

CapitalSouth[®]

BANCORP

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CAPITALSOUTH BANCORP ANNOUNCES STRONG SECOND QUARTER RESULTS

BIRMINGHAM, Ala. (July 23, 2007) – CapitalSouth Bancorp (NASDAQ-GM: CAPB) today announced significantly improved operating results for the second quarter and six months ended June 30, 2007. For the quarter ended June 30, 2007, the Company reported net income of \$897,000 or \$0.30 per diluted share compared with net income of \$994,000 or \$0.33 per diluted share for the same period in 2006. Net income for the prior-year period, however, included a gain of \$1,055,000, equivalent to \$666,000 or \$0.22 per diluted share after tax, on the sale of the Company's investment in Consumer National Bank in Jackson, Mississippi, in connection with its acquisition by another bank. On a sequential basis, second quarter net income increased 27% from \$707,000 or \$0.23 per diluted share in the first quarter of 2007.

For the first six months of 2007, the Company's net income rose 10% to \$1,603,000 or \$0.53 per diluted share from \$1,458,000 or \$0.48 per diluted share in the first half of 2006. Again, net income for the prior-year period included a gain of \$666,000 or \$0.22 per diluted share after tax.

During the quarter, the Company continued to experience strong loan growth, with its portfolio increasing 16% over the past year and 5% since March 31, 2007. This momentum was a key driver for higher net interest income in the second quarter and, notably, occurred even as CapitalSouth maintained a keen focus on credit quality.

Commenting on the announcement, W. Dan Puckett, Chairman and Chief Executive Officer, said, "The solid momentum building in our business was clearly evident on both our income statement and balance sheet for the second quarter. Strong loan growth, coupled with good credit quality trends, continued to characterize our operations. With increasing market penetration, together with other steps to control expenses, we are steadily realizing greater efficiencies in our business and leverage from the investments we have made to expand the reach of our bank, as can be seen in the ongoing improvements we have witnessed in our efficiency ratio this year based on core operations. Considering the Company's strong operating performance over the first six months of the year, with accelerating earnings growth and attractive opportunities for continued expansion – both organically and through acquisitions, we remain excited about our prospects in 2007."

Separately, Puckett noted that the Company recently received approval by the Federal Reserve Board to proceed with its acquisition of privately held Monticello Bancshares, Inc., the holding company for Monticello Bank, a federally chartered savings bank with two locations in Jacksonville, Florida. Monticello also operates a wholesale residential mortgage operation that originates and sells in the secondary market primarily prime conventional residential mortgage loans in Florida, Georgia, North Carolina and South Carolina. The pending merger remains subject to approval by the Alabama State Banking Department, as well the approval of the stockholders of CapitalSouth and the shareholders of Monticello. The Company expects to complete the merger during the third quarter of 2007.

Net interest income for the second quarter of 2007 rose 7% to \$4,250,000 from \$3,974,000 in the year-earlier period due primarily to an increase in interest-earning assets. Net interest margin declined 19 basis points in the second quarter to 3.61% versus 3.80% in the same quarter last year, but this marked an improvement of 11 basis points from the first quarter of 2007. Importantly, the sequential improvement witnessed in the second quarter came even as pricing for deposits remained very competitive and as the Company remained aggressive in growing its deposit base to fund growth. For the first six months of 2007, net interest income rose 8% to \$8,204,000 compared with \$7,605,000 in the prior-year period. Net interest margin was 3.56% for the first half of 2007 versus 3.75% in the year-earlier period. Management expects that a challenging rate climate will continue, at least in the near term.

During the second quarter of 2007, CapitalSouth's provision for loan losses increased \$225,000 versus \$104,000 in the year-earlier quarter, with the increase primarily reflecting growth in the Company's loan portfolio. For the first half of 2007, the provision for loan losses totaled \$362,000 compared with \$340,000 a year earlier. The Company continued to maintain solid credit quality in the second quarter of 2007, as non-performing assets were 0.53% of period-end loans and other real estate compared with 0.55% in the year-earlier quarter and 0.62% at March 31, 2007. Likewise, the Company recorded annualized net recoveries, as a percentage of average loans, of 0.02% compared with net charge-offs of 0.16% in the second quarter of 2006 and 0.00% in the first quarter of 2007. The allowance for loan losses as a percentage of period-end loans was 1.16% at June 30, 2007, compared with 1.15% at June 30, 2006, and was unchanged from March 31, 2007.

Non-interest income for the second quarter declined 40% to \$855,000 versus \$1,435,000 in the year-earlier period, primarily due to the \$1,055,000 gain on the sale of the Company's investment in Consumer National Bank reported in year-earlier quarter. Management pointed out that increased income from the Business Capital Group was the primary factor offsetting the impact of the gain in the prior year. This income is irregular and difficult to predict, and thus the amount recorded in the second quarter of 2007 is not necessarily indicative of a future quarterly trend. For the first six months of 2007, non-interest income declined 21% to \$1,573,000 from \$1,996,000 in the first half of 2006, again reflecting the gain in the prior-year period.

