CAPSTONE BANK

July 15, 2010

Dear Shareholder:

We are pleased to report the operating results for CapStone Bank for the quarter ended June 30, 2010. We ended the quarter with $200.1 million in total assets compared to $168.0 million on June 30, 2009, an increase of $32.1 million or 19.1%. Loans outstanding for the period ended June 30, 2010 were $129.4 million versus $121.1 million for the same period a year ago, an increase of $8.3 million or 6.9%. For the same comparative period, deposits grew from $107.8 million to $142.3 million, an increase of $34.5 million or 32%. For the first six months of 2010, total assets grew from $185 million to $200.1 million, an increase of $15.1 million or 8.2%. During the same comparative period, loans declined by $1.9 million or 1.5%, while deposits increased by $20.8 million or 17.1%.

Net income for the first six months of 2010 was $744,079 versus $386,032 for the same six months in 2009, an increase of $358,047 or 92.8 %. Net income for the second quarter of 2010 was $384,021 compared to $177,087 for the same period in 2009, an increase of $206,934 or 116.9%. For the six months ended June 30, 2010 pre-tax, pre-loan loss provision income was $1,573,853 compared to $666,032, an increase of $907,821 or 136%. The increase in earnings for the first six months of 2010 compared to 2009 is primarily attributable to three factors; a $25 million increase in earning assets, an increase in the net interest spread of 53 basis points, along with a decline in non-interest expense of $94,400.

Due to current economic conditions, we added $487,000 to our allowance for loan losses during the first six months of 2010, versus the addition of $280,000 during the same period last year. After year-to-date loan charge offs of $598,142, we have $2.3 million in our allowance for loan losses as of June 30, 2010, which equates to 1.80% of total loans versus 1.70% on June 30, 2009. As of June 30, 2010, our non-performing loans totaled $2.3 million or 1.14% of total assets, which is well below the average for banks operating in North Carolina. Additionally, we continue to be very well capitalized, with an equity to assets ratio of 13.1% on June 30, 2010.

While we are pleased with the growth of net income and core deposits during the first six months of 2010, we are not satisfied with our loan growth. We are aggressively trying to find good loan opportunities, but in this environment it is very difficult to find loans which meet our credit criteria. Although we have the capital to support additional loan growth, we will not sacrifice loan quality simply for growth - especially during these uncertain economic times.

We appreciate the support of our shareholders and encourage you to use our services. Please feel free to call or email us with any questions you may have about CapStone Bank.

Sincerely,

Michael S. Patterson
Executive Chairman

Steven R. Ogburn
President and CEO

CAPSTONE BANK

Balance Sheet

(UNAUDITED)

	Actual Jun 2010	Actual Jun 2009	$ Change	% Change
Assets				
Cash and due from banks	2,284,912	1,169,663	1,115,250	95.3
Fed funds sold & repos	8,875,566	3,543,894	5,331,672	150.4
Interest bearing deposits with banks	26,757,753	13,580,000	13,177,753	97
Investment Securities - Taxable	21,001,440	26,054,363	-5,052,923	-19.4
Investment Securities - Tax-exempt	5,733,825	2,515,000	3,218,825	128
Loans, net of unearned income	129,398,597	121,099,087	8,299,510	6.9
Less: Allowance for loan losses	-2,326,175	-2,055,000	-271,175	-13.2
Premises and equipment, net	388,055	435,797	-47,742	-11
Accrued interest receivable	626,359	578,339	48,020	8.3
Other assets	7,359,199	1,095,067	6,264,132	572
Total Assets	**200,099,531**	**168,016,209**	**32,083,322**	**19.1**
Liabilities				
Non-Interest Bearing Deposits	21,982,052	8,355,771	13,626,281	163.1
Interest bearing demand deposits	20,457,977	15,420,127	5,037,850	32.7
Savings and Money Market Deposits	40,764,857	20,159,131	20,605,726	102.2
Time Deposits - Retail	31,030,737	34,472,214	-3,441,477	-10
Time Deposits - Wholesale	28,069,909	29,425,752	-1,355,844	-4.6
Total Deposits	142,305,532	107,832,995	34,472,537	32
Accrued expenses and other liabilities	1,709,610	1,674,099	35,512	2.1
FHLB Advances	27,000,000	21,000,000	6,000,000	28.6
Other Borrowings	2,863,468	13,006,029	-10,142,561	-78
Total Liabilities	173,878,611	143,513,123	30,365,488	21.2
Equity				
Common stock	10,812,000	10,812,000	0	0
Capital surplus	13,627,619	13,488,340	139,279	1
Retained earnings	301,305	-623,525	924,830	148.3
Accumulated other comprehensive income (loss)	735,918	440,240	295,679	67.2
Net Income	744,079	386,032	358,047	92.8
Total Equity	26,220,921	24,503,087	1,717,834	7
Total Liabilities & Equity	**200,099,531**	**168,016,209**	**32,083,322**	**19.1**

CAPSTONE BANK

Income Statement

(UNAUDITED)

	YTD Actual Jun 2010	YTD Actual Jun 2009	$ Change	% Change
Interest Income				
Interest on Loans	3,687,742	3,218,993	468,749	14.6
Fees on Loans	88,994	54,010	34,985	64.8
Interest on federal funds sold	1,833	770	1,063	138.1
Interest on deposits with banks	225,603	172,670	52,932	30.7
Investment Securities - Taxable	495,791	653,260	-157,469	-24.1
Investment Securities - Tax-exempt	118,885	32,103	86,782	270.3
Total Interest Income	4,618,848	4,131,806	487,043	11.8
Interest Expense				
Interest bearing demand deposits	115,531	121,853	-6,322	-5.2
Savings and Money Market Deposits	235,007	163,625	71,381	43.6
Time Deposits - Retail	333,680	484,327	-150,648	-31.1
Time Deposits - Wholesale	189,434	353,070	-163,635	-46.3
FHLB Advances	279,369	292,151	-12,782	-4.4
Interest on other borrowings	11,324	15,510	-4,186	-27
Total Interest Expense	1,164,345	1,430,537	-266,191	-18.6
Net Interest Income	**3,454,503**	**2,701,269**	**753,234**	**27.9**
Provision for loan losses	487,000	280,000	207,000	73.9
Net Int. Inc. After Prov. for Loan Losses	**2,967,503**	**2,421,269**	**546,234**	**22.6**
Non Interest Income				
Service charges and fees	37,233	21,773	15,460	71
Mortgage loan and related fees	6,225	11,475	-5,249	-45.7
Other noninterest income	64,430	14,465	49,965	345.4
Total Non Interest Income	107,888	47,713	60,175	126.1
Non Interest Expense				
Salaries and employee benefits	1,075,912	1,253,188	-177,276	-14.1
Occupancy	199,697	180,347	19,351	10.7
Other noninterest expense	712,928	649,415	63,513	9.8
Total Non Interest Expense	1,988,538	2,082,950	-94,413	-4.5
Income Before Taxes	**1,086,853**	**386,032**	**700,821**	**181.5**
Income taxes	342,774	0	342,774	0
Net Income	**744,079**	**386,032**	**358,047**	**92.8**