



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 September 30, 2024

(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 September 30, 2024 and December 31, 2023.

The number of shares outstanding of our common stock was 157,610 as of December 31, 2022.

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 SEPTEMBER 30, 2024
TABLE OF CONTENTS**

Item 1	The exact name of the issuer and the address of its principal executive offices	4
Item 2	Shares outstanding	4
Item 3	Interim financial statements	5
Item 4	Management's discussion and analysis	19
Item 5	Legal proceedings	20
Item 6	Defaults upon senior securities	20
Item 7	Other information	20
Item 8	Exhibits	20
Item 9	Certifications	21

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 2024, 2023 or 2022.

Common Stock, 200,000 authorized, 157,610 outstanding at September 30, 2024, December 31, 2023 and 2022.

Public Float ¹ at September 30, 2024 and December 31, 2023 was approximately 35,836 shares. Public Float at December 31, 2022 was approximately 35,110 shares.

Beneficial shareholders owning at least 100 shares ² was approximately 158 at June 30, 2024 and December 31, 2023 and 164 at December 31, 2022.

Stockholders of record were approximately 19 at September 30, 2024 and 21 at December 31, 2023. Stockholders of record were approximately 26 at December 31, 2022.

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.

Item 3 Interim financial statements.

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

	September 30, 2024	December 31, 2023
ASSETS		
Current Assets:		
Cash	\$ 13	\$ 52
Accounts receivable, net	4,812	2,581
Inventories	11,151	13,750
Prepaid expenses	263	458
Other current assets	242	241
Total current assets	16,481	17,082
Long-term Assets:		
Property and equipment, net	1,648	1,756
Goodwill	23,286	23,286
Other intangible assets	46	10
Right of use assets	2,330	2,922
Deferred tax asset	7,597	7,597
Other long-term assets	146	48
Total long-term assets	35,053	35,619
Total Assets	\$ 51,534	\$ 52,701
LIABILITIES & EQUITY		
Current Liabilities:		
Accounts payable	\$ 3,909	\$ 2,575
Accrued expenses	432	324
Line of credit	8,410	8,574
Current portion of long-term debt	1,916	3,612
Current portion, lease liability	802	887
Total current liabilities	15,469	15,972
Long-term liabilities:		
Accrued related party management fee	351	351
Long term debt, net of current portion	6,412	5,114
Lease liability, net of current portion	1,639	2,141
Total long-term liabilities	8,402	7,606
Total Liabilities	23,871	23,578
Totalstone, LLC - Class B Preferred Units	28,580	25,871
TotalStone, LLC - Special Preferred Units	1,006	815
Equity:		
Common Stock \$0.0005 par value; 200,000 shares authorized; 157,610 issued as of September 30, 2024 and December 31, 2023	-	-
Additional paid-in capital	193,044	193,044
Accumulated deficit	(194,967)	(190,607)
Total Equity	(1,923)	2,437
Total Liabilities, Totalstone, LLC. Preferred Units & Equity	\$ 51,534	\$ 52,701

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		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Sales	\$ 12,559	\$ 12,094	\$ 35,293	\$ 39,026
Sales returns and allowances	(241)	(15)	(730)	(157)
Net sales	12,318	12,079	34,563	38,869
Cost of goods sold	9,325	9,566	27,062	30,484
Gross Profit	2,993	2,513	7,501	8,385
Selling, general and administrative expenses	2,580	2,662	7,791	8,672
Income (loss) from operations	413	(149)	(290)	(287)
Interest and other expense, net	(374)	(425)	(1,148)	(1,145)
Income (loss) from operations before taxes	39	(574)	(1,438)	(1,432)
Income tax expense	5	35	22	368
Net Income (Loss)	34	(609)	(1,460)	(1,800)
Less: Net loss attributable to:				
Special preferred units	(99)	(75)	(191)	(94)
Class B units preferred return	(933)	(871)	(2,709)	(2,559)
Net loss attributable to Capstone Holding Corp. stockholders	\$ (998)	\$ (1,555)	\$ (4,360)	\$ (4,453)

