

CapitalSouth[®]

BANCORP

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CAPITALSOUTH BANCORP ANNOUNCES 2007 RESULTS

Non-Cash Goodwill Impairment Charge Recorded

- **No Effect on Cash Flow**
- **No Effect on Liquidity**
- **No Effect on Regulatory Capital**

BIRMINGHAM, Ala. (March 14, 2008) – CapitalSouth Bancorp (NASDAQ-GM: CAPB) today reported financial results for the fourth quarter and year ended December 31, 2007, which included a non-cash impairment charge related to goodwill associated with prior acquisitions. The goodwill impairment charge resulted from changes in general economic conditions that had an adverse impact on the Company's stock price.

Net operating income for the year, which excludes the non-cash goodwill impairment charge, totaled \$1,705,000 or \$0.51 per diluted share versus \$2,928,000 or \$0.97 per diluted share for 2006 (see reconciliation of net operating income – a non-GAAP measure – to net income at the end of this release). For the fourth quarter, the Company reported a net operating loss of \$174,000 or \$0.04 per diluted share versus net operating income of \$859,000 or \$0.28 per diluted share for the year-earlier period. The decline in net operating income for the 2007 periods primarily was due to a \$2.1 million provision for loan losses for the fourth quarter, prompted by credit quality concerns associated with deteriorating economic conditions and growing weakness in the residential real estate sector. This provision compared with provisions of \$162,000 in the fourth quarter of 2006 and \$1.0 million in the third quarter of 2007. Per share amounts for the fourth quarter of 2007 and the year ended December 31, 2007, also reflected increases of 37% and 10%, respectively, in the number of weighted average diluted shares outstanding due to shares issued in the Company's September 2007 acquisition of Monticello Bancshares.

In light of recent and significant adverse changes in the general business climate, the Company evaluated its recorded goodwill, substantially all of which was created in connection with the September 2007 acquisition of Monticello Bancshares, to determine the amount of impairment that may be indicated in conformity with Statement of Financial Accounting Standards No. 142. This analysis resulted in a fourth quarter non-cash charge of \$17,007,000 for impaired goodwill. This charge had no effect on the Company's cash flow or the regulatory capital of CapitalSouth Bancorp or CapitalSouth Bank, nor did it affect CapitalSouth Bank's ability to continue to deliver the high level of service that customers have come to expect. Accordingly, CapitalSouth Bank remains "well-capitalized" with a Tier 1 Risk-Based Capital Ratio of 9.2%, a Leverage Ratio of 7.5%, and a Total Risk-Based Capital Ratio of 10.5%. CapitalSouth Bancorp remains "well capitalized" with respect to Tier 1 Risk-Based and Leverage Ratios of 8.2% and 6.5%, respectively, and "adequately capitalized" with respect to Total Risk-Based Capital at 9.4%.

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The net loss for 2007, inclusive of the goodwill impairment charge, totaled \$15,302,000 or \$4.62 per diluted share. For the fourth quarter, the Company reported a net loss of \$17,181,000 or \$4.21 per diluted share.

Commenting on the announcement, W. Dan Puckett, Chairman and Chief Executive Officer, stated, "During the final months of 2007, we witnessed several challenging issues converge to form a very tough operating environment. During the fourth quarter, the residential housing market experienced a rapid and significant slowdown in real estate sales in all of our markets, which affects commercial borrowers involved in the development and construction industry. Because of this downturn, we critically evaluated the adequacy of our allowance for loan losses and, accordingly, increased our loan loss provision significantly for the fourth quarter. Importantly, the asset quality issues created by adverse real estate trends do not reflect any concerns with respect to our loan underwriting standards or processes, but rather reflect broad deterioration in macroeconomic conditions. We believe these conditions will persist throughout 2008, which could require further strengthening of the allowance for loan losses."

Puckett added that the Company successfully completed the integration of Monticello's systems and accounts in October 2007. Commenting on the conversion, Puckett stated, "We are delighted with the conversion and integration process. The conversion and integration process went very well with minimal impact on customers and employees. We believe that the additional locations will provide a substantial stimulus for growth in this market." With targeted cost savings fully implemented as of December 31, 2007, and with other transition costs fully realized in 2007, management expects to see increased operating efficiencies going forward. Puckett also pointed out that the run-off of Monticello loans has been at expected levels following the merger, and the Company has experienced an approximate 14% run-off in core deposits versus an anticipated level of 10%.

