



CAPSTONE HOLDING CORP.

f/k/a “Capstone Therapeutics 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)

(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 March 31, 2023

(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 March 31, 2023 and December 31, 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.
QUARTERLY REPORT
FOR PERIOD ENDED MARCH 31, 2023
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CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This quarterly 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 or Plan 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 quarterly 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 quarterly 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 Holding Corp.

Capstone Therapeutics Corp.

Effective February 17, 2022, the Company changed its name from Capstone Therapeutics Corp. to 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 2023, 2022 or 2021.

Common Stock, 200,000 authorized, 157,610 outstanding ³ at March 31, 2023 and December 31, 2022, and 79,277 at December 31, 2021.

Public Float ¹ at March 31, 2023 and December 31, 2022 was approximately 35,836 and 35,110 shares, respectively. Public Float at December 31, 2021 was approximately 27,556 shares.

Beneficial shareholders owning at least 100 shares ² was approximately 162 at March 31, 2023 and 164 at December 31, 2022 and 2021.

Stockholders of record at were 24 and 26 at March 31, 2023 and December 31, 2022, respectively. Stockholders of record were approximately 25 at December 31, 2021.

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 SHEETS
(in thousands, except share and per share data)
(unaudited)

	March 31, 2023	December 31, 2022
ASSETS		
Current Assets:		
Cash	\$ 68	\$ 23
Accounts receivable, net	5,577	3,031
Inventories	16,962	17,398
Other current assets	490	520
Total current assets	23,097	20,972
Long-term Assets:		
Property and equipment, net	1,830	1,815
Goodwill & other intangible assets	23,305	23,309
Right of use assets	3,262	3,439
Deferred tax asset	7,629	7,629
Investment in non-marketable securities	8,000	8,000
Other long-term assets	48	48
Total long-term assets	44,074	44,240
Total Assets	\$ 67,171	\$ 65,212
LIABILITIES & EQUITY		
Current Liabilities:		
Accounts payable & other accrued liabilities	\$ 3,842	\$ 2,726
Line of credit	10,981	7,271
Current portion of long-term debt	958	1,094
Current portion, lease liability	799	797
Total current liabilities	16,580	11,888
Long-term liabilities:		
Accrued related party management fee	351	351
Long term debt, net of current portion	15,860	16,915
Lease liability, net of current portion	2,552	2,727
Total long-term liabilities	18,763	19,993
Total Liabilities	35,343	31,881
Totalstone, LLC - Class B Preferred Units	24,951	24,105
TotalStone, LLC - Special Preferred Units	677	1,054
Equity:		
Common Stock \$0.0005 par value; 200,000 shares authorized; 157,610 issued as of March 31, 2023 and December 31, 2022	-	-
Additional paid-in capital	193,044	193,044
Accumulated deficit	(186,844)	(184,872)
Total Equity	6,200	8,172
Total Liabilities, Totalstone, LLC. Preferred Units & Equity	\$ 67,171	\$ 65,212

See notes to consolidated financial statements

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

	Three Months Ended	
	March 31,	
	2023	2022
Sales	\$ 11,704	\$ 13,317
Sales returns and allowances	(84)	(2)
Net sales	11,620	13,315
Cost of goods sold	9,228	9,915
Gross Profit	2,392	3,400
Selling, general and administrative expenses	3,082	3,344
Income (loss) from operations	(690)	56
Interest and other expense, net	(424)	(239)
Loss from operations before taxes	(1,114)	(183)
Net Loss	(1,114)	(183)
Less: Net loss attributable to:		
Special preferred units	(12)	(10)
Class B units preferred return	(846)	(735)
Net Loss attributable to Capstone		
Holding Corp. stockholders	\$ (1,972)	\$ (928)

