topic 470-50, Debt Modifications and Extinguishments, and determined that the modification is not considered substantially different under the guidance and as such extinguishment accounting was not applied.

Effective September 11, 2014 the Company entered into two separate unsecured promissory note agreements for $20,500 each with two related parties, Dreamstar an entity owned and controlled by Sam Battistone, a Company officer and director and a principal shareholder, and Dino Satallante, a beneficial interest shareholders of the Company, for working capital purposes. The loans bear interest at the rate of 6% per annum. The loans matured on September 10, 2015, and were extended to December 31, 2016. In December 2016, both loans were extended to December 31, 2017 and are currently past due. We considered ASC Topic 470-50, Debt Modifications and Extinguishments, and determined that the modification is not considered substantially different under the guidance and as such extinguishment accounting was not applied. At June 30, 2017 and December 31, 2016, $20,500 and $18,100 was outstanding to Dino Satallante and Dreamstar, respectively. Interest expense in connection with the two unsecured promissory note agreements for the three and six months ended June 30, 2017 and 2016 was $579 and $1,158, respectively.

On April 4, 2016 the Company entered into a secured promissory note agreement with Premier Collectibles, a beneficial interest shareholder for total proceeds of $65,000 to be used for acquisition of archive agreement. The promissory note bears interest at the rate of 8% per annum, is secured by the archive collection which the proceeds were used and matures on or before April 1, 2017. The note was extended to July 31, 2017 and is currently past due. We considered ASC Topic 470-50, Debt Modifications and Extinguishments, and determined that the modification is not considered substantially different under the guidance and as such extinguishment accounting was not applied. Interest expense on the note was $1,300 and $1,239 and $2,600 and $1,239 for the three and six months ended June 30, 2017 and 2016, respectively.

On April 15, 2016, the Company entered into an unsecured promissory note agreement with Sean Goodchild, a beneficial interest shareholder, for total proceeds of $50,000. The promissory note bears interest at the rate of 6% per annum and matured on December 15, 2017 and is currently past due. Interest expense on the note was $750 and $633 and $1,000 and $633 for the three and six months ended June 30, 2017 and 2016, respectively.

On October 3, 2016, the Company entered into an unsecured promissory note agreement with Sean Goodchild, a beneficial interest shareholder, for total proceeds of $50,000. The promissory note bears interest at the rate of 6% per annum and matured on December 31, 2017 and is currently past due. Interest expense on the note was $750 and $0 and $1,500 and $0 for the three and six months ended June 30, 2017 and 2016, respectively.

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On December 2, 2016, the Company entered into an unsecured promissory note agreement with Sean Goodchild, a beneficial interest shareholder, for total proceeds of $31,500. The promissory note bears interest at the rate of 6% per annum and matured on December 31, 2017 and is currently past due. Interest expense on the note was $473 and $0 and $945 and $0 for the three and six months ended June 30, 2017 and 2016, respectively.

Due From/To Related Parties

The following table summarizes amounts due to the Company from related parties related to contractual agreements and amounts due to related parties for expenses paid for on the behalf of the Company as of June 30, 2017 and December 31, 2016. During the six month ended June 30, 2017 and 2016, the Company was advanced $164,725 and $17,000 and repaid $19,725 and $0, respectively. The amounts due are non-interest bearing and due upon demand. These amounts have been included in the consolidated balance sheets as current assets due from related parties and current liabilities due to related parties, respectively.

	June 30, 2017	December 31, 2016
Due from related parties:		
Klaus Moeller, related party of pre-merger CAPA and beneficial interest shareholder	$ 78,920	$ 78,920
Total due from related parties	$ 78,920	$ 78,920
Due to related parties:		
ICONZ Art, LLC, beneficial interest shareholder	149,213	4,213
MSN Holding Co., beneficial interest shareholder	12,947	12,947
Premier Collectibles, beneficial interest shareholder	15,085	15,085
Total due to related parties	$ 177,245	$ 32,245

Credit Card Payable

As of June 30, 2017, and December 31, 2016, $15,877 and $30,653, respectively, was outstanding on a personal credit card in the name of a beneficial interest shareholder of the Company – Premier Collectibles. The liability is included in accounts payable and accrued liabilities in the consolidated balance sheets.