"We are proud of the progress we are making on a fundamental level to enhance our market position and develop new customer relationships, expanding on our style of banking that is "Built for Business," Puckett continued. "Throughout 2007, we experienced significant growth in our loan portfolio and deposit base, reflecting both organic growth across our markets and the impact of the Monticello acquisition, which provided us with two additional locations in Jacksonville and significantly enhanced our presence there. Recently, we also opened a new office in the San Marco area of Jacksonville, bringing to four the number of offices we have in the metropolitan area. An additional office in Huntsville, opened earlier this month, broadens our footprint in that growing market. These long-term investments are expected to benefit us in terms of developing a diverse franchise in demographically strong southeast metropolitan markets.

"Looking forward, we recognize that 2008 will be a challenging year and we have much work ahead of us," Puckett said. "Asset quality remains at the forefront, and we have added a specialist exclusively dedicated to working with customers on problem credits. And while our actions to strengthen our allowance for loan losses reflects our current assessment of credit quality, we know that the economy in general and the real estate markets in particular continue to be uncertain and fluid, so we remain resolute and disciplined in meeting emerging credit quality concerns. We also expect net interest margin to remain under pressure due to recent and potential rate cuts by the Federal Reserve Board and the lagging effect they have on deposit pricing versus asset yields. Still, we have confidence in our conservative credit culture, the vibrancy of the markets in which we operate, and the increasing visibility we have in those markets, so we believe CapitalSouth remains well-positioned to pursue its strategies for growth over the long term."

Total assets at December 31, 2007, were \$767,475,000, representing a 59% increase over total assets of \$481,989,000 at December 31, 2006, and organic growth of 16%. The Company's loan portfolio totaled \$622,111,000 at the end of 2007, up 66% from \$374,908,000 at December 31, 2006, with 17% coming from organic growth. Deposits increased 48% to \$593,344,000 at year's end versus \$401,297,000 at the end of 2006, with 10% generated from organic growth. Stockholders' equity at December 31, 2007, totaled \$46,500,000, up 12% from \$41,348,000 at December 31, 2006. Book value per share was \$11.20 at year end 2007 versus \$13.89 at December 31, 2006, reflecting the impact of the goodwill impairment charge. Tangible book value per share decreased from \$13.47 at December 31, 2006, to \$8.66 per share at December 31, 2007, reflecting the increased shares outstanding.

Net interest income for the fourth quarter of 2007 increased 38% to \$5,647,000 from \$4,090,000 in the year-earlier period, reflecting primarily an increase in interest-earning assets due to the Monticello acquisition and organic growth in earning assets. Net interest margin declined 55 basis points in the fourth quarter to 3.14% versus 3.69% in the same quarter last year and was down 30 basis points from 3.44% in the third quarter of 2007. This ongoing margin compression reflected higher pricing on deposits against the backdrop of an intensely competitive market compared with the prior year. For 2007, net interest income rose 17% to \$18,499,000 compared with \$15,763,000 in the prior year. Net interest margin was 3.39% for 2007 versus 3.76% a year earlier. Management expects margin pressure will continue throughout 2008 as reductions in deposit pricing lag the effect of recent and potential rate cuts on asset yields, and due to the impact of non-performing assets on margins.

During the fourth quarter, non-performing assets increased to \$17,430,000 or 2.79% of period-end loans and other real estate, up from \$2,169,000 or 0.58% in the year-earlier quarter and \$8,096,000 or 1.27% in the third quarter of 2007. The increase from the prior year included \$4.6 million in non-performing assets resulting from the Monticello acquisition. These non-performing assets were recorded at their estimated fair values, which is below their original book value. The increase in the fourth quarter of 2007 versus the third quarter of 2007 generally reflected rapidly deteriorating economic conditions and increased weakness in the residential real estate sector across the Company's markets, manifest particularly with residential developers. Residential construction loans comprise approximately 9% of CapitalSouth's loan portfolio, and approximately 9% of the portfolio is for residential acquisition and land development loans. The Company recorded annualized net charge-offs, as a percentage of average loans, of 0.29% in the fourth quarter of 2007 compared with net recoveries of 0.00% in the fourth quarter of 2006 and net recoveries of 0.01% in the third quarter of 2007.

During the fourth quarter of 2007, CapitalSouth's provision for loan losses increased to \$2,130,000 versus \$162,000 in the year-earlier quarter, with the increase primarily reflecting downgrades of 39 loan relationships during the quarter. For 2007, the provision for loan losses totaled \$3,516,000 compared with \$621,000 a year earlier. The allowance for loan losses, as a percentage of period-end loans, was 1.43% at December 31, 2007, compared with 1.15% at both December 31, 2006, and September 30, 2007.

Non-interest income for the fourth quarter increased 82% to \$1,309,000 versus \$721,000 in the year-earlier period, due primarily to higher income from deposit service fees, gains on sales of mortgage loans, and higher other income primarily related to the Bank's mortgage segment and mark-to-market adjustments on an interest rate swap. For 2007, non-interest income rose 7% to \$3,513,000 from \$3,290,000 in 2006, as higher income from deposit service fees and income from Business Capital Group loans and income from mark-to-market adjustments on an interest rate swap were partially offset by a gain of \$1,055,000 on the sale of the Company's investment in Consumer National Bank reported in the year-earlier period.

