

CapitalSouth[®]

BANCORP

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CAPITALSOUTH BANCORP ANNOUNCES SECOND QUARTER 2008 RESULTS

BIRMINGHAM, Ala. (August 1, 2008) – CapitalSouth Bancorp (NASDAQ-GM:CAPB) (the "Company"), the bank holding company for CapitalSouth Bank (the "Bank"), today announced a net loss for the second quarter and six months ended June 30, 2008, which included a non-cash impairment charge related to goodwill, a \$9.3 million provision for loan losses and a \$500,000 reserve against deferred tax assets. The Bank is adequately capitalized with a Tier I Leverage Capital Ratio of 6.74% and a Total Risk Based Capital Ratio of 9.67%. The Board of Directors remains committed to returning the Bank to well capitalized status. Further, the Bank has liquid resources in excess of \$100 million currently available in cash on hand and other customary sources. Commenting on the Bank's liquidity, W. Dan Puckett, the Company's Chairman and Chief Executive Officer, stated, "We want to reassure our depositors and shareholders that we are committed to protecting their trust in us."

Puckett continued, "Obviously, we are disappointed with the Company's second quarter results. The further deterioration in credit quality we have experienced and the resulting increased allowance for loan losses reflect the slowing of the real estate sectors and its impact on our residential real estate construction and residential acquisition and development loan portfolios, which represent the largest segment of our nonperforming asset portfolio. The general economic climate remains very challenging for all financial institutions; however, since the first quarter we have seen a significant drop of 47% in our accruing past due loans over 30 days. We continue to focus our full efforts on working through problem loan situations and have taken significant steps to navigate the Company through these difficult times. One such step has been the further staffing expansion of our Special Assets Department to monitor and liquidate our nonperforming assets as quickly as possible. Since quarter end, we have liquidated \$1,025,000 in other real estate owned ("OREO"), representing 10.3% of our balance at June 30, 2008, and have firm commitments on an additional \$1,488,000 scheduled to close within the next three weeks, which represents an additional 15.0% of our OREO at quarter end. Further, we have hired a new Chief Credit Officer with extensive experience in credit administration.

"We remain intently focused on our goal to preserve and build our capital base through our pending rights offering and our recent decision to suspend payment of a cash dividend," Puckett continued. "We are confident, based on the commitment of our Board of Directors, that we will be able to strengthen our balance sheet with an appropriate level of capital so we can weather this current real estate downturn. This offering will allow all current stockholders an opportunity to participate proportionately to their ownership to avoid significant dilution."

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A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. You may obtain a written prospectus for the offering meeting the requirements of Section 10 of the Securities Act of 1933, as amended, by writing to CapitalSouth Bancorp, 2340 Woodcrest Place, Birmingham, Alabama 35209, Attention Carol W. Marsh, Chief Financial Officer. This press release shall not constitute an offer to sell or the solicitation of an offer to buy any securities. Securities may not be sold nor may offers to buy be accepted prior to the effectiveness of a registration statement nor shall there be any sale of the securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any state.

Puckett stated, "We have always maintained a conservative approach to banking by careful planning and by responding aggressively to any emerging problems. Management and the Board of Directors are committed to resolving issues in our loan portfolio as quickly as possible. As with most banks, the bulk of our problem loans are real estate secured. Of course we cannot predict the future of the real estate market, but we believe we have provided enough reserves to resolve the problem loans. However, we will continue to monitor market conditions and real estate values and take further action if needed."

In light of recent and significant adverse changes in the general business climate and the continued downturn in financial stocks, the Company evaluated its remaining goodwill to determine the amount of impairment indicated in conformity with Statement of Financial Accounting Standards No. 142. This analysis resulted in a second quarter non-cash charge of \$9.4 million for impaired goodwill, eliminating the remaining balance of goodwill primarily generated in the 2007 acquisition of Monticello Bancshares, Inc. This charge had no effect on the Company's liquidity or regulatory capital.

The net operating loss for the second quarter, which excludes the non-cash goodwill impairment charge, totaled \$7,032,000 or \$1.69 per diluted share compared with net operating income of \$897,000 or \$0.30 per diluted share for the second quarter of 2007 (see reconciliation of net operating income and loss – both non-GAAP measures – to net income and loss at the end of this release). For the first half of 2008, the Company reported a net operating loss of \$6,710,000 or \$1.62 per diluted share compared with net operating income of \$1,603,000 or \$0.53 per diluted share for the year-earlier period. The decline in net operating income for the 2008 periods was due primarily to a \$9,350,000 provision for loan losses for the second quarter of 2008, prompted by increased nonperforming assets associated with continued deterioration in macroeconomic conditions, specifically in the residential real estate sector. The provision in the second quarter of 2007 was \$225,000. Per share amounts for the second quarter and first six months of 2008 also reflect an increase of 38% in the number of weighted average diluted shares outstanding due to shares issued in the Company's September 2007 acquisition of Monticello Bancshares. Additionally, the Company provided a reserve against its deferred tax assets in the amount of \$500,000 as a result of the net operating loss in conformity with Statement of Financial Accounting Standards No. 109.