See notes to consolidated financial statements

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

	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
OPERATING ACTIVITIES		
Net loss	\$ (1,460)	\$ (1,800)
Depreciation and amortization	270	229
Accounts receivable and other assets	1,007	1,909
Accounts payable and other accrued liabilities	1,159	(289)
Cash flows provided by operating activities	976	49
INVESTING ACTIVITIES		
Purchase of property and equipment, net	(101)	(166)
Cash flows used in investing activities	(101)	(166)
FINANCING ACTIVITIES		
Proceeds from debt issuance	-	44
Borrowings under line of credit, net	(164)	2,335
Debt payments	(750)	(1,814)
Cash payment to special preferred equity members	-	(389)
Cash flows provided by (used in) provided by financing activities	(914)	176
NET CHANGE IN CASH & CASH EQUIVALENTS	(39)	59
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	52	23
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 13</u>	<u>\$ 82</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Operating cash flows from finance leases (interest)	\$ 11	\$ 8
Financing cash flows from finance leases (principal portion)	120	102
Operating cash flows from operating leases	582	569

See notes to consolidated financial statements

CAPSTONE HOLDING CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except Common Stock Shares)

	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total Equity	Class B Units	Special Preferred Unit
Balance at December 31, 2022	157,610	\$ 193,044	\$ (184,872)	\$ 8,172	\$ 24,105	\$ 1,054
Net loss			(1,800)	(1,800)		
Accrued Class B Distributions			(2,559)	(2,559)	2,559	
Accrued Special Preferred Distributions			(94)	(94)		94
Special Preferred Distribution				-		(389)
Balance at September 30, 2023	157,610	\$ 193,044	\$ (189,325)	\$ 3,719	\$ 26,664	\$ 759

	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total Equity	Class B Units	Special Preferred Unit
Balance at December 31, 2023	157,610	\$ 193,044	\$ (190,607)	\$ 2,437	\$ 25,871	\$ 815
Net loss			(1,460)	(1,460)		
Accrued Class B Distributions			(2,709)	(2,709)	2,709	
Accrued Special Preferred Distributions			(191)	(191)		191
Balance at September 30, 2024	157,610	\$ 193,044	\$ (194,967)	\$ (1,923)	\$ 28,580	\$ 1,006

See notes to consolidated financial statements

CAPSTONE HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature of Operations

Capstone Holding Corp. (the “Capstone”) is a holding company and its operations consist substantially of the operations of its consolidated subsidiary, TotalStone, LLC (“TotalStone”). On April 1, 2020, Capstone obtained controlling interest in TotalStone, a materials distribution company that distributes masonry stone products for residential and commercial construction in the Midwest and Northeast United States under the trade names Instone and Northeast Masonry Distributors (“NMD”).

Note 2 Summary of Significant Accounting Policies

Basis of Presentation and Preparation

The consolidated financial statements include the accounts of Capstone and its consolidated subsidiaries (collectively, the “Company”). 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.

Cash

Cash consists of balances held in commercial bank accounts.

Accounts Receivable

Accounts receivable are recorded and carried at the original invoiced amount less an allowance for any potential uncollectible amounts. The Company estimates expected credit losses for the allowance for expected credit losses based upon its assessment of various factors, including historical experience, the age of the accounts receivable balances, credit quality of its customers, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect the Company’s ability to collect from customers. As of September 30, 2024 and December 31, 2023, the allowance for doubtful accounts totaled approximately \$104.0 thousand.

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.

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 September 30, 2024 and December 31, 2023, the total prepaid inventory balance was \$277.0 thousand and \$912.0 thousand, respectively. The reserve for obsolete inventory at September 30, 2024 and December 31, 2023, totaled \$324.0 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.

Goodwill and Other Intangible Assets

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill and indefinite lived intangible assets are not amortized, but rather are tested for impairment annually as of the 1st day of the fourth quarter of each year or more frequently if indications of potential impairment exist. The Company's goodwill is recognized in one reporting unit, its consolidated subsidiary, TotalStone.

In evaluating potential goodwill impairment, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, based on a review of qualitative factors, it is more likely than not that the fair value of a reporting unit is less than its carrying value, we perform a quantitative analysis. If the quantitative analysis indicates the carrying value of a reporting unit exceeds its fair value, we measure any goodwill impairment losses as the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to that reporting unit. The Company determined that no impairment was required for the periods presented.