Non-interest expense for the fourth quarter, excluding the goodwill impairment charge, increased 61% to \$5,349,000 from \$3,321,000 in the same period last year, reflecting the impact of new employees added from the Monticello acquisition; transition, severance and termination expenses related to staffing integration; and normal increases in salaries and employee benefits. For 2007, non-interest expense, excluding the goodwill impairment charge, increased 16% to \$16,210,000 from \$13,925,000 in 2006.

CapitalSouth Bancorp is a bank holding company operating 12 full-service banking offices 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, and a mortgage origination office through Mortgage Lion, Inc., a wholesale mortgage origination operation based in Fitzgerald, Georgia. CapitalSouth Bank 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 Bank 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 Bank 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.

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

| | Three Months Ended | | Years Ended | |
|---|---------------------------|---------------|---------------------|-----------------|
| | December 31, | | December 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Interest income | \$ 13,378 | \$ 8,546 | \$ 41,531 | \$ 31,091 |
| Interest expense | <u>7,731</u> | <u>4,456</u> | <u>23,032</u> | <u>15,328</u> |
| Net interest income | 5,647 | 4,090 | 18,499 | 15,763 |
| Provision for loan losses | <u>2,130</u> | <u>162</u> | <u>3,516</u> | <u>621</u> |
| Net interest income after provision for loan losses | 3,517 | 3,928 | 14,983 | 15,142 |
| Noninterest income | 1,309 | 721 | 3,513 | 3,290 |
| Noninterest expense | <u>22,356</u> | <u>3,321</u> | <u>33,217</u> | <u>13,925</u> |
| Net (loss) income before provision for income taxes | (17,530) | 1,328 | (14,721) | 4,507 |
| (Benefit) provision for income taxes | <u>(349)</u> | <u>469</u> | <u>581</u> | <u>1,579</u> |
| Net (loss) income | <u>\$ (17,181)</u> | <u>\$ 859</u> | <u>\$ (15,302)</u> | <u>\$ 2,928</u> |
| Net (loss) income per share | | | | |
| Basic | \$ (4.21) | \$ 0.29 | \$ (4.62) | \$ 0.99 |
| Diluted | \$ (4.21) | \$ 0.28 | \$ (4.62) | \$ 0.97 |
| Goodwill impairment charge | <u>17,007</u> | <u>--</u> | <u>17,007</u> | <u>--</u> |
| Net operating (loss) income | <u>\$ (174)</u> | <u>\$ 859</u> | <u>\$ 1,705</u> | <u>\$ 2,928</u> |
| Net operating (loss) income per share | | | | |
| Basic | \$ (0.04) | \$ 0.29 | \$ 0.51 | \$ 0.99 |
| Diluted | \$ (0.04) | \$ 0.28 | \$ 0.51 | \$ 0.97 |
| Weighted average shares outstanding | | | | |
| Basic | 4,084 | 2,972 | 3,313 | 2,964 |
| Diluted | 4,084 | 3,026 | 3,313 | 3,021 |
| | | | December 31, | |
| | | | 2007 | 2006 |
| Total assets | | | \$ 767,475 | \$ 481,989 |
| Loans | | | 622,111 | 374,908 |
| Allowance for loan losses | | | <u>(8,876)</u> | <u>(4,329)</u> |
| Net loans | | | <u>613,235</u> | <u>370,579</u> |
| Interest-bearing deposits | | | 531,089 | 348,562 |
| Noninterest-bearing deposits | | | <u>62,255</u> | <u>52,735</u> |
| Total deposits | | | <u>593,344</u> | <u>401,297</u> |
| Stockholders' equity | | | 46,500 | 41,348 |
| Book value per share | | | 11.20 | 13.89 |
| Tangible book value per share | | | 8.66 | 13.47 |

Note: Net Income (Loss) and Net Income (Loss) Per Share are presented in accordance with Generally Accepted Accounting Principals (GAAP). Net Operating Income (Loss) and Net Operating Income (Loss) Per Share are non-GAAP financial measures. Management believes that these non-GAAP measures aid in understanding the fundamental trends in the Company's business by excluding the impact of the non-cash goodwill impairment charge. These non-GAAP measures should be viewed in addition to, and not as a substitute for, the Company's reported results.

Unaudited supplemental financial information for the three months and years ended December 31, 2007 and 2006, may be obtained by following this link: <http://www.irinfo.com/CAPB/CAPB4q07tnf.pdf>.