CapStone Bank

April 16, 2010

Dear Shareholder:

For the quarter ended March 31, 2010, we are pleased to report very positive operating results for CapStone Bank. We ended the first quarter of 2010 with $194.0 million in total assets, an increase of $35.0 million or 22% above the same period in 2009. Total loans were $130.7 million on March 31, 2010, an increase of $16.3 million or 14.3% over the same period in 2009. For the same comparative period, total deposits grew from $102.6 million to $130.2 million, an increase of $27.6 million or 27%.

Net income for the quarter ended March 31, 2010 was $360,100 versus $209,000 for the same period in 2009, an increase of $151,100 or 72.3%. During the first quarter of 2010, we expensed $170,000 in income taxes while we had no income tax expense in the first quarter of 2009. Our pre-tax, pre-provision income for the quarter ended March 31, 2010 was $719,000 compared to $288,000 for the same quarter in 2009, an increase of $431,000 or 150%. Our return on average equity was 5.70% for the quarter ended March 31, 2010 compared to 3.47% for the same period in 2009 and our return on average assets was 0.76% versus 0.54% for the same respective periods. The increase in net income was fueled primarily by two factors: our net interest income for the quarter ended March 31, 2010 increased by $405,200 or 31.2% over the same period in 2009; and, our non interest expenses increased by only $6,400 or 0.6% during the same comparable period.

As anticipated, the overall quality of our loan portfolio deteriorated slightly during the quarter as a result of the current economic environment. At quarter end March 31, 2010, our total nonperforming assets to total assets were 1.07% or $2.1 million. While high by our standards, this level of nonperforming assets is significantly lower than the median average for banks in North Carolina, which was 2.74 % as of December 31, 2009. Net charge offs during the quarter were $16,000 or 0.01% of total loans. Our provision for loan losses for the first quarter of 2010 was $189,000, bringing our allowance for loan losses to $2.6 million or 2.0% of total loans. With a ratio of equity to assets of 13.2% as of March 31, 2010, we continue to be an extremely well capitalized bank.

We are very pleased with these operating results, especially in light of the continued sluggishness of our local economy. With a number of key indicators suggesting we are close to the bottom of this economic cycle, we believe the recovery will be slower than the previous economic downturn due to its severity. During the remainder of this year, we will continue to look for opportunities to grow our bank in a manner which will result in increasing long term shareholder value.

As always, we appreciate the support of our shareholders and hope you will join us for our Annual Shareholders' Meeting at 10:00 a.m. on Wednesday, April 21, 2010 at North Ridge Country Club in Raleigh, NC.

Sincerely,

Michael S. Patterson
Executive Chairman

Steven R. Ogburn
President and CEO

CAPSTONE BANK

Balance Sheet

(UNAUDITED)

	Actual Mar 2010	Actual Mar 2009	$ Change	% Change
Assets				
Cash and due from banks	1,926,738	3,989,232	-2,062,494	-51.7
Fed funds sold & repos	2,618,919	56,976	2,561,942	4496.5
Interest bearing deposits with banks	27,136,105	12,035,000	15,101,105	125.5
Investment Securities - Taxable	21,968,427	27,278,609	-5,310,182	-19.5
Investment Securities - Tax-exempt	5,621,294	1,285,000	4,336,294	337.5
Loans, net of unearned income	130,665,347	114,342,368	16,322,979	14.3
Less: Allowance for loan losses	-2,610,639	-1,854,000	-756,639	-40.8
Premises and equipment, net	414,158	481,989	-67,831	-14.1
Accrued interest receivable	651,583	610,525	41,058	6.7
Other assets	5,577,514	750,646	4,826,868	643
Total Assets	**193,969,446**	**158,976,346**	**34,993,101**	**22**
Liabilities				
Non-Interest Bearing Deposits	11,021,977	7,475,512	3,546,464	47.4
Interest bearing demand deposits	20,365,302	14,703,608	5,661,694	38.5
Savings and Money Market Deposits	34,618,549	22,500,009	12,118,540	53.9
Time Deposits - Retail	32,729,769	34,605,939	-1,876,170	-5.4
Time Deposits - Wholesale	31,469,688	23,267,217	8,202,471	35.3
Total Deposits	130,205,284	102,552,285	27,652,999	27
Accrued expenses and other liabilities	1,621,854	1,689,256	-67,402	-4
FHLB Advances	22,500,000	17,000,000	5,500,000	32.4
Other Borrowings	13,953,312	13,376,931	576,381	4.3
Total Liabilities	168,280,450	134,618,472	33,661,978	25
Equity				
Common stock	10,812,000	10,812,000	0	0
Capital surplus	13,597,949	13,393,243	204,706	1.5
Retained earnings	301,305	-623,525	924,830	148.3
Accumulated other comprehensive income (loss)	617,686	567,211	50,474	8.9
Net Income	360,058	208,945	151,112	72.3
Total Equity	25,688,997	24,357,874	1,331,123	5.5
Total Liabilities & Equity	**193,969,446**	**158,976,346**	**34,993,101**	**22**

CAPSTONE BANK

Income Statement

(UNAUDITED)

	QTD Actual Mar 2010	QTD Actual Mar 2009	$ Change	% Change
Interest Income				
Interest on Loans	1,837,215	1,580,482	256,733	16.2
Fees on Loans	33,309	28,583	4,726	16.5
Interest on federal funds sold	1,016	491	526	107.1
Interest on deposits with banks	112,236	76,522	35,714	46.7
Investment Securities - Taxable	255,705	339,437	-83,733	-24.7
Investment Securities - Tax-exempt	57,106	8,584	48,522	565.3
Total Interest Income	2,296,586	2,034,098	262,488	12.9
Interest Expense				
Interest bearing demand deposits	56,291	62,510	-6,218	-9.9
Savings and Money Market Deposits	110,290	81,691	28,599	35
Time Deposits - Retail	174,128	242,705	-68,578	-28.3
Time Deposits - Wholesale	105,941	203,884	-97,943	-48
FHLB Advances	138,562	138,374	189	0.1
Interest on other borrowings	8,967	7,695	1,272	16.5
Total Interest Expense	594,179	736,859	-142,680	-19.4
Net Interest Income	**1,702,407**	**1,297,240**	**405,168**	**31.2**
Provision for loan losses	189,000	79,000	110,000	139.2
Net Int. Inc. After Prov. for Loan Losses	**1,513,407**	**1,218,240**	**295,168**	**24.2**
Non Interest Income				
Service charges and fees	22,938	9,683	13,255	136.9
Mortgage loan and related fees	0	4,132	-4,132	-100
Other noninterest income	32,595	9,384	23,211	247.3
Total Non Interest Income	55,533	23,200	32,334	139.4
Non Interest Expense				
Salaries and employee benefits	599,258	626,191	-26,933	-4.3
Occupancy	98,230	90,782	7,448	8.2
Other noninterest expense	341,438	315,522	25,917	8.2
Total Non Interest Expense	1,038,926	1,032,494	6,432	0.6
Income Before Taxes	**530,015**	**208,945**	**321,070**	**153.7**
Income taxes	169,957	0	169,957	0
Net Income	**360,057**	**208,945**	**151,112**	**72.3**