

CapitalSouth[®]

BANCORP

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CAPITALSOUTH BANCORP ANNOUNCES THIRD QUARTER 2008 RESULTS

BIRMINGHAM, Ala. (October 30, 2008) – CapitalSouth Bancorp (NASDAQ-GM: CAPB) (the "Company"), the bank holding company for CapitalSouth Bank (the "Bank"), today announced a net loss of \$5,292,000 or \$1.27 per share for the third quarter ended September 30, 2008, due primarily to a noncash reserve of \$5.1 million on our deferred tax assets which offset the Company's income tax benefit for the quarter. Commenting on the quarter, Chairman and Chief Executive Officer W. Dan Puckett stated, "The current economic conditions continue to be a challenge for CapitalSouth as with all financial institutions. We have focused our attention on quickly identifying and resolving problem credits. We have devoted significant resources to these efforts, which have resulted in a modest increase in nonperforming assets. We have further focused on repositioning our balance sheet to ensure that we have liquidity, lower real estate concentration risk and appropriate reserves. We are taking every opportunity to protect the interests of our depositors and stockholders as we navigate these challenges, and remain confident in our ability to weather the current economic downturn."

The Company is in the process of raising additional capital. We are in the process of beginning a rights offering of up to \$15,000,000 in additional shares of common stock to our common stockholders of record as of September 22, 2008. Once the rights certificates are mailed, stockholders will have thirty (30) days in which to exercise their subscription rights to purchase additional common stock. This offering also contemplates offering to the public any shares not subscribed by current common stockholders following the rights period at the subscription price. A copy of the prospectus and additional materials relating to the rights offering are expected to be mailed on or about November 6, 2008. Common stockholders may also obtain a copy of the prospectus by writing to CapitalSouth Bancorp, 2340 Woodcrest Place, Birmingham, Alabama 35209, Attention Carol W. Marsh, Chief Financial Officer. A registration statement relating to these securities has been filed with and declared effective by the Securities and Exchange Commission. This press release shall not constitute an offer to sell or the solicitation of an offer to buy any securities 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.

The Company reported nonperforming assets at September 30, 2008, of \$47,893,000, up modestly by 5.5% from the \$45,392,000 reported at June 30, 2008. The Company has dedicated many resources to managing the identification and resolution of nonperforming assets. CapitalSouth has successfully liquidated \$3.3 million in Other Real Estate Owned (OREO) during the quarter at values resulting in less than \$100,000 in additional charges to earnings for losses on sales and write-downs in value. One of the key indicators in identifying future nonperforming assets is past due loans. Past due loans greater than 30 days, which are still accruing interest, have declined 28.3% since June 30, 2008.

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The Company recorded annualized net charge-offs, as a percentage of average loans, of 1.02% in the third quarter of 2008 compared with annualized net charge-offs of 1.37% in the second quarter of 2008. The Company's loan loss provision was \$50,000 in the third quarter of 2008 compared with \$9,350,000 in the second quarter of 2008. The need for additional provision to the allowance for loan losses was offset by a strategic reduction in the loan portfolio, which has declined \$28,254,000 or 5% since June 30, 2008, coupled with a modest increase in nonperforming loans since the end of the second quarter of 2008. The Company has obtained current independent appraisals on the nonperforming assets to support the carrying values and related specific reserves for loan losses. Additionally, the Company has engaged independent parties to perform loan reviews of a significant portion of the loan portfolio to assist in identifying problem credits. The allowance for loan losses was 2.61% of total period-end loans and 40.40% of period-end nonperforming loans as of September 30, 2008, compared with 2.73% and 45.33%, respectively, at June 30, 2008.

The Company has enhanced its liquidity by completely eliminating its reliance on overnight funding from the Federal Home Loan Bank (FHLB) and is currently selling funds to the FHLB. As of September 30, 2008, the Company had \$5,652,000 in federal funds sold compared with a purchased position of \$25,811,000 at June 30, 2008. The Company achieved these results through strategic reductions in assets.

Total assets at September 30, 2008 were \$695,890,000, representing a 5% decline from \$736,195,000 at June 30, 2008. The Company's loan portfolio totaled \$560,806,000 at the end of the third quarter of 2008, down 5% from \$589,060,000 at June 30, 2008. The Company's available-for-sale investment portfolio declined 29% due to the sale of securities by the Company. Deposits totaled \$610,639,000 at quarter's end, declining 2% from \$622,093,000 at June 30, 2008. The declines in these balance sheet amounts reflected the Company's continuation of a process begun in the second quarter to shrink its asset base to increase liquidity, reposition the Bank's loan portfolio to reduce its total exposure to the real estate sector, and to restore the Bank's capital ratios. The Company and Bank currently remain adequately capitalized with a Tier I Leverage Capital Ratio of 4.58% and 6.53%, respectively, and a Total Risk Based Capital Ratio of 8.27% and 9.45%, respectively.