The Company reported nonperforming loans at June 30, 2008, of \$34,963,000 compared with \$28,406,000 at March 31, 2008. At June 30, 2008, 93% of the Company's nonperforming loans were secured by real estate. Based on updated appraisals and other current valuations, the real estate secured nonperforming loans have an outstanding exposure (loan balance net of allocated reserves) of 79% of the estimated current value. Total nonperforming assets, which includes nonperforming loans, troubled debt restructurings, OREO and repossessions, increased to \$45,392,000 or 7.79% of period-end loans, OREO and repossessions at June 30, 2008, from \$35,100,000 or 5.68% at March 31, 2008.

Residential acquisition and development and residential construction loans comprised approximately 14% of the Company's loan portfolio at the end of the second quarter of 2008, but accounted for 53% of total nonperforming loans. The Company has 45% of its loan portfolio in commercial acquisition and development loans, and commercial construction loans, but these loans only represent 21% of the total non-accrual loans.

The Company recorded annualized net charge-offs, as a percentage of average loans, of 1.37% in the second quarter of 2008 compared with net charge-offs of 0.49% in the first quarter of 2008. In evaluating the adequacy of the allowance for loan losses, the Company continues to update external appraisals on the properties underlying the nonperforming loans. Recognizing current deterioration in credit quality and the increased level of net charge-offs, the Company increased its loan loss provision to \$9,350,000 in the second quarter of 2008 compared with \$658,000 in the first quarter of 2008. The allowance for loan losses was 2.73% of total period-end net loans and 46.00% of period-end nonperforming loans as of June 30, 2008, compared with 1.44% and 30.93% respectively, at March 31, 2008.

The Company further noted that the State Banking Department of Alabama and the Federal Reserve Bank of Atlanta completed the fieldwork for a regularly scheduled examination of the Bank during the second quarter. The reported results of the Company reflect discussions with regulators on the allowance for loan losses and loan charge-offs, among other matters. The Company has been advised orally that a formal enforcement action will be issued because of the impact of the high level of nonperforming assets on the financial performance of the Bank. Though the particular terms of such enforcement action are not known at this time, the Company expects that it will require improvement in Bank earnings, lower nonperforming loan levels, increased Bank capital, revisions to various policies as well as possibly other corrective actions. The Company has already been taking aggressive steps consistent with meeting these requirements.

"We have received expert, unbiased advice about the steps we should take," Puckett continued, referencing the input of Maria B. Campbell, former Alabama Superintendent of Banks. "What this bank and its parent company are now doing and planning to do to address the issues facing CapitalSouth are the kind of steps I looked for as a bank regulator," said Campbell. "After nearly 40 years in banking, I have learned that adverse market conditions impact even good loan portfolios. What I want to see from a regulator's perspective is that the bank is aggressive in evaluating and managing its loans when market conditions change. I was privileged to serve for a

time several years ago on the Board of the Company. From this experience I am confident that management and the Board of both the Bank and the Company are determined to protect the interests of both depositors and stockholders."

Net interest income for the second quarter of 2008 increased slightly to \$4,271,000 from \$4,250,000 in the year-earlier period, reflecting primarily an increase in interest-earning assets due to the Monticello acquisition. Net interest margin declined in the second quarter to 2.51% versus 3.61% in the same quarter last year and was down from 2.74% in the first quarter of 2008 due to the impact of the decline in the prime rate as well as the increase in nonperforming assets. Interest income reversed or foregone on nonperforming loans reduced second quarter 2008 net interest margin by 52 basis points. For the first six months of 2008, net interest income increased 10% to \$9,018,000 from \$8,204,000 in the prior-year period. Net interest margin declined in the first half of 2008 to 2.63% from 3.56% in the same period last year. Interest income reversed or foregone on nonperforming loans reduced net interest margin by 48 basis points in the first six months of 2008. Management believes margin pressure will continue throughout the year due to the impact of nonperforming loans.

