CAPSTONE HOLDING CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

5141 W. 122nd Street, Alsip, IL 60803

(Address of principal executive offices)

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(708) 371-0660

(Registrant's telephone number, including area code)

www.capstonethx.com

(Registrant's corporate website)

investorinquiries@capstonethx.com

(Registrant's company email)

3845

(Registrant's SIC CODE)

QUARTERLY REPORT

For the Period Ended June 30, 2022

(the "Reporting Period")

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	CAPS	OTCQB

The number of shares outstanding of our common stock, par value $0.0005 per share ("common stock"), is 157,610 shares as of June 30, 2022.

The number of shares outstanding of our common stock was 79,277 as of December 31, 2021.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):
Yes ☐ No ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:
Yes ☐ No ☒

Indicate by check mark whether a change in control of the company has occurred over this reporting period:
Yes ☐ No ☒

CAPSTONE HOLDING CORP.
ANNUAL REPORT
FOR PERIOD ENDED JUNE 30, 2022
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CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This annual report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements other than historical facts that relate to future events or to future performance, and involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied. In some cases, forward-looking statements can be identified by the use of terminology such as "may", "could", "expect", "intend", "plan", "seek", "anticipate", "believe", "estimate", "predict", "potential", "continue", or the negative of these terms or other comparable terminology. The reader should not place undue reliance on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond the Companies' control and which could materially affect actual results, levels of activity, performance or achievements. Factors that may cause actual results to differ materially from current expectations, which we describe in more detail in the section titled "Item 4 - Management's Discussion and Analysis of Financial Condition and Results of Operations", include, but are not limited to:

- the impact of the terms or conditions of agreements associated with funds obtained to fund operations, including the Company's Securities Purchase, Loan and Security Agreement;
- the impact of present and future merger, acquisition, joint venture, collaborative or partnering agreements or the lack thereof;
- failure of the Company's common stock to continue to be listed at the OTCQB stock market; and
- the impact of COVID-19 on operations.

PRESENTATION OF INFORMATION

Unless the context indicated otherwise, all references in this annual report to "we", "our", "us", the "Company" are to the combined business of Capstone Holding Corp. and its consolidated subsidiaries. Furthermore, the financial statements herein this report have been prepared in accordance with the generally accepted accounting principles in the United States ("US GAAP").

AVAILABLE INFORMATION

In 2019, the Company deregistered its common stock with the United States Securities and Exchange Commission ("SEC"). By deregistering its common stock with the SEC, the Company is no longer required to file annual, quarterly, and current reports with the SEC. The Company's common stock is currently quoted on the OTCQB under the trading symbol "CAPS". As part of the OTCQB listing requirements, the Company has adopted the *Alternative Reporting Standard: OTCQB Disclosure Guidelines*, which the Company is required to prepare and post material news, quarterly financial reports and annual audited financials on the OTCQB's website. Although the Company is no longer required to file certain SEC reports, there are some references throughout this document to former filings with the SEC. These references are integral to the readers' understanding of these financial statements and should be read in conjunction with this Annual Report.

Item 1 The exact name of the issuer and the address of its principal executive offices.

The exact name of the issuer and its predecessor (if any)

Capstone Therapeutics Corp.

Capstone Holding Corp.

Effective February 17, 2022, Capstone Therapeutics Corp. will hereafter be known as Capstone Holding Corp. This name change is more representative of our current business model as we seek to create value for our shareholders.

The address of the issuer's principal executive offices and address of the issuer's principal place of business

Capstone Holding Corp.
Principal Executive Office
5141 W. 122nd Street
Alsip, IL 60803
(708) 371-0660
www.capstonethx.com

Michael M. Toporek
(Chairman & CEO)
(708) 371-0660
investorinquiries@capstonethx.com

Check box if principal executive office and principal place of business are the same address: ☒

Item 2 Shares outstanding.

Preferred Stock, 5,000 shares authorized, none outstanding in 2022, 2021 or 2020.

Common Stock, 200,000 authorized, 157,610 outstanding [3] at June 30, 2022 and 79,277 at December 31, 2021 and 2020.

Public Float [1] at June 30, 2022 was approximately 35,110 shares. Public Float at December 31, 2021 and 2020 was approximately 27,556 shares and 27,334 shares, respectively.