8. COMMITMENTS AND CONTINGENCIES

Auctions of Royalty Rights

On March 8, 2016, the Company entered into a Listing Agreement with Royalty Network, LLC, doing business as Royalty Exchange for auction of a 50% ownership of photographic copyrights of certain celebrity archival images owned by the Company. In addition, the sale also assigns the winning bidder the right to receive 50% of the future share of income derived from the assigned images.

During 2016, the Company received gross proceeds of $396,000, less 12.5% auction broker fee, from five separate auctions of these rights. The Company retains all exclusive licensing authority over the images and may exercise a buyback option to buy back the 50% ownership of the rights for two times the original auction proceeds over a period ranging from 1 to 2 years.

The Company accounted for the 50% profit consideration for the above agreement in accordance with ASC 470-10-25 and 470-10-35 which require amounts recorded as debt to be amortized under the interest method as described in ASC 835-30, Interest Method. The Company determined an effective interest rate based on future expected cash flows to be paid to the loan holders. This rate represents the discount rate that equates estimated cash flows with the initial proceeds received from the loan holders and is used to compute the amount of interest to be recognized each period. Estimating the future cash outflows under this agreement requires the Company to make certain estimates and assumptions about future revenues and such estimates are subject to significant variability. Therefore, the estimates are likely to change which may result in future adjustments to the accretion of the interest expense and the amortized cost based carrying value of the related loans.

Accordingly, the Company has estimated the cash flows associated with the images and determined a discount of $151,316 which is being accounted as interest expense over a 10 year estimated life of the asset based on expected future revenue streams. For the six months ended June 30, 2017, interest expense related to this loan amounted to $11,153 which has been included in interest expense in the consolidated statements of operations . During the six months ended June 30, 2017, the Company made payments of $7,195 to the loan holders. As of June 30, 2017, loans payable net of unamortized debt discount amounted $353,776.

Asset purchase agreement

On March 3, 2017, the Company entered into an agreement to sell 20% of its ownership in certain photographic archive asset for $200,000. As part of the agreement the buyer will be reimbursed the entire purchase price over a period of 24 months from any profits generated from the related asset. If however the entire purchase price is not paid back after 24 months then all net revenues from the Company will be paid to the buyer until the full purchase price has been paid.

The Company accounted for the above transaction as debt and recognized the amount received as a loan payable. As of June 30, 2017, the outstanding balance of the loan amounted to $200,000.

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License Agreements

Effective June 1, 2016 the Company entered into three separate non-exclusive license agreements use of licensed images and trademarks through December 31, 2019. Under the terms of the agreements, the Company is required to pay royalties of 10% on net sales. The agreements call for combined annual guaranteed minimum royalties per year of $150,000 based on combined minimum sales of $1,500,000 per year. The Company was required to pay advances related to 50% of the first year's royalties totaling $75,000 upon execution of the agreements. The remainder of the first year's combined minimum royalties of $75,000 was paid during the six months ended June 30, 2017.

Operating Lease Agreements

On September 6, 2012 the Company entered into a 25-month operating lease agreement for approximately 4,606 square foot warehouse and office facilities located in Las Vegas, NV. Monthly base rent due under the agreement is $3,270, plus common area maintenance fees. The agreement calls for 3% annual increase in base rental payments. On October 10, 2014, the Company entered into a First Amendment to Lease agreement extending the lease term for 60-months, beginning November 1, 2014. All other terms of the agreement remain unchanged.

The Company leases various corporate housing from unrelated third parties for terms that range from month-to-month to one year. The Company also rents office space on a month-to-month basis in New York at rate of $850 per month.