Intangible assets with finite lives, consist of a non-compete agreement, amortized over the term of the agreement.

Long-lived Asset Impairments

Long-lived assets and finite lived 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 the assets 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. The Company determined that no impairment was required for the periods presented.

Investment in Non-Marketable Securities

Investments in non-marketable securities without readily determinable fair values by entities that do not exercise significant influence over the investee are recorded at cost, less impairment, plus or minus observable price changes.

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. Our sales predominantly contain a single delivery element and revenue is recognized at a point in time when ownership, risks and rewards transfer. For 2024 and 2023, there are no estimates of variable considerations represented in revenue.

Shipping and Handling

The Company includes amounts billed to customers related to shipping and handling and related shipping and handling expenses incurred in cost of goods sold.

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 nine months ended September 2024 and 2023, advertising expenses were \$103.0 thousand and \$249.0 thousand, respectively

Research and Development

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

Note 3 Related Party Transactions

TotalStone is party to an agreement with a related party, BP Peptides, LLC, an entity controlled by Brookstone Partners (“Brookstone”), the Company’s majority shareholder. Pursuant to this agreement, BP Peptides, LLC provides annual consulting services totaling \$400.0 thousand. The agreement also provides for an additional management fee equal to 5% of earnings before interest, taxes, depreciation, and amortization (“EBITDA”) in excess of \$4.0 million. Amounts accrued for such consulting services totaled \$351.0 thousand as of September 30, 2024 and December 31, 2023, respectively. The management fees expensed in the nine-months ended September 30, 2024 and 2023 were \$300.0 thousand and included in selling, general and administrative expenses.

Stream Finance, LLC, which serves as a creditor on the Company’s mezzanine term loan of \$1.5 million as of September 30, 2024, is managed by Brookstone, which has a 77.3% ownership through BP Peptides, LLC, and two board member seats of the Company.

As further disclosed in Note 6 on March 31, 2021 a subsidiary of the Company acquired a minority interest in Diamond Products, LLC (“Diamond”) from an entity affiliated with Brookstone in exchange for a note payable issued to that entity by a Company subsidiary.

Note 4 Property and Equipment, Net.

A summary of the Company’s property and equipment is as follows in (“000’s”):

	September 30, December 31,	
	2024	2023
Property and Equipment, Net.		
Land and buildings	\$ 685	\$ 685
Machinery and equipment	873	856
Computer equipment	326	323
Computer software	462	347
Furniture and fixtures	332	332
Leasehold Improvements	715	749
Total property and equipment	\$ 3,393	\$ 3,292
Accumulated depreciation and amortization	(1,745)	(1,536)
Total property and equipment	\$ 1,648	\$ 1,756

Depreciation and amortization expense on property and equipment for nine months ended September 30, 2024 and 2023 was \$209.0 and \$228.0 thousand, respectively.

Note 5 Goodwill and Other Intangible Assets

As of September 30, 2024 and December 31, 2023, the Company had \$23.3 million in goodwill. There were no changes in the recognized goodwill balance during the periods presented.

The following tables summarize the Company's other intangible assets in ("000's"):

As of December 31, 2023			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Non-compete agreements	\$ 50	\$ (40)	\$ 10
Customer lists	231	(231)	-
Other	11	(11)	-
Total definite-lived intangible assets	292	(282)	10
Indefinite-lived intangible assets	-	-	-
Total intangible assets	\$ 292	\$ (282)	\$ 10

As of September 30, 2024			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Non-compete agreements	\$ 50	\$ (50)	\$ -
Customer lists	231	(231)	-
Other	11	(11)	-
Total definite-lived intangible assets	292	(292)	-
Trademark	46	0	46
Indefinite-lived intangible assets	46	-	46
Total intangible assets	338	(292)	46

As of September 30, 2024, the definite-lived intangible assets are fully amortized and there is no future amortization expense.