Beneficial shareholders owning at least 100 shares [2] was approximately 164 at June 30, 2022 and December 31, 2021 and 165 at December 31, 2020.

Stockholders of record at June 30, 2022 were approximately 26. Stockholders of record were approximately 25 and 29 at December 31, 2021 and 2020, respectively.

[1] For purposes of this calculation only, shares of common stock held by each of the Company's directors and officers on the given date and by each person who the Company knows beneficially owned 5% or more of the outstanding common stock on that date have been excluded in that such persons may be deemed to be affiliates.

[2] Estimate based on beneficial share range analysis, received from Computershare.

[3] On June 15, 2022, BP Peptides, LLC ("Brookstone") exercised its right to convert $1.9 million of accrued interest and debt from its senior secured note into 78,333 shares of the Company's Common Stock (exercised price of $24.75 per share). With this acquisition Brookstone now owns 121,774 shares of the Company's Common Stock.

Item 3 Interim financial statements.

CAPSTONE HOLDING CORP.
CONSOLIDATED BALANCE SHEET
(in thousands, except share and per share data)
(unaudited)

	June 30, 2022	December 31, 2021
ASSETS		
Current Assets:		
Cash	$ 262	$ 50
Accounts Receivable, net.	7,827	3,954
Inventories	19,037	14,161
Other current assets	1,062	321
Total current assets	28,188	18,486
Long-term Assets:		
Property and equipment, net.	1,753	1,801
Goodwill & other intangible assets	23,450	23,446
Right of use assets	3,746	4,132
Deferred tax asset	8,155	8,155
Investment in non-marketable securities	8,000	8,000
Other long-term assets	48	48
Total long-term assets	45,152	45,582
Total Assets	**$ 73,340**	**$ 64,068**
LIABILITIES & EQUITY		
Current Liabilities:		
Accounts payable & other accrued liabilities	$ 11,778	$ 5,895
Line of credit	8,554	4,107
Current portion of long-term debt	1,415	1,603
Current portion, lease liability	762	745
Other current liabilities	43	43
Total current liabilities	22,552	12,393
Long-term liabilities:		
Accrued related party management fee	351	713
Long term debt, net of current portion	14,927	18,447
Lease liability, net of current portion	3,054	3,438
Total long-term liabilities	18,332	22,598
Total Liabilities	40,884	34,991
Totalstone, LLC - Class B Preferred Units	23,341	21,844
TotalStone, LLC - Special Preferred Units	1,012	992
Equity:		
Common Stock $0.0005 par value; 200,000 shares authorized; 157,610 and 79,277 issued as of June 30, 2022 and December 31, 2021, respectively	-	-
Additional paid-in capital	193,044	191,105
Accumulated deficit	(184,941)	(184,864)
Total Equity	8,103	6,241
Total Liabilities, Totalstone, LLC. Preferred Units & Equity	**$ 73,340**	**$ 64,068**

See notes to consolidated financial statements

CAPSTONE HOLDING CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Sales	$ 19,528	$ 20,506	$ 32,845	$ 32,320
Sales returns and allowances	(17)	(22)	(19)	(23)
Net sales	**19,511**	**20,484**	**32,826**	**32,297**
Cost of goods sold	14,160	15,180	24,075	25,447
Gross Profit	**5,351**	**5,304**	**8,751**	**6,850**
Selling, general and administrative expenses	3,412	3,011	6,756	5,665
Income (loss) from operations	1,939	2,293	1,995	1,185
Gain on extinguishment of debt	-	780	-	780
Interest and other income (expense), net.	(238)	99	(477)	(202)
Gain (loss) from operations before taxes	1,701	3,172	1,518	1,763
Income tax expense	77	810	77	485
Net Income	**1,624**	**2,362**	**1,441**	**1,278**
Less: Net loss attributable to:				
Speical preferred units	(10)	(66)	(20)	(138)
Class B units preferred return	(764)	(782)	(1,499)	(1,539)
Net Income (Loss) attributable to Capstone Holding Corp. stockholders	**$ 850**	**$ 1,514**	**$ (78)**	**$ (399)**