Total rent expense for three and six months ended June 30, 2017 and 2016 was 13,615 and $18,320 and $26,791 and $37,900, respectively, in connection with the operating lease agreements.

Future minimum lease payments related to the Company's office leases as of June 30, 2017 are as follows:

2017	$21,441
2018	44,168
Total	$65,609

9. SHAREHOLDERS' EQUITY

Common Stock

The Company is authorized to issue up to 450,000,000 shares of common stock with a par value of $0.0001. As of June 30, 2017, and December 31, 2016, there were 325,570,524 and 325,570,524 shares of common stock issued and 325,476,408 and 325,570,524 outstanding, respectively.

As of June 30, 2017, the Company repurchased 94,116 shares of common stock for $32,000 related to the Globe Photo Asset Purchase Agreement entered into on July 22, 2015.

Preferred Stock

The Company is authorized to issue up to 50,000,000 shares of preferred stock authorized with a par value of $0.0001. The Board of Directors is authorized, subject to any limitations prescribed by law, without further vote or action by the Company's stockholders, to issue from time to time shares of preferred stock in one or more series. Each series of preferred stock will have such number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges as shall be determined by the board of directors, which may include, among others, dividend rights, voting rights, liquidation preferences, and conversion rights. As of June 30, 2017, there were no shares of Preferred Stock issued and outstanding.

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

Forward-Looking Statements

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimates," "intends," "strategy," "plan," "may," "will," "would," "will be," "will continue," "will likely result," and similar expressions. We intend such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Overview and History

We were originally incorporated on September 20, 2004, in the State of Delaware under the name "Blog8." Since incorporation, we have changed our name numerous times and have been known as "Securiteyes," "Medify Solutions Limited," "Petel Incorporated" and "Gleeworks, Inc." We amended our Certificate of Incorporation and changed our name to Capital Art, Inc. on April 28, 2011.

We currently are engaged in the business of selling and managing classic and contemporary, limited edition photographic images and reproductions, with a focus on iconic celebrity images, by acquiring ownership or rights to collections of rare iconic negatives and photographs. We also make available images for publications and merchandizing by third parties. Our business is in its early stages and consequently our financial results are difficult to compare from one period to the next. We expect such period-to-period differences to continue to be significant over the next several quarters, until we have a number of full years of operations.

Our objective is to become the largest repository of archival pop culture photography in the online world. To this end, we have been and continue to search for photographic archives. We have amassed our current inventory and rights to photographic images and reproductions from a series of acquisitions that started in 2011. These past few years of acquisitions have resulted in an impressive collection for our company, including the rights to the Frank Worth collection, and the rights or ownership over hundreds of thousands of photos and negatives. Archived and stored in our warehouse are boxes of never seen before negatives, one-of-a kind prints and other memorabilia. We have rare images of celebrity icons, such as Elvis Presley, James Dean, Marilyn Monroe, and many others, which have never been seen by the public.

As part of increasing our product offerings, we plan to continue our search for photographic archives that are undervalued by the market. These archives may be acquired outright or we may enter into representation or consignment agreements with the owners of the archives. These opportunities are typically (1) aging photographers who are looking to monetize their archive while still alive via a single large transaction, or (2) media companies that have aggregated assets (or rights to assets) and are seeking to dispose of the archive or a partner who can help them grow cash flows related to the archive. These opportunities exist both in the United States and abroad and we continue to search for value wherever it may be geographically located.

Our business is to monetize the value of our collection. We sell our photographic images and reproductions through auctions, third-party galleries, art consultants, interior decorators and directly to consumers. We reach our customers through diverse marketing channels, including our websites, events and interactive campaigns. We also reproduce mass quantities of different photographs from our collection, which are sold through third party on-line retailers. We are continually exploring these and other marketing possibilities and we expect to continue our efforts to pursue contracts and to diversify our revenues.

