

AVAILABLE ON THE WEB AT www.equityresearch.com

North State Bancorp (NSBC- OTC Bulletin Board)

5003 Falls of Neuse Road

Raleigh
North Carolina
27609

919-876-8868 ph
919-876-8839 fax

www.equityresearch.com

John A. Howard, CFA
July 18, 2007

Price:	\$19.50	EPS *	2006A:	\$0.46	P/E	2006A:	42.4 x
52 Wk. Range:	\$10.76 - 21.75	(FY: DEC)	2007E:	\$ 0.51		2007E:	38.2 x
Div/Div Yld:	\$0.00 / 0.0%		2008E:	\$ 0.63		2008E:	31.0 x
Shrs/Mkt Cap:	6.9 mm / \$135 mm	Book Value:		\$ 4.10	Price/Book Value:		4.76 x

* Earnings per share are diluted. All per share figures have been adjusted for the 50% stock split paid on July 12, 2007.

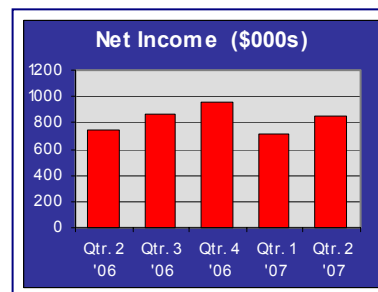
Background

North State Bancorp ("the Company") is a single bank holding company headquartered in Raleigh, North Carolina with approximately \$505 million in assets as of June 30, 2007. Its bank subsidiary is North State Bank, a commercial bank that began operations on June 1, 2000. North State Bancorp serves Raleigh, Garner and Wake Forest, North Carolina through three full-service offices in Raleigh, one office (each) in Garner and the Wake Forest area and a loan production office in Wilmington, NC. (The Bank plans to convert the Wilmington loan production office to a full-service office in the fourth quarter of 2007.) The Company focuses on serving the total banking needs of professional firms, professionals, property management companies, churches and individuals who highly value a mutually beneficial banking relationship in the Raleigh, Garner and greater Wake County (and recently, New Hanover County) market areas. Loan products include business products, such as commercial lines of credit, loans for equipment, owner occupied commercial mortgages and other commercial real estate loans and personal lines of credit, such as home equity loans, first and second mortgages and auto loans. Product deposit services include demand deposits, money market accounts, consumer and business time deposits and sweep accounts. North State Bancorp also offers debit cards, ATM access, home and business banking via the Internet and courier services for businesses. Recent service enhancements include same day banking (i.e., transactions are processed on the same day they occur) and remote capture capabilities. Insiders own approximately 51% of the outstanding stock.

Net Income Increased 13%; EPS Were on Target

Note: All per share figures have been adjusted for the 50% stock split paid on July 12, 2007. As we mentioned in our last report, a number of key hires led to earnings being under a little pressure in the first quarter of this year. As the second quarter progressed, though, earnings momentum improved, reflecting strong underlying trends, as well as the positive contributions from some those new hires. Revenue growth remained solid, and sequential growth in noninterest expense was modest. Moreover, North State Bancorp announced a 50% stock split during the quarter, and the Company exceeded the milestone of \$500 million in total assets at the end of the second quarter of 2007.

For the second quarter of 2007, net income increased 13% to \$846,000, or \$0.12 per diluted share, from \$751,000, or \$0.11 per diluted share, for the year-ago quarter. Revenue growth was led by net interest income, which was up 16% to \$4,243,000 for the second quarter of 2007, versus \$3,652,000 in the year-ago quarter, and benefited from solid average earning asset growth (loans were up 21% over the past year), which offset a decline in the net interest margin. Noninterest income grew approximately 6% relative to the year-ago quarter, but was up substantially



ASSETS: \$505 MM

HQ: RALEIGH, NC

CONTACT:
KIRK WHORF
(919) 645-2707

2ND QUARTER HIGHLIGHTS:

RESULTS WERE IN LINE WITH ESTIMATES

EPS: \$0.12 vs. \$0.11

NET INTEREST INCOME WAS UP 16%

MARGINS WERE DOWN SLIGHTLY, THOUGH THIS PRESSURE WAS OFFSET BY VOLUME GROWTH

**NONINTEREST EXPENSE
GROWTH COULD ACCELERATE
AS NEW OFFICES OPEN**

(26%) from the first quarter of 2007. Reflecting the staff additions mentioned earlier, noninterest expense increased 16% relative to last year's second quarter, but was only up 1% on a sequential quarter basis. We do anticipate some acceleration of noninterest expense as the Bank prepares to open its downtown Raleigh office later this year and a new Raleigh office on Falls of Neuse Road in late 2008. Finally, the provision for loan losses was \$211,000 in the second quarter of 2007, down slightly compared to the year-ago quarter.