Net interest income for the third quarter of 2008 declined 9% to \$3,906,000 from \$4,271,000 in the second quarter of 2008. Net interest margin declined in the third quarter to 2.39% versus 2.51% in the second quarter of 2008 due to the impact of a lower prime rate as well as the increase in nonperforming assets. For the first nine months of 2008, net interest income increased slightly to \$12,925,000 from \$12,852,000 in the prior-year period. Net interest margin declined in the first nine months of 2008 to 2.55% from 3.51% in the same period last year. Management believes margin pressure will continue throughout the year due to the impact of nonperforming loans, the lower prime rate and competitive pressures for liquidity on the price for deposits.

Noninterest income for the third quarter declined 12% to \$645,000 from \$734,000 in the second quarter of 2008, primarily reflecting lower service charges on deposits and lower gains on the sale of mortgage loans. For the nine months ended September 30, 2008, noninterest income increased 17% to \$2,581,000 from \$2,204,000 in the year-earlier period, reflecting gains on sales of mortgage loans partially offset by lower loan income from the Company's Business Capital Group. The Business Capital Group income is generated primarily from loans on commercial real estate projects, which also have experienced a slowdown as secondary market investors are more cautious in their underwriting criteria due to current market conditions.

Noninterest expense for the third quarter of 2008 declined to \$5,001,000 from \$15,618,000 in the second quarter of 2008, which included a goodwill impairment charge of \$9,363,000. Excluding the impairment charge, noninterest expense for the second quarter was \$6,255,000. The decline in noninterest expense during the third quarter primarily reflected lower expenses associated with OREO. For the nine months ended September 30, 2008, noninterest expense was \$25,552,000 compared with \$10,861,000 in the prior-year period; excluding the impairment charge, noninterest expense increased 49% to \$16,189,000 in the first nine months of 2008, primarily reflecting an increase in salaries and employee benefits, along with higher occupancy costs, related to the September 2007 acquisition of Monticello Bancshares, Inc., and with higher expenses associated with OREO of \$1,518,000 year-to-date.

During the third quarter of 2008, the Company recorded an additional valuation allowance against its net deferred tax assets of \$5.3 million in accordance with the requirements of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). In evaluating the positive and negative evidence to support the realization of the asset under SFAS 109, given the current credit crisis and economic conditions, there is insufficient positive evidence to support a conclusion that it is more likely than not this asset will be realized in the foreseeable future.

Stockholders' equity totaled \$24,180,000 at September 30, 2008, compared with \$29,757,000 at June 30, 2008. Book value per share was \$5.81 at September 30, 2008, compared with \$7.16 at June 30, 2008. Tangible book value per share was \$5.63 per share at September 30, 2008, compared with \$6.96 at June 30, 2008.

The Company also noted that Charles K. McPherson, Sr., age 66, has retired from the Board of Directors for the Company and the Bank.

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)

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2008	June 30, 2008	Sept. 30, 2007	Sept. 30, 2008	Sept 30, 2007
Interest income	\$ 9,472	\$ 10,132	\$ 10,398	\$ 31,245	\$ 28,153
Interest expense	5,566	5,861	5,750	18,320	15,302
Net interest income	3,906	4,271	4,648	12,925	12,851
Provision for loan losses	50	9,350	1,025	10,057	1,386
Net interest income (loss) after provision for loan losses	3,856	(5,079)	3,623	2,868	11,465
Noninterest income	645	734	633	2,581	2,204
Noninterest expense	5,001	15,618	3,826	25,552	10,861
Net (loss) income before provision for income taxes	(500)	(19,963)	430	(20,103)	2,808
Provision (benefit) for income taxes	4,792	(3,568)	154	1,262	929
Net (loss) income	<u>\$ (5,292)</u>	<u>\$ (16,395)</u>	<u>\$ 276</u>	<u>\$ (21,365)</u>	<u>\$ 1,879</u>
Net (loss) income per share:					
Basic	<u>\$ (1.27)</u>	<u>\$ (3.95)</u>	<u>\$ 0.09</u>	<u>\$ (5.14)</u>	<u>\$ 0.62</u>
Diluted	<u>\$ (1.27)</u>	<u>\$ (3.95)</u>	<u>\$ 0.09</u>	<u>\$ (5.14)</u>	<u>\$ 0.61</u>
	Sept. 30, 2008	June 30, 2008	Sept. 30, 2007		
Total assets	\$ 695,890	\$ 736,195	\$ 812,544		
Loans	560,806	589,060	636,800		
Allowance for loan losses	(14,655)	(16,082)	(7,211)		
Net loans	546,151	572,978	629,589		
Interest-bearing deposits	551,051	555,255	566,827		
Noninterest-bearing deposits	59,588	66,838	72,488		
Total deposits	610,639	622,093	639,315		
Stockholders' equity	24,180	29,757	62,551		
Book value per share	5.81	7.16	15.45		
Tangible book value per share	5.63	6.96	8.33		

Unaudited supplemental financial information for the third quarter and nine months ended September 30, 2008 and 2007, may be obtained by following this link: <http://www.irinfo.com/CAPB/CAPB3Q08mba.pdf>.