April 13, 2007

Dear Shareholder:

The management of CapStone Bank is pleased to report our operating results for the quarter ended March 31, 2007. As you will see from the enclosed balance sheet, we ended the period with $62.7 million in total assets, an increase of $6.9 million or 12.3% over the $55.8 million we had on December 31, 2006. Period end loans on March 31, 2007 were $45.3 million versus $28.5 million reported on December 31, 2006, an increase of $16.8 million or 59%. Total deposits were $35.9 million as of March 31, 2007 compared to $30.8 million on December 31, 2006. This was an increase of $5.2 million or 16.8%. Net income for the period ended March 31, 2007 was basically flat at a negative $296,500 versus a loss of $295,900 for the quarter ended December 31, 2006. Net interest income for the first quarter increased by $141,800 or 29.2% over the fourth quarter. However, this was offset primarily by three key expense items. These included: an increase in loan loss reserves due to the significant growth in loans, two less days of net interest income in the month of February, and a one-time non-recurring personnel expense item.

We are pleased to announce the hiring of Bob Branch as Senior Vice President and Chief Credit Officer in March 2007. Bob was a member of Triangle Bancorp's executive management team and brings a great deal of experience and expertise to Capstone Bank. As a member of the Bank's senior management team, we feel he will play a significant role in the success of CapStone Bank.

One trade of Capstone Bank stock occurred during the quarter when one thousand shares sold at a price of $13.00. We continue to have a waiting list of individuals who desire to purchase CapStone stock. If you have an interest in buying or selling stock please contact Susan Tannery, Corporate Secretary, at 919-256-6803, who is responsible for matching potential buyers with sellers.

We remain gratified by the number of shareholders who have honored us by opening accounts with CapStone Bank. As of March 31, 2007, thirty three percent of our shareholders have opened at least one loan or deposit account. If you have not opened an account with us, we hope you will do so soon. We have attractive deposit and loan rates and assure you the quality of service you will experience from our associates will be exceptional. To encourage our shareholders to open a deposit account with CapStone, we are offering a special CD rate for you as outlined in the enclosed offering. We hope you will take advantage of this special rate and help us grow our balance sheet and ultimately, the value of your investment in CapStone.

Our Annual Shareholders' Meeting will be held at 5:00 p.m. on Wednesday, April 18, 2007 at The State Club on the Centennial Campus of North Carolina State University. At 5:30 p.m., following the Shareholders' Meeting, we will host a shareholder and customer appreciation reception. You should have received your invitation by now and we hope to see you there.

We continue to be excited about the outlook for 2007 and look forward to sharing our results with you throughout the course of this year. For those of you who did not see it, we have enclosed a copy of an article about CapStone which appeared in the March edition of *Business Leader* magazine. Please contact us if you have any questions about your company or if we can be of service to you in any way.

Sincerely,

Michael S. Patterson
Executive Chairman

Steven R. Ogburn
President and CEO

CAPSTONE BANK

CAPSTONE BANK

Balance Sheets (Unaudited)
Dollars in Thousands

	June 30, 2007	March 31, 2007	$
Assets			
	$	$	
Cash and due from banks	1,064	566	4
Federal funds sold	947	5,878	(4,9
Investment securities	13,187	10,558	2,6
Loans, net of unearned income	65,082	45,261	19,8
Less: Allowance for loan losses	(814)	(566)	(2
Premises and equipment, net	558	575	(
Accrued interest receivable & other assets	602	396	2
	$	**$**	
Total Assets	**80,626**	**62,668**	**17,9**
Liabilities & Shareholders' Equity			
Deposits:			
	$	$	
Non-Interest bearing	5,130	2,764	2,3
Interest bearing	49,052	33,167	15,8
Total Deposits	54,182	35,931	18,2
FHLB Advances & other borrowings	3,723	3,932	(2
Accrued expenses and other liabilities	357	221	1
Total Liabilities	**58,262**	**40,084**	**18,1**

Shareholders' Equity	22,364	22,584	(2
	$	**$**	
Total Liabilities & Shareholders' Equity	**80,626**	**62,668**	**17,9**