Our principal place of business is located at 6445 South Tenaya Way, Suite B-130, Las Vegas, NV 89113. General information about us can be found at www.capitalart.com. The information contained on or connected to our website is not incorporated by reference into this Quarterly Report on Form 10-Q and should not be considered part of this or any other report filed with the SEC.

Results of Operations

Revenues

Our total revenue reported for the three months ended June 30, 2017 was $305,479, compared with $294,216 for the three months ended June 30, 2016. Our total revenue reported for the six months ended June 30, 2017 was $458,044 , compared with $392,565 for the six months ended June 30, 2016.

The change is primarily a result of increased sales from our collectables division and licensing sales. We expect revenue growth to accelerate in 2018 as a result of the foundations laid in 2016 and 2017.

Management has instituted aggressive direct-to-consumer marketing, implemented programs with third-party re-sellers as well as bricks and mortar, and online retailers. We have also continued to enhance and market our licensing division, Globe Photos, LLC. Additionally, we have invested considerable time and monies in the development of software to more efficiently ingest images and push them through to our retail and licensing channels that is expected to help scale each division considerably.

There is significant financial risk associated with a dependence upon a small number of distributors and customers which could have an adverse effect on our future consolidated financial statements if these distributors or customers were to leave. We intend to continue our investment in sales and marketing in order to increase distribution and demand for our products and adding content to our product lines, along with adding additional channels of distribution. There are no assurances this will result in increased revenues.

Cost of Revenues

Our total cost of revenues for the three months ended June 30, 2017 was $138,017 , compared with $138,910 for the three months ended June 30, 2016. Our total cost of revenues for the six months ended June 30, 2017 was $272,815 , compared with $295,152 for the six months ended June 30, 2016.

We had gross profit of $167,462 and a gross profit margin of approximately 55% for the three months ended June 30, 2017, compared with a gross profit of $155,306 and a gross profit margin of approximately 53% for the same period ended 2016. We had gross profit of $185,229 and a gross profit margin of approximately 40% for the six months ended June 30, 2017, compared with a gross profit of $97,413 and a gross profit margin of approximately 25% for the same period ended 2016. The increased margin is largely the result of increased license fees in 2017 over 2016, which has less costs than product sales.

Operating Expenses

Operating expenses decreased to $204,606 for the three months ended June 30, 2017 from $243,780 for the three months ended June 30, 2016. Operating expenses decreased to $431,208 for the six months ended June 30, 2017 from $491,946 for the six months ended June 30, 2016. The detail by major category is reflected in the table below.

	Three Months Ended June 30,			
	2017	2016	Change	% Change
Product development, sales and marketing	$ 51,521	$ 43,095	$ 8,462	20%
General and administrative	134,242	182,972	(48,730)	(27%)
Depreciation expense	18,843	17,713	1,130	6%
Total costs and operating expenses	$ 204,606	$ 243,780	$ (39,174)	(16%)

	Six Months Ended June 30,			
	2017	2016	Change	% Change
Product development, sales and marketing	$ 93,359	$ 126,203	$ (32,844)	(26%)
General and administrative	300,553	329,114	(28,561)	(9%)
Depreciation expense	37,296	36,629	667	2%
Total costs and operating expenses	$ 431,208	$ 491,946	$ (60,738)	(12%)

The main reason for the overall decrease in operating expenses in 2017 was a decrease in the general and administrative expense and product development, sales and marketing categories.

Product development, sales and marketing expenses increased by $8,462 but decreased by $32,844 for the three and six months ended June 30, 2017, respectively. Product development, sales and marketing expenses primarily consists of website development costs, sales and marketing salaries, as well as other expenses associated with marketing. We continue to utilize our working capital resources in sales and marketing in order to increase the distribution and demand for its products and to add content to its product lines along with adding additional channels of distribution.

General and administrative costs decreased by $48,730 and $28,561 for the three and six months ended June 30, 2017, respectively, primarily due to a decrease in computer and IT expenses, outside services, payroll tax expense, professional expenses and salaries.