See notes to consolidated financial statements

CAPSTONE HOLDING CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
OPERATING ACTIVITIES		
Net income	$ 1,441	$ 1,278
Non cash items:		
Depreciation and amortization	202	120
Non-cash Paycheck Protection Program loan forgiveness	-	(780)
Deferred taxes	-	190
Tax expense	-	(282)
Change in other operating items:		
Accounts receivable and other assets	(9,108)	(789)
Accounts payable and other accrued liabilities	5,154	(673)
Cash flows used in operating activities	(2,311)	(936)
INVESTING ACTIVITIES		
Purchase of property and equipment, net	(154)	(169)
Cash flows used in investing activities	(154)	(169)
FINANCING ACTIVITIES		
Proceeds from debt issuance	42	601
Borrowings under line of credit, net	4,447	867
Debt payments	(1,812)	(48)
Cash flows provided by financing activities	2,677	1,420
NET CHANGE IN CASH & CASH EQUIVALENTS	212	315
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	50	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 262**	**$ 315**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Operating cash flows from finance leases (i.e. Interest)	$ 4	$ 5
Financing cash flows from finance leases (i.e. principal portion)	52	45
Operating cash flows from operating leases	371	308
Non-cash operating activities:		
Forgiveness of Paycheck Protection Program (PPP) Loan	-	780
Non-cash financing activities:		
Conversion of senior secured note into 78,333 shares of common stock	1,939	-

See notes to consolidated financial statements

CAPSTONE HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Basis of Presentation and Preparation

The consolidated financial statements include the accounts of Capstone Holding Corp. and it's consolidated subsidiaries. Intercompany accounts and transaction have been eliminated. The preparation of these financial statements and accompanying notes are in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, the financial statements include all adjustments necessary for the fair presentation of our financial position, results of operations, and cash flows, and all adjustment were of a normal recurring nature.

Use of Estimates

The preparation of financial statements in accordance with US GAAP requires management to make a number of assumptions and estimates that affect the reported amounts of assets, liabilities, and expenses in our financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's assumptions regarding current events and actions that may impact the Company in the future, actual results may differ from these estimates and assumptions.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-02 Leases (Topic 842) and subsequent amendments thereafter. The objective of this update is to increase the transparency and comparability among organization by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard did not have a material effect on its financial position or operating results upon the Company's adoption in 2019.

Accounts Receivable

The Company carries accounts receivable at cost. On a periodic basis, management evaluates receivables to determine if any portion is uncollectable. As of June 30, 2022, the allowance for doubtful accounts totaled approximately $135.0 thousand and $55.0 thousand at December 31, 2021.

Accounts Payable

Accounts payable includes accrued and deferred officer compensation of $2.0 thousand as of June 30, 2022 and $30.4 thousand at December 31, 2021, that is payable at various times and amounts on occurrence of certain performance levels or approval by the Company's Board of Directors.

Advertising Costs

Advertising and promotional expenses are expensed in the period incurred unless there are material costs that benefit future periods. The consolidated financial statements currently do not reflect any prepaid advertising expenses. For the six months ended June 30, 2022, advertising expenses were $148.0 thousand and $76.0 thousand for six months ended June 30, 2021.

Cash

Cash consists of balances held in a commercial bank account and cash equivalents.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. The Company places cash with high credit quality institutions. During the normal course of business, balances in these accounts may exceed the maximum amount insured by the Federal Deposit Insurance Corporation ("FDIC"). Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the Company's diverse customer base and generally short payment terms. Management believes there is no business vulnerability regarding concentrations of accounts receivable and sales due to the strong relationships and financial strength of our customers.

Goodwill and Other Intangible Assets

Goodwill represents costs in excess of the estimated fair values of acquired net assets in a business combination. Goodwill and other intangible assets with indefinite lives are reviewed annual for impairment. The Company does not amortize goodwill and intangible assets with indefinite lives. Intangible assets with finite lives, consists of a non-compete agreement, amortized over the term of the agreement.

Long-lived Asset Impairments

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events of changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount of which the carrying amount of the assets exceeds the fair value of the assets. No impairment charges were necessary for six months ended June 30, 2022 or 2021.

Inventories

Inventories consisting of finished goods are stated at the lower of cost, determined by the average cost method or market. Inventories also include deposits placed on inventory purchases for shipments not yet received. Significant prepaid inventory may be located overseas. The reserve for obsolete inventory totaled $454.0 thousand as of June 30, 2022 and $405.0 thousand at December 31, 2021.