See notes to consolidated financial statements

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

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
OPERATING ACTIVITIES		
Net loss	\$ (1,114)	\$ (183)
Non cash items:		
Depreciation and amortization	61	74
Change in other operating items:		
Accounts receivable and other assets	(1,900)	(4,989)
Accounts payable and other accrued liabilities	908	2,143
Cash flows used in operating activities	(2,045)	(2,955)
INVESTING ACTIVITIES		
Purchase of property and equipment, net	(76)	(11)
Cash flows used in investing activities	(76)	(11)
FINANCING ACTIVITIES		
Proceeds from debt issuance	-	110
Borrowings under line of credit, net	3,710	3,522
Debt payments	(1,155)	(480)
Cash payment to special preferred equity members	(389)	-
Cash flows provided by financing activities	2,166	3,152
NET CHANGE IN CASH & CASH EQUIVALENTS	45	186
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	23	50
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 68	\$ 236
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Operating cash flows from finance leases (i.e. Interest)	\$ 2	\$ 2
Financing cash flows from finance leases (i.e. principal portion)	35	26
Operating cash flows from operating leases	189	185

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 its consolidated subsidiaries. Intercompany accounts and transactions 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 adjustments 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.

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 March 31, 2023 and December 31, 2022, the allowance for doubtful accounts totaled approximately \$104.0 thousand and \$106.0 thousand, respectively.

Accounts Payable

Accounts payable includes accrued and deferred officer compensation that is payable at various times and amounts on occurrence of certain performance levels or approval by the Company's Board of Directors. As of March 31, 2023 and December 31, 2022, there was no deferred officer compensation.

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 three months ended March 2023 and 2022, advertising expenses were \$66.0 thousand and \$68.0 thousand, respectively.

Cash

Cash consists of balances held in a commercial bank account.

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 assts 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. For 2023 and 2022, no impairment charges were necessary.

Inventories

Inventories consisting of finished goods are stated at the lower of cost, determined by the average cost method, or net realizable value. Inventories also include deposits placed on inventory purchases for shipments not yet received. Significant prepaid inventory may be located overseas. At March 31, 2023 and December 31, 2022, the total prepaid inventory balance was \$1.3 million and \$1.4 million, respectively. The reserve for obsolete inventory at March 31, 2023 and December 31, 2022, totaled \$301.0 thousand.

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 at a point in time, 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 2023 and 2022, there are no estimates of variable considerations represented in revenue.

Note 3 Property and Equipment, Net.

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

	March 31, 2023	December 31, 2022
Property and Equipment, Net.		
Land and buildings	\$ 685	\$ 685
Machinery and equipment	842	842
Computer equipment	230	230
Computer software	259	259
Furniture and fixtures	332	332
Leasehold Improvements	812	736
Total property and equipment	\$ 3,160	\$ 3,084
Accumulated depreciation and amortization	(1,330)	(1,269)
Total property and equipment	\$ 1,830	\$ 1,815

Depreciation and amortization expense on property and equipment for three months ended March 31, 2023 and 2022 was \$61.0 thousand and \$74.0 thousand, respectively.

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):

	March 31, 2023	December 31, 2022
Accounts Receivable		
Accounts receivable, gross	\$ 5,681	\$ 3,138
Less: Allowance for doubtful accounts	(104)	(106)
Total accounts receivable, net.	\$ 5,577	\$ 3,031

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 \$10.9 million and \$7.2 million as of March 31, 2023 and December 31, 2022, respectively, with a maturity date of December 1, 2025. 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 March 31, 2023, the Company had \$16.8 million in long-term debt, with \$958.0 thousand payable within 12 months. A summary of the Company's long-term debt is as follows in ("000's"):

	March 31, 2023	December 31, 2022
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.	\$ 743	\$ 733
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 December 31, 2025.	1,309	2,060
Seller's note with Avelina Masonry, LLC with interest accruing at LIBOR plus four and one-half percent (4.50%). Monthly payments of \$48.0 thousand.	951	1,094
Term note agreement with Berkshire Bank with interest totaling \$83.3 thousand paid over 48 consecutive months, commencing January 2022.	2,750	3,000
Navarre sale leaseback finance obligation with lease term through December 31, 2047.	2,896	2,970
Auto loan from VW Credit, Inc. with an interest rate of 3.99% per annum over 48 months commencing January 1, 2020.	7	10
Secured promissory note with Brookstone Partners plus accrued interest 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.	8,162	8,142
	16,818	18,009
Less: current portion	(958)	(1,094)
Total long-term debt	\$ 15,860	\$ 16,915

Mezzanine Term Loan – Stream Finance, LLC.