Total depreciation increased by $1,130 and $667 for the three and six months ended June 30, 2017, respectively. We record archival images, and property and equipment at cost for purchases over $500. Archival images, property and equipment are depreciated using the straight-line method over the estimated useful lives ranging from three to ten years. We capitalize direct costs associated with improvements to archival images, and property and equipment in accordance with ASC 360 – Property, Plant, and Equipment. Leasehold improvements are amortized on a straight-line basis over the shorter of their useful life or the term of the related lease.

Interest Expenses

We had interest expenses of $25,285 for the three months ended June 30, 2017, as compared with interest expenses of $34,864 for the same period ended 2016 the decrease is a result the amortization of loan fees recorded as interest expense for the three months ended June 30, 2016. We had interest expenses of $64,023 for the six months ended June 30, 2017, as compared with interest expenses of $50,414 for the same period ended 2016. The increase in interest expenses is a result of increased debt obligations in 2017.

We expect to continue to experience interest payments in the future as a result of our outstanding liabilities. Moreover, as of the date of this report, there are a number of secured promissory notes with an aggregate principal amount of approximately $647,500 that have matured. In addition, we also have a number of unsecured promissory notes with an aggregate principal amount of $313,715 that have matured. If we are unable to generate sufficient revenues and/or additional financing to service this debt, there is a risk the lenders will call the notes, secure our assets, as to those applicable secured notes, and demand payment. If this happens, we could go out of business.

Net Loss

We finished the three months ended June 30, 2017 with a loss of $41 ,999 as compared to a loss of $148,338 during the three months ended June 30, 2016. We finished the six months ended June 30, 2017 with a loss of $299,339 , as compared to a loss of $471,947 during the six months ended June 30, 2016. The reasons for specific components are discussed above. Overall, we had an increase in revenue and resulting gross margin along with decreased operating expenses to support future growth.

Liquidity and Capital Resources

As of June 30, 2017, we had total current assets of $306,194 and current liabilities of $2,283,370 resulting in a working capital deficit of $1,977,176 . This compares with the working capital deficit of $1,764,220 at December 31, 2016. This increase in working capital deficit, as discussed in more detail below, is primarily the result of an increase in advances to related parties and a decrease in cash.

Our operating activities used $234,039 in the six months ended June 30, 2017 as compared with $193,582 used by operating activities in the six months ended June 30, 2016. Our negative operating cash flow in 2017 was largely the result of our net loss, accounts payable and accrued liabilities, accounts receivable and prepaid expenses, offset by depreciation and amortization. We anticipate that overhead costs in current operations will increase in the future as our business continues to expand.

Investing activities used $107,202 in the six months ended June 30, 2017 compared with $107,721 in the six months ended June 30, 2016. Our negative investing cash flow is largely the result of purchasing images, property and equipment. We anticipate that our investing expenditures will increase as we expand our collection.

Financing activities provided $288,236 in the six months ended June 30, 2017 compared with $277,021 in the six months ended June 30, 2016. Our positive financing cash flow was the result of notes payable and related party notes payable and advances, offset by repayments on such.

There is no guarantee we will generate sufficient revenues to continue operations. Our management estimates we will need approximately $1,000,000 in annual revenues to continue operations at our current operating level, without consideration given to investment in new sales and marketing channels. For the immediate future we plan to achieve this revenue target by ramping up fees earned from licensing imagery to media companies growing a network of global sales agents. There is no guarantee that we will generate sufficient revenues to continue operations. We expect to continue incurring significant operating losses for the near future. If we are not successful in achieving revenues required to continue operations at our current operating levels within three to four months, or obtain additional financing, our operations will be significantly negatively impacted, and we will need to significantly scale back our operations or liquidate all or a portion of our collections.
We believe that our principal difficulty in our ability to successfully generate profits has been the lack of available capital to operate and expand our business. We believe we need a minimum of approximately $3,000,000 in additional working capital to be utilized for key archive acquisitions, inventory management software, technology development, additional staffing and working capital. As of the date of this report we have no commitment from any investor or investment-banking firm to provide us with the necessary funding and there can be no assurances we will obtain such funding in the future. Failure to obtain this additional financing will have a material negative impact on our ability to generate profits in the future.