Net Income (Loss) per Common Share

In determining income (loss) per common share for a period, we use weighted average shares outstanding during the period for primary shares and we utilize the treasury stock method to calculate the weighted average shares outstanding during the period for diluted shares. Utilizing the treasury stock method as of June 30, 2022, no shares were determined to be outstanding and excluded from the calculation of income (loss) per share because they were anti-dilutive. At June 30, 2022 and December 31, 2021, options and warrants to purchase 2,328,000 and 6,321,930 shares, respectively, of our common stock, at exercise prices for options ranging from $0.05 to $0.35 per shares, were outstanding. Upon exercise of options or warrants, the shares issued will be adjusted for the 1,000 to 1 reverse stock split implemented in September 2019.

Payroll Protection Program Loan Accounting Policy

Currently, there is no authoritative guidance under US GAAP that addresses accounting and reporting related to a for profit business entity that receives forgivable debt from a government entity. Accordingly, management has elected to recognize forgivable debt received from a government entity as debt until debt extinguishment occurs when the Company is legally released from being the obligor. The Company applied for and received full loan forgiveness from the United States Small Business Administration ("SBA") for principal and accrued interest.

Prepaid Inventory

Prepaid inventory represents deposits placed on inventory purchases for shipments not yet received as of June 30, 2022, the total prepaid inventory balance was $5.1 million and $4.6 million at December 31, 2021.

Property and Equipment

Property and equipment is stated at cost and is depreciated over the estimated useful lives ranging from three to forty years. Depreciation is computed by using the straight-line method for financial reporting purposes and straight-line and accelerated methods for income tax purposes. Property and equipment is comprised of building, machinery & equipment, computer equipment, leasehold improvements, software, office equipment, vehicles, and furniture & fixtures. Maintenance and repairs are charged to expense as incurred.

Research and Development

Research and development costs are expensed as incurred and were not significant in the periods presented.

Shipping and Handling

The Company includes shipping and handling expenses in cost of goods sold.

Note 2 Revenue Recognition

Sales are recognized when revenue is realized or becomes realizable and has been earned, net of sales tax. In general, revenue is recognized when the earnings process is complete, and collectability is reasonably assured which is usually upon shipment of the product. Amounts billed related to shipping and handling, which are not significant, are included in revenue. Our sales predominantly contain a single delivery element and revenue is recognized at a point in time when ownership, risks and rewards transfer. For six months ended June 30, 2022 and 2021, there were no estimates of variable considerations represented in revenue.

Note 3 Property and Equipment, Net.

A summary of the Company's property and equipment is as follows in ("000's"):

	June 30, 2022	December 31, 2021
Property and Equipment, Net.		
Land and buildings	$ 685	$ 685
Machinery and equipment	827	807
Computer equipment	218	192
Computer software	259	259
Furniture and fixtures	332	310
Leasehold Improvements	699	658
Total property and equipment	$ 3,020	$ 2,911
Accumulated depreciation and amortization	(1,267)	(1,110)
Total property and equipment	**$ 1,753**	**$ 1,801**

Depreciation and amortization expense on property and equipment was $202.0 thousand as of six months ended June 30, 2022 and $120.0 thousand at six months ended June 30, 2021.

Note 4 Accounts Receivable, Net.

The timing of revenue recognition, billings and cash collections results in billed accounts receivable on the consolidated balance sheet. Amounts are billed upon contractual completion in accordance with agreed-upon contractual terms. Accounts receivable, net is as follows in ("000's):

	June 30, 2022	December 31, 2021
Accounts Receivable		
Accounts receivable, gross	$ 7,962	$ 4,008
Less: Allowance for doubtful accounts	(135)	(54)
Total accounts receivable, net.	**$ 7,827**	**$ 3,954**

Note 5 Line of Credit

On June 29, 2015, TotalStone, LLC established a Revolving Credit Note which has been amended since. Under the terms of the Third Amended and Restated Revolving Credit Note with Berkshire Bank, executed on November 22, 2021, TotalStone, LLC is permitted to borrow up to $14.0 million for working capital purposes. Advances under the credit agreement are limited to a formula-based amount of up to eighty-five (85%) percent of the face amount of the TotalStone, LLC "Eligible Accounts Receivable" plus about fifty-five (55%) percent of the face amount of the TotalStone, LLC "Finished Goods Inventory" up to a maximum amount of $8.0 million. Interest charged on unpaid principal amount of the Credit Agreements bear a rate per annum of LIBOR plus 2.5%. The balance outstanding on the line of credit was $8.5 million as of June 30, 2022 and $4.1 million on December 31, 2021. Interest charged on unpaid principal amount of the Credit Agreements bear a rate per annum of LIBOR plus 2.5%.