Note 6 Investment in Non-Marketable Securities

On March 31, 2021, the Capstone acquired a minority interest in a consumer products company, Diamond Products, LLC ("Diamond"), a sexual wellness holding company. The structure of the transaction was as follows: i) Brookstone Acquisition Partners XXI Corporation ("Brookstone XXI") contributed its approximately 95% equity interest in Diamond, which represented approximately 62% equity ownership on a fully-diluted basis, to Diamond Products Holdings, LLC ("DPH"); ii) The Company formed Capstone Beta LLC ("Beta") as a wholly-owned subsidiary, and Beta purchased a portion of Brookstone XXI's interest in DPH; iii) Beta issued a promissory note to Brookstone XXI in the original principal amount of \$8.0 million, bearing interest at 1% per annum over a 36 month term, and secured its obligations thereunder by pledging Beta's interests in DPH; and iv) As additional credit support, Capstone issued a limited payment guaranty to Brookstone XXI in the amount of 10% of the principal amount of Beta's promissory note.

The 20% minority investment in DPH represented an effective 19% equity interest in Diamond and approximately 12% on a fully-diluted basis. The Company does not have the ability to exercise significant influence over operating and financial policies of Diamond and DPH. The December 31, 2022 consolidated balance sheet includes the Company's \$8.0 million investment in long-term assets and the corresponding \$8.0 million note payable plus accrued interest.

On November 16, 2023, the Company entered into a transaction that transferred 100% of its ownership in DPH to a third party. As a result, the Company's wrote-off its \$8.0 million investment in DPH from and wrote-down its debt liability to \$800.0 thousand plus interest.

Note 7 Line of Credit

On June 29, 2015, TotalStone established a Revolving Credit Note which has been amended since. Under the terms of the Eleventh Amendment to the Revolving Credit, Term Loan and Security Agreement with Berkshire Bank, executed on October 16, 2024, TotalStone, LLC's maximum revolving advance amount is \$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 "Eligible Accounts Receivable" plus approximately fifty-five (55%) percent of the face amount of the TotalStone, "Finished Goods Inventory" up to a maximum amount of \$8.0 million. Interest charged on the unpaid principal amount of the Credit Agreement bears a rate per annum of LIBOR plus 2.5%. The balance outstanding on the line of credit was \$8.4 million and \$8.6 million as of September 30, 2024 and December 31, 2023, respectively, with a maturity date of April 30, 2025.

Note 8 Debt

As of September 30, 2024, the Company had \$8.6 million in long-term debt, with \$3.8 million payable within 12 months. A summary of the Company's long-term debt is as follows in ("000's"):

	September 30, 2024	December 31, 2023
Long-Term Debt		
Note payable to BP Peptides, LLC "Brookstone" secured by an interest in the Company's assets. The secured loan bears interest at 6% per annum, with interest payable quarterly and the as amended maturity date is June 30, 2026.	\$ 806	\$ 774
Mezzanine term loan to Steam Finance, LLC, collateralized by substantially all of TotalStone's assets and subordinated to the Bank term notes. Interest is calculated monthly as the Base Rate divided by an Adjustment Factor of 0.75, not to exceed 15% per annum (see further details below), with a maturity date of December 31, 2025. At September 30, 2024, \$202.0 thousand of accrued interest remains unpaid and is included within this amount.	1,512	1,309
Seller's note with Avelina Masonry, LLC, which required monthly payments of \$48.0 thousand. The original maturity date was November 13, 2022 but the loan has not been paid in full and is in default. The loan bears interest at one-month SOFR plus 4.5% plus 3.0% default (12.46% and 12.96% at September 30, 2024 and December 31, 2023, respectively. At September 30, 2024 and December 31, 2023, \$146.0 thousand and \$60.0 thousand of accrued interest remains unpaid and is included within this amount, respectively.	903	819
Term note agreement with Berkshire Bank, due in 48 consecutive monthly payments of \$83.0 thousand. The loan matures on December 1, 2025 and is secured by all assets of TotalStone. Interest is charged at the one-month SOFR plus 3.5% (7.86% and 8.96% at September 30, 2024 and December 31, 2023, respectively).	1,160	1,910
In December 2022, TotalStone sold its facility in Navarre, Ohio to a nonaffiliated third party for a purchase price of \$3.2 million and concurrently entered into a leaseback transaction. The transaction is treated as a failed sale in accordance with U.S. GAAP. The Company therefore recorded a financing liability related to the sale-leaseback in the amount of the sale price. The obligation matures in January 2048 and requires monthly payments of principal and interest. With the sale leaseback, TotalStone signed a lease agreement with a 25-year lease term. The initial annual lease payment of \$259.0 thousand increases 2% per annum. The imputed interest rate is 8.10%.	3,176	3,181
Secured promissory note with Brookstone plus accrued interest to acquire a minority interest in DPH. Interest accrues at 1% per annum, as amended maturity date of June 30, 2026.	1,040	1,010
	8,597	9,003
Less: current portion	(1,916)	(3,612)
Less: unamortized loan origination fees	(269)	(277)
Total long-term debt	\$ 6,412	\$ 5,114