Noninterest income for the second quarter declined 14% to \$734,000 compared with \$855,000 in the year-earlier period, due primarily to less Business Capital Group income, which also has been negatively affected by softness in the real estate sector. Higher income from deposit service fees and income from the Bank's newly acquired mortgage division in the form of gains on sales of mortgage loans offset some of the impact of the decline in Business Capital Group income. Losses on the impairment of investment securities were incurred as the Company repositioned its investment portfolio away from tax-exempt securities due to its taxable loss for the quarter and to create additional liquidity. For the six months ended June 30, 2008, noninterest income increased 23% to \$1,936,000 from \$1,573,000 in the year-earlier period, largely due to gains on sales of mortgage loans.

Noninterest expense for the second quarter increased to \$15,618,000 from \$3,488,000 in the same period last year, due primarily the impact of the goodwill impairment charge. Noninterest expense for the second quarter of 2008, excluding the impairment charge, was \$6,256,000, up 79% from the year-earlier quarter, reflecting the impact of new employees added from the Monticello acquisition as well as the recent opening of additional offices in both Jacksonville, Florida and Huntsville, Alabama, higher occupancy costs associated with the addition of a total of four branches since June 30, 2007, and expenses associated with an increase in OREO. For the six months ended June 30, 2008, noninterest expense was \$20,550,000 compared with \$7,037,000 in the prior-year period; excluding the impairment charge, noninterest expense increased 59% to \$11,187,000 in the first half of 2008, reflecting generally the same factors that accounted for the increase in the second quarter.

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Total assets at June 30, 2008, were \$736,195,000, representing a 44% increase from \$511,047,000 at June 30, 2007. The Company's loan portfolio totaled \$589,060,000 at the end of the second quarter of 2008, up 45% from \$405,523,000 at June 30, 2007. Deposits increased 46% to \$622,093,000 at quarter's end compared with \$425,661,000 at June 30, 2007. The Company has begun the process of shrinking its asset base to preserve capital and reposition the Bank's loan portfolio to reduce its total exposure to the real estate sector.

Stockholders' equity at June 30, 2008, totaled \$29,757,000 compared with \$42,657,000 at June 30, 2007, with the decline primarily reflecting the impact of goodwill impairment charges recorded in the second quarter of 2008 and the fourth quarter of 2007. Book value per share was \$7.16 at June 30, 2008, compared with \$14.23 a year ago, while tangible book value per share declined to \$6.96 per share at June 30, 2008, from \$13.80 at June 30, 2007. These changes also reflect an increase in average shares outstanding.

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 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 Small Business Administration lending services and other loan programs for business owners through its Business Capital Group, which operates through our full-service offices. 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 the Company'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. The Company 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)

	Second Quarter Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Interest income	\$ 10,132	\$ 9,076	\$ 21,773	\$ 17,756
Interest expense	5,861	4,826	12,755	9,552
Net interest income	4,271	4,250	9,018	8,204
Provision for loan losses	9,350	225	10,007	362
Net interest (loss) income after provision for loan losses	(5,079)	4,025	(989)	7,842
Noninterest income	734	855	1,936	1,573
Noninterest expense	15,618	3,488	20,550	7,037
Net (loss) income before provision for income taxes	(19,963)	1,392	(19,603)	2,378
(Benefit) provision for income taxes	(3,568)	495	(3,530)	775
Net (loss) income	\$ (16,395)	\$ 897	\$ (16,073)	\$ 1,603
Net (loss) income per share:				
Basic	\$ (3.95)	\$ 0.30	\$ (3.87)	\$ 0.54
Diluted	\$ (3.95)	\$ 0.30	\$ (3.87)	\$ 0.53
Goodwill impairment charge	\$ 9,363	\$ --	\$ 9,363	\$ --
Net operating (loss) income	\$ (7,032)	\$ 897	\$ (6,710)	\$ 1,603
Net operating (loss) income per common share:				
Basic	\$ (1.69)	\$ 0.30	\$ (1.62)	\$ 0.54
Diluted	\$ (1.69)	\$ 0.30	\$ (1.62)	\$ 0.53
Weighted average shares outstanding:				
Basic	4,154	2,993	4,153	2,987
Diluted	4,154	3,011	4,153	3,013
			June 30, 2008	June 30, 2007
Total assets			\$ 736,195	\$ 511,047
Loans			589,060	405,523
Allowance for loan losses			(16,082)	(4,709)
Net loans			572,978	404,814
Interest-bearing deposits			555,255	366,244
Noninterest-bearing deposits			66,838	59,417
Total deposits			622,093	425,661
Stockholders' equity			29,757	42,657
Book value per share			7.16	14.23
Tangible book value per share			6.96	13.80

Unaudited supplemental financial information for the second quarter and six months ended June 30, 2008 and 2007, may be obtained by following this link: <http://www.irinfo.com/CAPB/CAPB2Q08tdl.pdf>.