Note 6 Debt

As of June 30, 2022, the Company had $14.9 million in long-term debt, with $1.4 million payable within 12 months. At December 31, 2021, the Company had $18.4 million in long-term debt, with $1.6 million payable within 12 months. A summary of the Company's long-term debt is as follows in ("000's"):

	June 30, 2022	December 31, 2021
Long-Term Debt		
Note payable BP Peptides, LLC "Brookstone" secured by an interest in all of Capstone's assets. The secured loan bears interest at 6% per annum, with interest payable quarterly and a maturity date of April 1, 2024.	$ 711	$ 2,648
Mezzanine term loan to Stream Finance, LLC collateralized by substantially all of TotalStone, LLC's assets and subordinated to the Bank term notes. Interest is calculated monthly as the Base Rate divided by the Adjustment Factor of 0.75, but shall not exceed fifteen percent (15%) per annum (see further details herein), with a maturity date of November 14, 2023.	2,060	2,060
Seller's note with Avelina Masonry, LLC with interest accruing at LIBOR plus four and one-half percent (4.50%) and a maturity date of November 13, 2022.	1,383	1,671
Term note agreement with Berkshire Bank with interest totaling $83.3 thousand paid over 48 consecutive months, commencing January 2022.	3,500	4,000
Term note agreement with Berkshire Bank that bears interest of 3.29% per annum and a maturity date of February 28, 2041.	572	582
Promissory note with Avelina Masonry LLC and James Palatine (the "Sellers"). Promissory note had two tranches that bore interest between three (3%) and seven (7%) per annum based on Target Gross Profits and was repaid in full on June 15, 2022.	-	1,008
Auto loan from VW Credit, Inc. with an interest rate of 3.99% per annum over 48 months commencing January 1, 2020.	15	20
Secured promissory note with Brookstone Partners to acquire a minority interest in Diamond Products Holding. Interest shall accrue at one percent (1%) per annum with a maturity date of March 31, 2024.	8,101	8,061
	16,342	20,050
Less: current portion	(1,415)	(1,603)
Total long-term debt	**$ 14,927**	**$ 18,447**

Mezzanine Term Loan – Stream Finance, LLC.

Table A or Table B

Level	Adjusted EBITDA of TotalStone (exclusive of Northeast)	Rate		Level	Adjusted EBITDA of TotalStone and Northeast	Rate
I	Greater than $2,500,000	12%		I	Greater than $4,000,000	12%
II	Less than or equal to $2,500,000, but greater than or equal to $2,000,000	10%		II	Less than or equal to $4,000,000, but greater than or equal to $3,500,000	10%
III	Less than $2,000,000	8%		III	Less than $3,500,000	8%

Note 7 Leases

As of June 30, 2022, the balance of our right-of-use ("ROU") assets was $3.7 million, net and lease liabilities of $3.8 million, included in current portion, lease liability and lease liability, net of current portion. The maturity of our lease liabilities as of June 30, 2022 is as follows in ("000's"):

Year	Finance	Operating
Remainder of 2022	$ 53	$ 356
2023	57	753
2024	67	770
2025	27	708
2026	12	647
Thereafter	3	659
Total undiscounted Lease Payments	219	3,893
Less: Present value discount	(9)	(287)
Total Lease Liability	**$ 210**	**$ 3,606**

Lease expense recognized for our consolidated leases is as follows in ("000's"):

	Six months Ended June 30, 2022	Six months Ended June 30, 2021
Finance leases		
Amorization expense	$ 52	$ 47
Interest expense	4	5
Operating leases		
Straight-line rent expense	389	330
Total lease expense	**$ 445**	**$ 382**