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%

Scheduled maturities of long-term as of September 30, 2024, are as follows:

2024	\$ 1,160
2025	2,232
2026	1,866
2027	27
2028	35
Thereafter	3,074
Total	\$ 8,394

Note 9 Leases

As of September 30, 2024, the balance of our right-of-use (“ROU”) assets was \$2.3 million, net and lease liabilities of \$2.4 million, included in current portion, lease liability and lease liability, net of current portion. The maturity of our lease liabilities as of September 30, 2024 is as follows in (“000’s”):

Year	Finance	Operating
Remainder of 2024	\$ 42	\$ 197
2025	150	639
2026	103	657
2027	29	604
2028	20	88
Thereafter	-	-
Total undiscounted Lease Payments	344	2,184
Less: Present value discount	(7)	(80)
Total Lease Liability	\$ 337	\$ 2,104

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

	Nine months Ended September 30,		Nine months Ended September 30,	
	2024		2023	
Finance leases				
Amortization expense	\$	124	\$	107
Interest expense		11		8
Operating leases				
Straight-line rent expense		584		584
Total lease expense	\$	718	\$	699

The following summarizes additional information related to our leases for 2024 and 2023 in (“000’s”):

	Nine months ended September 30, 2024		Nine months ended September 30, 2023	
	Finance	Operating	Finance	Operating
Weighted-average remaining lease terms (years)	2.4	3.2	3.0	4.1
Weighted-average discount rate	4.00%	2.95%	3.91%	2.95%
ROU assets obtained in exchange for new lease liabilities	\$ 63	\$ -	\$ 219	\$ -

Note 10 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.

In addition, as part of the merger of the Company and TotalStone, the Mezzanine lender accepted \$873.0 thousand as a Special Preferred Unit in lieu of debt in 2022. 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 permitted a payment of \$389.0 thousand to the Special Preferred Unit holders.

Note 11 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 March 31, 2023 as the final vesting date. 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 operations.

Note 12 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 September 30, 2024, no shares remained available to grant under the Plan and all granted shares are fully vested.

Stock Compensation

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 2024 or 2023.

There were no stock compensation costs, option grants or stock options exercised in 2024 or 2023. At September 30, 2024, there were no remaining unamortized non-cash stock compensation costs.

As of September 30, 2024 and December 31, 2023, there were approximately 900 and 976 options exercisable and vested at a non-adjusted weighted average exercise price of \$0.20 and \$0.21, respectively. In addition, Capstone issued a Warrant to Brookstone to purchase up to 6,322 shares of the Capstone'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.

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. In May of 2024, The Company and Computershare extended the Benefit Plan through December 31, 2027.

Note 13 TotalStone 401(K) Retirement Savings Plan

TotalStone 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 contributions 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. Company matching contribution expense for the nine-months ended September 30, 2024 and 2023 were \$118.0 thousand and \$145.0 thousand, respectively.

Note 14 Income Taxes

As of September 30, 2024, there are no significant changes to the components of our deferred income tax assets compared to December 31, 2023. The components of deferred income tax assets are as follows as of December 31 (“000’s”):

	December 31, 2023	December 31, 2022
Stock Options	\$ 79	\$ 79
Basis Difference in TotalStone	463	519
Basis Difference in Diamond Products	247	247
Interest Expense Limitation	425	76
Federal Credits	3,866	3,866
Federal NOL Carryforward	29,497	29,100
Other	460	459
	35,037	34,346
Less: valuation allowance	(27,440)	(26,717)
Net, deferred income tax assets	<u>\$ 7,597</u>	<u>\$ 7,629</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 \$27.4 million and \$26.7 million at December 31, 2023 and 2022, respectively. 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 \$139.0 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 having no expiration period. Federal NOLs generated in 2018 and after total \$3.5 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.