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Non-interest expense for the second quarter declined 6% to \$3,488,000 from \$3,697,000 in the same period last year, reflecting primarily the Company's steps to improve operational efficiency. For the first six months of 2007, non-interest expense increased 1% to \$7,037,000 from \$6,981,000 in the first half of 2006.

Net income for the second quarter of 2007 translated into a return on average stockholders' equity (ROE) of 8.43% compared with 10.09% in the same quarter of 2006. Return on average assets (ROA) was 0.71% compared with 0.89% for the same quarter of 2006. ROE was 7.64% for the first half of 2007 compared with 7.50% in the same period last year. ROA was 0.65% for the first six months of 2007 compared with 0.67% for the same period in 2006.

Total assets at June 30, 2007, were \$511,047,000, representing a 14% increase over total assets of \$448,330,000 at June 30, 2006. The Company's loan portfolio totaled \$405,523,000 at the end of the second quarter of 2007, up 16% from \$348,620,000 at June 30, 2006. Deposits increased 13% in the second quarter, reaching \$425,662,000 versus \$378,367,000 a year ago. Stockholders' equity at June 30, 2007, totaled \$42,657,000, up 7% from \$39,743,000 a year ago. Book value per share was \$14.23 at June 30, 2007, versus \$13.39 at June 30, 2006.

In June, the Company announced that its Board of Directors increased the cash dividend rate to \$0.065 per share, representing an increase of 8.3% over the previous rate of \$0.06 per share. The higher quarterly amount, which went into effect with the second quarter dividend paid on July 12, 2007, to shareholders of record as of June 29, 2007, equates to an indicated annual rate of \$0.26 per share.

CapitalSouth Bancorp is a bank holding company operating eight full service banking offices and one loan production office through its bank subsidiary, CapitalSouth Bank, with offices in Birmingham, Huntsville, and Montgomery, Alabama, and Jacksonville, Florida, as well as a loan production office in Atlanta, Georgia. CapitalSouth targets small to medium-sized businesses in the markets it serves. CapitalSouth Bank also operates "Banco Hispano," providing financial services to the growing Latino community. CapitalSouth offers SBA lending services and other loan programs for business owners through its Business Capital Group, which operates through full-service offices as well as the loan production office. CapitalSouth also provides Internet banking services at www.capitalsouthbank.com as well as personal investment services.

This press release contains "forward-looking" statements as defined by the Private Securities Litigation Reform Act of 1995, which are based on CapitalSouth's current expectations, estimates and projections about future events and financial trends affecting the financial condition of its business. These statements are not historical facts or guarantees of future performance, events, or results. Such statements involve potential risks and uncertainties and, accordingly, actual performance results may differ materially. CapitalSouth undertakes no obligation to publicly update or revise forward-looking statements, whether as a result of new, updated information, future events, or otherwise.

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CapitalSouth Bancorp
Summary Unaudited Financial Information
(in thousands except per share amounts)

	<u>Second Quarter Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Interest income	\$ 9,076	\$ 7,607	\$ 17,756	\$ 14,456
Interest expense	4,826	3,633	9,552	6,851
Net interest income	4,250	3,974	8,204	7,605
Provision for loan losses	225	104	362	340
Net interest income after provision for loan losses	4,025	3,870	7,842	7,265
Noninterest income	855	1,435	1,573	1,996
Noninterest expense	3,488	3,697	7,037	6,981
Net income before income taxes	1,392	1,608	2,378	2,280
Provision for income taxes	495	614	775	822
Net income	<u>\$ 897</u>	<u>\$ 994</u>	<u>\$ 1,603</u>	<u>\$ 1,458</u>
Net income per share				
Basic	\$ 0.30	\$ 0.34	\$ 0.54	\$ 0.49
Diluted	\$ 0.30	\$ 0.33	\$ 0.53	\$ 0.48
Weighted average shares outstanding				
Basic	2,993	2,964	2,987	2,953
Diluted	3,011	3,024	3,013	3,014
			<u>June 30,</u>	
			<u>2007</u>	<u>2006</u>
Total assets			\$ 511,047	\$ 448,330
Loans			405,523	348,620
Allowance for loan losses			(4,709)	(4,011)
Net loans			400,814	344,609
Interest-bearing deposits			366,245	326,057
Noninterest bearing deposits			59,417	52,310
Total deposits			425,662	378,367
Stockholders' equity			42,657	39,743
Book value per share			14.23	13.39

Unaudited supplemental financial information for the second quarter and six months ended June 30, 2007 and 2006, may be obtained by following this link: <http://www.irinfo.com/CAPB/CAPB2q07tmv.pdf>.

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