The following summarizes additional information related to our leases in ("000's"):

	Six months ended June 30, 2022				Six months ended June 30, 2021			
	Finance		Operating		Finance		Operating	
Weighted-average remaining lease terms (years)		2.5		5.2		2.9		6.2
Weighted-average discount rate		3.64%		2.95%		3.57%		2.95%
ROU assets obtained in exchange for new lease liabilities	$	-	$	-	$	36.9	$	1,529

Note 8 TotalStone Preferred Units

As of April 2020, the Company entered into an agreement to obtain interest in a material distribution company, TotalStone LLC., which is the Company's primary business activity. The Company owns 100% of TotalStone's outstanding common voting units and receives certain funding from TotalStone, in exchange for potential benefits to the combined organization from the use of the Company's Federal Net Operating Loss and other tax benefit carryovers. The existing holders of TotalStone's common stock received Class B Preferred Units valued at $20.5 million, with a quarterly dividend. The preferred units are redeemable July 1, 2023 and if not redeemed the Class B Preferred Units holders will be allowed to appoint three of the five TotalStone, LLC. Board of Directors.

In addition, as part of the merger, the Mezzanine lender accepted $873.0 thousand as a Special Preferred Unit in lieu of debt. The Special Preferred Unit has a preferential distribution position but does not earn a preferred return.

On November 26, 2021, TotalStone, LLC's Managers amended TotalStone, LLC's *Fourth Amended and Restated Limited Liability Company Agreement*, effective April 1, 2020, to approve a one-time distribution to its Members and a payment on the outstanding debt under the Stream Credit Agreement (referenced in *Item 10*) totaling $4.5 million. This distribution was financed by $570.0 thousand in cash and $4.0 million of new debt. The breakout of this distribution is summarized in the table below in ("000's"):

Member	Distribution		Mezz Debt	Stream Finance, LLC	
Special Preferred	$	183	Principal	$	550
Class B Preferred		3,767	Interest		69
Total	**$**	**3,950**	**Total**	**$**	**619**

Note 9 TotalStone Warrants

In connection with the April 2020 TotalStone transaction, 1,175 warrants to purchase class A common interest in TotalStone were granted to TotalStone management. The warrants have a purchase price of $0.01 per warrant unit and vest in equal annual installments over the three-year period ended March 31, 2023. Vested warrants may be exercised through March 31, 2030 subject to continuing employment. The fair value of the warrants granted was not significant and accordingly no equity-based compensation has been recognized in the statement of income.

Note 10 Stockholders' Equity

In June 2015, our stockholders approved the 2015 Equity Incentive Plan (the "2015 Plan") and reserved 1,000,000 shares of our common stock for issuance. At June 30, 2022, no shares remained available to grant under the Plan and all granted shares are fully vested.

Stock-based compensation expense reflects the fair value of stock-based awards measured at the grant date and recognized over the relevant vesting period. The Company generally estimates the fair value of each stock-based award on the measurement date using the Black-Scholes option valuation model which incorporates assumptions as to stock price volatility, the expected life of the options, risk-free interest rate and dividend yield. No options were granted in 2021.

Stock Compensation

There were no stock compensation costs, option grants or stock options exercised in six month ended June 30, 2022 or 2021. At June 30, 2022, there were no remaining unamortized non-cash stock compensation costs.

As of June 30, 2022 and December 31, 2021, there are approximately 2,023 and 2,328 options exercisable and vested at a weighted average exercise price of $0.20, respectively. In addition, the Company issued a Warrant to Brookstone to purchase up to 6,322 shares of the Company's Common Stock with an exercise price between $10.00 and $30.00 per share, as determined by an independent valuation, through April 1, 2024, and after that date, the lesser of (i) $75.00 per warrant share and (ii) the 10-day average closing price of the Company's common stock. The warrant expires October 15, 2028 and provides for quarterly vesting of shares in amounts approximately equal to the amount of quarterly interest payable that would have been payable under the Agreement, converted into shares at $0.075. All shares are fully vested and exercisable.

Preferred Stock

We have 5,000 shares of authorized preferred stock, the terms of which may be fixed by our Board of Directors. We presently have no outstanding shares of preferred stock. Our Board of Directors has the authority, without stockholder approval, to create and issue one or more series of such preferred stock and to determine the voting, dividend and other rights of holders of such preferred stock. If we raise additional funds to continue operations, we may issue preferred stock. The issuance of any of such series of preferred stock may have an adverse effect on the holders of common stock.