For the nine-months ended September 30, 2024 and 2023, we have recognized income tax provisions of \$23.0 and \$368.0 thousand, respectively. The amounts recognized relate to state tax obligations. The reduction in tax expense in 2024 from 2023 reflects the termination of our investment in DPH in November 2023 and the associated state taxes related to taxable income on that investment.

Note 15 Subsequent Events

Subsequent to December 31, 2023, the Company was not in compliance with the financial covenant requirements under the Revolving Credit, Term Loan and Security Agreement with Berkshire Bank (the “Credit Agreement”). In October 2024, terms of the Credit Agreement were amended that modified the financial covenant requirements to align with the Company’s current forecast. Further, the amended terms provided a waiver for the Company’s compliance of the financial covenants not met through September 30, 2024.

On November 13, 2024, the Company entered into the Termination of Securities Purchase, Loan and Security Agreement (the “Termination Agreement”). The Termination Agreement terminates the Securities Purchase, Loan and Security Agreement (“SPLSA”) so that the Company’s liabilities and obligations with respect to the loan (as defined in the SPLSA) are solely set forth in the note payable with BP Peptides, LLC. as disclosed Note 8.

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, 2023 & 2022, 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 and nine months ended September 30, 2024 & 2023 in ("000's"):

	Three months Ended		Nine months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Revenue	\$ 12,318	\$ 12,079	\$ 34,563	\$ 38,869
Gross Profit	2,993	2,513	7,501	8,385
Gross Profit %	24.3%	20.8%	21.7%	21.6%
Income (loss) from operations	\$ 413	\$ (149)	\$ (290)	\$ (287)

Results of Operations Comparing Three Months Ended September 30, 2024 to 2023.

Revenue: Revenue was \$12.3 million in 2024 compared to \$12.1 million in 2023. Revenue slightly increased between 2024 and 2023 due to a price increase of stone products.

Gross Profit: Gross profit was \$3.0 million in 2024 compared to \$2.5 million in 2023. Gross profit increased between 2024 and 2023 due to a price increase of stone products and lower freight costs.

Income from Operations: Income from operations was \$413.0 thousand in 2024 compared to a loss of \$149.0 thousand in 2023. Income from operations increased between 2024 and 2023 due to higher gross margins and a decrease in selling, general and administrative expenses.

Results of Operations Comparing Nine Months Ended September 30, 2024 to 2023.

Revenue: Revenue was \$34.6 million in 2024 compared to \$38.8 million in 2023. Revenue decreased between 2024 and 2023 due to lower volume of stone products.

Gross Profit: Gross profit was \$7.5 million in 2024 compared to \$8.4 million in 2023. Gross profit decreased between 2024 and 2023 due to lower volume of stone products.

Loss from Operations: Loss from operations was \$290.0 thousand in 2024 compared to \$287.0 thousand in 2023. Loss from operations slightly increased from between 2024 and 2023 due to lower gross profit offset by a reduction in selling, general and administrative 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.

On November 16, 2023, the Company entered into a transaction that transferred 100% of its ownership in Diamond Products Holdings, LLC, to a third party. As a result, the Company's wrote-off its equity investment in DPH from \$8.0 million to zero and wrote-down its debt liability to \$800.0 thousand plus interest. The remaining debt liability will remain on the Company's balance sheet with a maturity date of June 30, 2026.

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 \$835.0 thousand in cash availability on our Revolving Credit Note ("Revolver") as of September 30, 2024, plus operating cash flows generated in 2024, 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>10.50</u>	Capstone Holding Corp. Reinstates Tax Benefit Plan	Filed as Exhibit 10.1 to the Quarterly Report for the quarter ended March 31, 2024

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: November 14, 2024

/s/ Michael M. Toporek

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Edward Schultz, 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: November 14, 2024

/s/ Edward Schultz

Edward Schultz
Chief Financial Officer