SIX MONTHS HIGHLIGHTS:

NET INCOME GREW 8%

EPS: \$0.21 VS. \$0.20

For the six months ended June 30, 2007, North State reported net income of \$1,554,000, or \$0.21 per diluted share, up 8% from \$1,442,000, or \$0.20 per diluted share, for the year-ago period. Net interest income was up 15% in the first six months of 2007 compared to the year-ago period, while noninterest income increased roughly 1% over this period. Noninterest expense was up 16% to \$5,841,000 for the six-month period ended June 30, 2007, versus \$5,049,000 for the year-ago period, and the provision for loan losses grew 12% to \$422,000 over this same period.

**FROM JUNE 30, 2006 TO JUNE
30, 2007, NET LOANS AND
DEPOSITS INCREASED 21% AND
TOTAL ASSETS GREW 19%**

Milestone of \$500 Million in Assets Achieved

At the end of the second quarter of 2007, North State Bancorp's total assets exceeded \$500 million. In the Company's short seven years of operations, it has grown rapidly, and since it began operations in mid 2000, assets have increased roughly 300%, or about 25% annually. In terms of recent year-over-year growth, total assets increased 19% to \$505 million at June 30, 2007 from \$423 million at June 30, 2006, net loans grew 21% to \$383 million from \$317 million and deposits also were up 21% to \$452 million from \$375 million over this period. Shareholders' equity was \$28 million as of June 30, 2007, or 5.6% of total assets.

**50% STOCK DIVIDEND PAID ON
JULY 12, 2007 INCREASED THE
SHARES OUTSTANDING FROM
4.6 MILLION TO 6.9 MILLION**

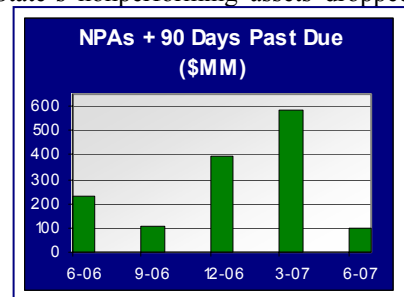
50% Stock Dividend Paid

On June 19, 2007, North State announced a 50% stock split, which was paid on July 12, 2007 to shareholders of record as of June 28, 2007. The split, the seventh in the Company's seven year history, increased the number of shares outstanding from 4.6 million to 6.9 million. While stock splits should theoretically not "create" value, we believe they often do, and generally consider them expressions of confidence by Boards of Directors.

**NPAs DECREASED 57% FROM
THE YEAR-AGO DATE AND 83%
FROM MARCH 31, 2007**

Asset Quality is Outstanding

As can be seen from the adjacent table, the level of North State's nonperforming assets dropped considerably at the end of 2007's second quarter. NPAs totaled \$97,000, or 0.02% of total assets, at June 30, 2007, down 57% from \$227,000, or 0.05% of total assets, at June 30, 2006 and down 83% from \$586,000, or 0.12% of total assets, at March 31, 2007. This was the lowest level NPAs have been at in the past five quarters, and the Company's ratio of NPAs-to-assets of 0.02% compares quite favorably to 0.32% for the NC peer group median. The allowance for loan losses totaled \$4,103,000, or 1.06% of loans held for investment, which was down compared to \$4,162,000, or 1.30% of loans held for investment, at the year-ago date.



NPAs / ASSETS: 0.02%

RESERVES / LOANS HFI: 1.06%

EPS PROJECTIONS

**2006A: \$ 0.46
2007E: \$ 0.51
2008E: \$ 0.63**

Projections Maintained

We are maintaining our projections of \$3.6 million, or \$0.51 per diluted share, for 2007 and \$4.4 million, or \$0.63 per diluted share, for 2008. Note that per share figures have been adjusted for the 50% stock split paid on July 12, 2007. For more information, including current press releases and stock quotes, please visit either North State Bancorp's web site at www.northstatebank.com, or Equity Research Services' web site at www.equityresearch.com.

ADDITIONAL INFORMATION UPON REQUEST

Copyright © 2007 Equity Research Services, Inc. All rights reserved. This material is for your information only and is not a solicitation, or an offer, to buy or sell securities mentioned. Equity Research Services, Inc. ("ERS") is a firm involved in financial advisory, equity research, valuation and investor relations services. All reports generated by ERS for the purpose of investor relations are designated "Investor Relations Report," and ERS receives a fee (from the company whose securities are described) for producing such reports. ERS may also act in a financial advisory role to the company. The information contained herein has been obtained from sources we believe reliable but in no way is guaranteed by us. Furthermore, this report contains forward-looking statements and projections that are based on certain assumptions and expectations. Accordingly, actual results may differ considerably from those reflected in this report due to such factors as those which are listed in the Company's SEC filings. Any non-factual information in the report is our opinion and is subject to change without notice.