

CapitalSouth[®]

BANCORP

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CAPITALSOUTH BANCORP ANNOUNCES 31% INCREASE IN FOURTH QUARTER EARNINGS AND HIGHER FULL-YEAR EARNINGS

BIRMINGHAM, Alabama (January 25, 2007) – CapitalSouth Bancorp (NASDAQ-GM: CAPB) today announced results for the fourth quarter and year ended December 31, 2006. Highlights of the Company's report included increases in net income for the quarter and year, driven largely by higher net interest income. This, in turn, reflected underlying growth in the Company's loan portfolio during the year, along with a relatively stable interest rate margin in 2006.

For the quarter ended December 31, 2006, CapitalSouth reported net income of \$859,000, a 31% increase from the same period in 2005. For the quarter, diluted earnings per share increased 4% to \$0.28 from \$0.27 in the fourth quarter of 2005, on a 27% increase in weighted average shares outstanding following the Company's December 2005 initial public offering.

For the year ended December 31, 2006, net income increased 14% to \$2,928,000 from \$2,577,000 for 2005. Diluted earnings per share for the year totaled \$0.97 versus \$1.12 for 2005, again reflecting an increase in average shares outstanding.

Commenting on the announcement, W. Dan Puckett, Chairman and Chief Executive Officer, said, "We are pleased to finish 2006 – our first full year as a public company – in strong fashion, with higher earnings and continued momentum in our operations. During the past year, we have witnessed several notable achievements by the Company, including solid loan growth in our more established markets as well as a growing business at banking locations opened late in 2005. Importantly, as revenues in these newer offices continue to ramp up and overtake the start-up costs we have incurred, we see clear signs of their increasing contribution to our profitability. Also, we recently made several changes to our senior management structure, including the naming of Flake Oakley as President of our company, to strengthen our operations and place greater emphasis on acquisitions and expansion into new markets. Also, John Bentley has been named President and Chief Operating Officer of the Company's bank subsidiary, CapitalSouth Bank. These factors, in our view, together with the efficiencies brought about by the merger of our subsidiary banks in November, position CapitalSouth Bancorp for continued growth and improved profitability in the coming year."

Net income for the fourth quarter of 2006 resulted in a return on average stockholders' equity (ROE) of 8.30%, up from 7.89% in the same quarter of 2005, and a return on average assets (ROA) of 0.73%, up from 0.66% for the same quarter of 2005. For the year, the Company's ROE was 7.33% versus 9.74% for 2005, while ROA was 0.65% versus 0.70% for 2005.

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During the fourth quarter of 2006, CapitalSouth's provision for loan losses totaled \$162,000 versus \$156,000 in the year-earlier quarter. For the year, the provision for loan losses was \$621,000, down 32% from \$914,000 for 2005. Non-performing assets were 0.58% of year-end loans and other real estate compared with 0.55% at December 31, 2005, while the allowance for loan losses as a percentage of period-end non-performing loans totaled 261% at December 31, 2006, compared with 229% at December 31, 2005.

Net interest margin for the fourth quarter declined 21 basis points to 3.69% from 3.90% in the year-earlier period, reflecting an increasingly competitive environment for deposits and a more rapid advance in deposit rates. However, for the year, net interest margin was 3.76%, down one basis point from 3.77% for 2005. Despite the year-to-year stability in net interest margin, the Company expects that a challenging rate climate will continue, at least in the near term.

Total assets at year-end were \$482.0 million, representing a 14% increase over total assets of \$423.5 million at the end of 2005. Deposits increased 22% as of year-end, reaching \$401.3 million versus \$329.4 million at December 31, 2005. Stockholders' equity at December 31, 2006, totaled \$41.3 million, or \$13.89 per share, up from \$12.93 at December 31, 2005.

CapitalSouth Bancorp is a bank holding company operating nine 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. Two of CapitalSouth Bank's offices operate under the name "Banco Hispano" and provide financial services to the growing Latino community prevalent in their areas. 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 and personal investment services at www.capitalsouthbank.com.

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)

	Fourth Quarter Ended		Year Ended	
	December 31,		December 31,	
	2006	2005	2006	2005
Interest income	\$ 8,546	\$ 6,273	\$ 31,091	\$ 21,919
Interest expense	4,456	2,707	15,328	8,876
Net interest income	4,090	3,566	15,763	13,043
Provision for loan losses	162	156	621	914
Net interest income after provision for loan losses	3,928	3,410	15,142	12,129
Noninterest income	721	864	3,290	2,552
Noninterest expense	3,321	3,286	13,925	10,840
Net income before income taxes	1,328	988	4,507	3,841
Provision for income taxes	469	334	1,579	1,264
Net income	<u>\$ 859</u>	<u>\$ 654</u>	<u>\$ 2,928</u>	<u>\$ 2,577</u>
Net income per share				
Basic	\$ 0.29	\$ 0.28	\$ 0.99	\$ 1.13
Diluted	\$ 0.28	\$ 0.27	\$ 0.97	\$ 1.12
Weighted average shares outstanding				
Basic	2,972	2,353	2,964	2,272
Diluted	3,026	2,390	3,021	2,304
			December 31,	
			2006	2005
Total assets			\$ 481,989	\$ 423,508
Loans			374,908	327,221
Allowance for loan losses			(4,329)	(3,856)
Net loans			<u>370,579</u>	<u>323,365</u>
Interest-bearing deposits			348,562	282,434
Noninterest bearing deposits			52,735	46,995
Total deposits			<u>401,297</u>	<u>329,429</u>
Stockholders' equity			41,348	36,874
Book value per share			13.89	12.93

Unaudited supplemental financial information for the fourth quarter and year ended December 31, 2006 and 2005, may be obtained by following this link: <http://www.irinfo.com/CAPB/4q06fsp.pdf>.

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