<u>Table A</u>			or	<u>Table B</u>		
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 March 31, 2023, the balance of our right-of-use (“ROU”) assets was \$3.2 million, net and lease liabilities of \$3.3 million, included in current portion, lease liability and lease liability, net of current portion. The maturity of our lease liabilities as of March 31, 2023 is as follows in (“000’s”):

<u>Year</u>	<u>Finance</u>	<u>Operating</u>
Remainder of 2023	\$ 121	\$ 766
2024	79	743
2025	28	642
2026	13	660
2027	5	500
Thereafter	-	19
Total undiscounted Lease Payments	246	3,330
Less: Present value discount	(12)	(213)
Total Lease Liability	<u>\$ 234</u>	<u>\$ 3,117</u>

Lease expense recognized for our consolidated leases is as follows in (“000’s”):

	<u>Three months</u>	<u>Three months</u>
	<u>Ended March 31,</u>	<u>Ended March 31,</u>
	<u>2023</u>	<u>2022</u>
Finance leases		
Amorization expense	\$ 36	\$ 26
Interest expense	2	2
Operating leases		
Straight-line rent expense	195	195
Total lease expense	<u>\$ 233</u>	<u>\$ 223</u>

The following summarizes additional information related to our leases for 2022 and 2021 in (“000’s”):

	Three months ended March 31, 2023		Three months ended March 31, 2022	
	Finance	Operating	Finance	Operating
Weighted-average remaining lease terms (years)	2.5	4.5	2.7	5.5
Weighted-average discount rate	3.80%	2.95%	3.64%	2.95%
ROU assets obtained in exchange for new lease liabilities	\$ 30	\$ -	\$ -	\$ -

Note 8 Goodwill and Other Intangible Assets

As of March 31, 2023 and December 31, 2022, the Company had \$23.3 million in goodwill and other intangible assets. Goodwill activity is as follows in (“000’s”):

	<u>Goodwill</u>
Balances as of December 31, 2021	\$ 23,286
Acquisitions	-
Other Adjustments	-
Balance as of December 31, 2022	\$ 23,286
Balances as of December 31, 2022	\$ 23,286
Acquisitions	-
Other Adjustments	-
Balance as of March 31, 2023	\$ 23,286

The following tables summarize the Company’s other intangible assets in (“000’s”):

	As of December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Non-compete agreements	\$ 50	\$ (30)	\$ 20
Customer lists	231	(231)	-
Other	11	(8)	3
Total definite-lived intangible assets	292	(269)	23
Indefinite-lived intangible assets	-	-	-
Total intangible assets	\$ 292	\$ (269)	\$ 23

	As of March 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Non-compete agreements	\$ 50	\$ (32)	\$ 18
Customer lists	231	(231)	-
Other	11	(10)	1
Total definite-lived intangible assets	292	(273)	19
Indefinite-lived intangible assets	-	-	-
Total intangible assets	\$ 292	\$ (273)	\$ 19

Expected amortization expense related to other intangible assets held as of March 31, 2023 is as follows in (“000’s”):

Year	
Remainder of 2023	\$ 9
2024	10
2025	-
2026	-
Thereafter	-
Total	\$ 19

Note 9 TotalStone Preferred Units

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 March 8, 2023, the Company entered into the Ninth Amendment to the Revolving Credit, term Loan and Security Agreement (the “Ninth Amendment”). The Ninth Amendment permits a payment of \$389.0 thousand to the Special Preferred Unit holders.

Note 10 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 vested in equal annual installments over a three-year period, with the final vesting date on 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 11 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 March 31, 2023, 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 2023 or 2022.