Inflation

Although our operations are influenced by general economic conditions, we do not believe that inflation had a material effect on our results of operations during the six month period ended June 30, 2017.

Critical Accounting Polices

In December 2001, the SEC requested that all registrants list their most “critical accounting polices” in the Management Discussion and Analysis. The SEC indicated that a “critical accounting policy” is one which is both important to the portrayal of a company’s financial condition and results, and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies are disclosed in Note 2 of our audited consolidated financial statements included in the Form 10-K filed with the Securities and Exchange Commission.

Off Balance Sheet Arrangements

As of June 30, 2017, there were no off balance sheet arrangements.

Recent Accounting Pronouncements

The recent accounting pronouncements that are material to our financial statements are disclosed in Note 2 of our audited consolidated financial statements included in the Form 10-K filed with the Securities and Exchange Commission and in Note 2 of our unaudited consolidated financial statements included herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company and are not required to provide the information under this item pursuant to Regulation S-K.

Item 4. Controls and Procedures

Disclosure Controls and Procedures - Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report.

These controls are designed to ensure that information required to be disclosed in the reports we file or submit pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based on this evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were not effective as of June 30, 2017, at reasonable assurance level, due to the following material weaknesses:

- ineffective control environment and lack of qualified full-time CFO who has SEC experience to focus on our financial affairs;
- lack of qualified and sufficient personnel, and processes to adequately and timely identify making any and all required public disclosures;
- deficiencies in the period-end reporting process and accounting policies;
- inadequate internal controls over the application of new accounting principles or the application of existing accounting principles to new transactions;
- inadequate internal controls relating to the authorization, recognition, capture, and review of transactions, facts, circumstances, and events that could have a material impact on the Company’s financial reporting process;
- inadequate controls over maintenance of records;
- inadequate internal controls with respect to inventory transactions; and
- improper and lack of timely accounting for accounts such as prepaid expenses, accounts payable and accrued liabilities and revenue.

Our Board of Directors has assigned a priority to the short-term and long-term improvement of our internal control over financial reporting. We intend to retain a qualified Chief Financial Officer in 2018 to remedy the processes that would eliminate the issues that may arise due to the absence of separation of duties within the financial reporting functions. Additionally, our Board of Directors will work with management to continuously review controls and procedures to identified deficiencies and implement remediation within our internal controls over financial reporting and our disclosure controls and procedures.

We believe that our financial statements presented in this quarterly report on Form 10-Q fairly present, in all material respects, our financial position, results of operations, and cash flows for all periods presented herein.

Inherent Limitations - Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake. In particular, many of our current processes rely upon manual reviews and processes to ensure that neither human error nor system weakness has resulted in erroneous reporting of financial data.

Changes in Internal Control over Financial Reporting - There were no changes in our internal control over financial reporting during the three month period ended June 30, 2017, which were identified in conjunction with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are currently not party to any outstanding litigation, nor had we received notice of any pending action to be filed against us. The below is a summary of our legal proceedings in 2017. We are not aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of 5% or more of our voting securities are adverse to us or have a material interest adverse to us. Recently, we successfully resolved one action as described below.

On July 6, 2016, Stuart Harris, as an individual and as Executor of the Estate of Frank Worth ("Claimant") filed a Statement of Claim with the American Arbitration Association against us alleging breach of the Frank Worth Reproduction Rights Agreement entered into on November 18, 2011 for royalties allegedly due. The Frank Worth Reproduction Rights Agreement called for royalty payments to be paid to Claimant by us for the exclusive global reproduction rights to all negatives, prints, products and other materials from the Frank Worth collection. However, on November 12, 2014, Claimant had previously agreed to accept $155,000 and 200,000 shares of our Common Stock in exchange for sole and exclusive, world-wide, royalty free rights to all negatives, prints, products and other materials in our possession, including the use of the Frank Worth seal, Frank Worth's name, likeness, publications and biography plus merchandising and selling rights. We paid $30,000 to the Claimant in January 2015 in connection with the November 12, 2014 agreement. The Statement of Claim also sought an award for breach of the November 12, 2014 agreement.