The Board of Directors of the Company approved a Tax Benefit Preservation Plan ("Benefit Plan") dated April 18, 2017, between the Company and Computershare. The Benefit Plan and the exercise of rights to purchase Series A Preferred Stock, pursuant to the terms thereof, may delay, defer or prevent a change in control without the approval of the Board. In addition to the anti-takeover effects of the rights granted under the Benefit Plan, the issuance of preferred stock, generally, could have a dilutive effect on our stockholders.

Under the Benefit Plan, each outstanding share of our common stock has attached one preferred stock purchase right, Each share of our common stock subsequently issued prior to the expiration of the Benefit Plan will likewise have attached one right. Under specified circumstances involving an "ownership change," as defined in Section 382 of the Internal Revenue Code ("the Code"), the right under the Benefit Plan that attaches to each share of our common stock will entitle the holder thereof to purchase 1/100 of a share of our Series A Preferred Stock for a purchase price of $5.00 (subject to adjustment), and to receive, upon exercise, shares of our common stock having a value equal to two times the exercise price of the right. The Benefit Plan expires December 31, 2023.

Note 11 TotalStone, LLC 401(K) Retirement Savings Plan

TotalStone, LLC maintains a defined contribution pension plan, which covers all employees electing to participate after completing certain service requirements. Employer contributions are made at the Company's discretion. Generally, the Company makes safe harbor matching contributions equal to 100% of employee contribution up to 4% of the employee's Plan Compensation, as defined. Each participant is 100% vested in in their salary deferral and the safe harbor Company's matching contributions. Other employer discretionary contributions are subject to a graded vesting schedule.

Note 12 Income Taxes

ASC 740 requires that a valuation allowance be established when it is more-likely-than-not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period-to-period are included in the tax provision in the period of change. In determining whether a valuation allowance is required, the Company takes into account all evidence with regard to the utilization of a deferred tax asset including past earnings history, expected future earnings, the character and jurisdiction of such earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of a deferred tax asset, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. Management has evaluated the available evidence about future taxable income and other possible sources of realization of deferred tax assets and has established a valuation allowance of approximately $23.0 million at June 30, 2022 and December 31, 2021. The valuation allowance reduces deferred tax assets to an amount that management believes will more likely than not be realized.

The Company has accumulated approximately $148.0 million in federal and $16.0 million in state net operating loss carryforwards ("NOLs") and approximately $3.9 million of research and development tax credit carryforwards. The federal NOLs generated before 2018 have 20-year carryforward periods with NOLs generated in 2018 and after have no expiration period. Federal NOLs generated in 2018 and after total $1.2 million. The Arizona state NOL's expire in different periods through 2038. The availability of these NOL's to offset future taxable income could be limited in the event of a change in ownership, as defined in Section 382 of the Internal Revenue Code.

Note 13 Subsequent Events

The Company has evaluated subsequent events through August 10, 2022, the date which the financial statements were available to be issued.

Item 4 Management's Discussion and Analysis.

These statements are based on current expectations and assumptions regarding future events and business performance and involve known and unknown risks, uncertainties and other factors that may cause industry trends or our actual results, level of activity, performance, or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These financial statements and notes thereto should be read in conjunction with the audited financial statements and related notes included in our Annual Report for the fiscal year ended December 31, 2021 & 2020, filed with the OTCQB. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Results of Operations Comparing Three Months Ended June 30, 2022 to 2021.

Revenue: Revenue related to our operations was $19.5 million in 2022 compared to $20.5 million in 2021. Revenue decreased between 2022 and 2021 due to lower volume of natural and manufactured stone products, partially offset by price increases of natural and manufactured stone products.

Gross Profit: Gross profit related to our operations was $5.3 million in 2022 compared to $5.3 million in 2021. Gross profit was flat between 2022 and 2021 due to price increase in natural and manufactured stone products, offset by lower volume of natural and manufactured stone products.

Net Income: Net income related to our operations was $1.9 million in 2022 compared to net income of $2.3 million in 2021. Net income decreased between 2022 and 2021 due to lower volume of natural and manufactured stone products and higher SG&A, partially offset by price increases of natural and manufactured stone products.