Stock Compensation

There were no stock compensation costs, option grants or stock options exercised in 2023 or 2022. At March 31, 2023, there were no remaining unamortized non-cash stock compensation costs.

As of March 31, 2023 and December 31, 2022, there were approximately 1,528 and 1,753 options exercisable and vested at a weighted average exercise price of \$0.21 and \$0.22, 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.

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 12 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 their salary deferral and the safe harbor Company's matching contributions. Other employer discretionary contributions are subject to a graded vesting schedule.

Note 13 Income Taxes

The components of deferred income tax assets are as follows as of December 31 ("000's"):

	2022	2021
Accruals and reserves	\$ 536	\$ 536
Net operating loss carryforwards	29,931	30,992
Valuation allowance	(22,838)	(23,373)
Net, deferred income tax assets	<u>\$ 7,629</u>	<u>\$ 8,155</u>

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 \$22.8 million and \$23.4 million at December 31, 2022 and 2021, respectively. The valuation allowance reduces deferred tax assets to an amount that management believes will more likely than not be realized. The change in the valuation allowance from 2020 to 2021 was not material.

The components of the income tax provision (benefit) are as follows in ("000's):

	2022	2021
Federal:		
Current	\$ -	\$ -
Deferred	525	525
	525	525
State and local:		
Current	258	(89)
Deferred	-	-
	258	(89)
Income tax provision	\$ 783	\$ 436

The Company has accumulated approximately \$143 million in federal and \$16 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 having 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.

A reconciliation of the difference between the provision for income taxes and income taxes at the statutory U.S. federal income tax rate is as follows in ("000's"):

	2022	2021
Income tax provision at statutory rate	\$ 651	\$ 915
State and local income taxes	258	(19)
Income attributable to TotalStone preferred units	(314)	(285)
Non-taxable income from PPP Loan forgiveness	-	(164)
Other	76	(11)
	\$ 783	\$ 436

Note 14 Subsequent Events

The Company has evaluated subsequent events through May 12, 2023, 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 years ended December 31, 2022 & 2021, 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.

The following is management's discussion of the Company's consolidated financial statements and results of operations for three months ended March 31, 2023 & 2022 in ("000's"):

	Three months ended March 31, 2023	Three months ended March 31, 2022
Revenue	\$ 11,620	\$ 13,315
Gross Profit	\$ 2,392	\$ 3,400
Gross Profit %	20.6%	25.5%
Income (loss) for operations	\$ (690)	\$ 56

Results of Operations Comparing Three Months Ended March 31, 2023 to 2022.

Revenue: Revenue related to our operations was \$11.6 million in 2023 compared to \$13.3 million in 2022. Revenue decreased between 2023 and 2022 due to lower volume of manufactured stone products and price decreases of natural and manufactured stone products.

Gross Profit: Gross profit related to our operations was \$2.4 million in 2023 compared to \$3.4 million in 2022. Gross profit decreased between 2023 and 2022 due to lower volume of manufactured stone products and price decreases of natural and manufactured stone products.

Income (Loss) from Operations: Loss from operations was \$690.0 thousand in 2023 compared to income from operations of \$56.0 thousand in 2022. Income from operations decreased between 2023 and 2022 due to lower volume of manufactured stone products and price decreases of natural and manufactured stone products, partially offset by lower SG&A expenses.

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. For the three months ended March 31, 2023, the Company did not recognize any distributions from Diamond Products, LLC.

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 \$68.0 thousand in cash and \$3.0 million in cash availability on our Revolving Credit Note ("Revolver") as of March 31, 2023, 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:
<u>10.48</u>	Exercise of secured debt and interest conversion option by majority shareholder, BP Peptides, LLC.	Filed as Exhibit 10.1 to the Annual Report for the year ended December 31, 2022

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 annual audited financials on the OTCQB's website.

Item 9 Certifications.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

1. I have reviewed this quarterly 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: May 12, 2023

/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 quarterly 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: May 12, 2023

/s/ Omar Rabbani

Omar Rabbani
Chief Financial Officer