We made no further payments under the November 12, 2014 agreement because we believed that Claimant sold the rights to 38 key images to Apsara, Inc. in 2007 and failed to disclose such prior sale to us. We also brought a counterclaim for breach of the November 12, 2014 agreement against Claimant for failure to disclose the previous sale of 38 key images which we had purchased under the Frank Worth Reproduction Rights Agreement and the subsequent November 12, 2014 agreement.

On October 18, 2016, an arbitration hearing was held on this matter. On October 28, 2016, the arbitrator issued an amended award, finding the 2011 Agreement to remain valid, but also recognizing our demand for clean title to the 38 Key images. Thus, we were ordered to pay Claimant $70,000 as final payment due under the November 12, 2014 agreement, payable to the Claimant no later than February 23, 2017. We were granted an award for delivery of clean title of the 38 Key images no later than February 23, 2017. In the event, Claimant provides such clean title by such deadline, the parties have the option to comply with the 2011 agreement and enter into negotiations for a new royalty agreement on the 38 Key images. In the event Claimant does not deliver clean title, we shall retain possession of the entire collection, including the 38 Key images with no further obligation to pay royalties. Claimant failed to deliver clean title by February 23, 2017.

In the interim, the Company learned that Claimant is the subject of an action in a California Probate Court action challenging his actions as Executor of the Estate after March 2008. At that time Claimant was discharged as Executor of the Estate and he had no legal authority from that point on to represent the interests of the Estate, including entering into the agreements that were the subject of the Arbitration. That information has led the Company to secure the $70,000 final payment until such time as the California Probate Court determines the appropriate recipient.

Finally, on January 26, 2017, Claimant filed a separate civil suit against us in Nevada District Court. This new suit seeks to vacate the decision of the Arbitrator in the Binding Arbitration. Claimant is dissatisfied with the results of the Binding Arbitration, notwithstanding his agreement to be bound by the decisions of the Arbitrator. We have challenged whether Claimant has standing to pursue this action because of his lack of status as an Executor, and his lack of any status as a Beneficiary of the Estate.

On February 28, 2017, the parties agreed to dismiss this action with prejudice. On September 15, 2017, the final $70,000 payment was made in full.

Item 1A: Risk Factors

See Risk Factors contained in our Form 10-K filed with the SEC on November 24, 2017.

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

The information set forth below relates to our issuances of securities without registration under the Securities Act of 1933.

In April 2017, the board approved the issuance of 2,083,333 shares of common stock at fair value of $0.05 per share for 2015 services rendered by a consultant.

The Company repurchased shares of common stock related to the Globe Photo Asset Purchase Agreement entered into on July 22, 2015.

These securities were issued pursuant to Section 4(2) of the Securities Act and/or Rule 506 promulgated thereunder. The holders represented their intention to acquire the securities for investment only and not with a view towards distribution. The investors were given adequate information about us to make an informed investment decision. We did not engage in any general solicitation or advertising. We directed our transfer agent to issue the stock certificates with the appropriate restrictive legend affixed to the restricted stock.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

N/A

Item 5. Other Information

None

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Item 6. Exhibits

Exhibit Number	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101**	The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 formatted in Extensible Business Reporting Language (XBRL).

**Provided herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on March 2, 2018 on its behalf by the undersigned thereunto duly authorized.

CAPITAL ART, INC.

/s/Stuart Scheinman
Stuart Scheinman
Principal Executive Officer

/s/Scott C. Black
Scott C. Black
Principal Financial and Accounting Officer