Results of Operations Comparing Six Months Ended June 30, 2022 to 2021.

Revenue: Revenue related to our operations was $32.8 million in 2022 compared to $32.2 million in 2021. Revenue increased between 2022 and 2021 due to price increase in natural and manufactured stoned products, partially offset by volume of natural and manufactured stone products.

Gross Profit: Gross profit related to our operations was $8.7 million in 2022 compared to $6.8 million in 2021. Gross profit increased between 2022 and 2021 due to price increase in natural and manufactured stone products, partially offset by volume of natural and manufactured stone products.

Net Income: Net income related to our operations was $1.9 million in 2022 compared to net income of $1.2 million in 2021. Net income increased between 2022 and 2021 due to price increases in natural and manufactured stone products, partially offset by volume of natural and manufactured stone products and higher SG&A.

Diamond Products, LLC (Pipedream Products)

Diamond Products, LLC is a holding company which owns Pipedream Products, one of the largest designers, manufactures and distributors of proprietary romance products in the United States. Diamond's product portfolio includes adult toys, lingerie, games, lotions and creams that are sold globally in over 80 countries through 5,000 retailers as well as e-commerce websites. Diamond is a privately-held company based in Chatsworth, CA.

The Company is accounting for its investment using the cost method of accounting. Under the cost method of accounting, operating activity is not recorded except when distributions are received or due to the Company. The Company will receive minimum distributions of the greater of 12% of taxable income allocated to it or the actual tax due on taxable income allocated to it. As of six months ended June 30, 2022, the Company did not recognize any distributions from Diamond as such distributions attributable to 2022 were not readily determinable as of date of issuance of the financial statements.

Extinguishment of Debt

In connection with the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), in April 2020, the Company was approved for a term note which allowed for available funds of $780.0 thousand, with interest at a fixed rate of 1%. The original repayment terms included principal and interest payments beginning in October 2020 through April 2022. In June of 2020, the PPP Flexibility Act of 2020 was signed into law, which revised the deferral period for PPP loans, allowing the Company to defer payment until ten months after the end of the loan forgiveness covered period or when forgiveness is received. Under the terms of the PPP, up to 100% of the loan (and related interest expense) may be forgiven if the proceeds are used for covered expenses and certain other requirements related to wage rates and maintenance of full-time equivalents are met. In second quarter of 2021, the Company applied for and received full loan forgiveness from the U.S. Small Business Administration ("SBA") for principal and accrued interest, recognized as gain on extinguishment of debt in the consolidated statement of operations.

Liquidity and Capital Resources

The Company's primary source of cash is from the distribution of masonry stone products for residential and commercial construction in the Midwest and Northeast United States. We believe our balance of $262.0 thousand in cash and $5.4 million in cash availability on our Revolving Credit Note ("Revolver") as of June 30, 2022, will be sufficient to satisfy our cash requirements over the next 12 months and beyond. The Company believes we will be able to continue to borrow funds on our Revolver when and as required.

Seasonality

The Company historically experiences higher sales during our second and third quarters due to the favorable weather in the Midwestern and Northeastern United States for new constructions and remodels.

Other Arrangements.

None

Item 5 Legal proceedings.

There are currently no known current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the Company's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator.

Item 6 Defaults upon senior securities.

None

Item 7 Other information.

None

Item 8 Exhibits.

Exhibit No.	Description	Incorporated by Reference to:
10.48	Exercise of secured debt and interest conversion option by majority shareholder, BP Peptides, LLC.	Filed as Exhibit 10.1 to this Quarterly Report

A complete listing of all other contracts which the Company is a party to and can reasonably be regarded as material to a security holder of the Company can be found in our 2021 Annual Report.

Item 9 Certifications.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Michael M. Toporek, III, certify that:

1. I have reviewed this annul disclosure statement of Capstone Holding Corp;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 10, 2022

/s/ Michael M. Toporek

Michael M. Toporek, III
Chairman of the Board & Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Omar Rabbani, certify that:

1. I have reviewed this annul disclosure statement of Capstone Holding Corp;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 10, 2022

/s/ Omar Rabbani

Omar Rabbani
Chief Financial Officer