

CapitalSouth[®]

BANCORP

Contacts: W. Dan Puckett
Chief Executive Officer
(205) 870-1939

Carol Marsh
Chief Financial Officer
(205) 870-1939

CAPITALSOUTH BANCORP ANNOUNCES FIRST QUARTER NET INCOME UP 52% TO \$707,000 OR \$0.23 PER DILUTED SHARE

BIRMINGHAM, Ala. (April 25, 2007) – CapitalSouth Bancorp (NASDAQ-GM: CAPB) today announced results for the first quarter of 2007. In addition to significantly higher net income, which increased 52% to \$707,000 and 44% to \$0.23 on a diluted earnings per share basis, first quarter highlights included solidly higher net interest income and non-interest income. On the balance sheet, the Company reported strong year-over-year growth in assets – up 16% to \$505,558,000, and deposits – up 23% to \$384,708,000, as CapitalSouth continued to gain momentum in its newer markets. At the same time, credit quality remained strong.

For the quarter ended March 31, 2007, the Company reported net income of \$707,000, a 52% increase from \$464,000 for the same period in 2006. On a diluted earnings per share basis, net income increased 44% to \$0.23 from \$0.16 in the first quarter of 2006. Net income for the first quarter of 2007 translated into a return on average stockholders' equity (ROE) of 6.83%, up from 4.84% in the same quarter of 2006. Return on average assets (ROA) was 0.58%, up from 0.44% for the same quarter of 2006.

Commenting on the announcement, W. Dan Puckett, Chairman and Chief Executive Officer, said, "We are delighted that the momentum that characterized our earnings and operations in late 2006 continued to frame our results in the beginning of 2007. Net income advanced strongly in the first quarter due to asset growth and good credit quality. Additionally, hard work throughout our company to seize revenue opportunities and control costs contributed to our improved results. These efforts appear in the growth of our fee income and the improvement we registered in our efficiency ratio. Also, our newer expansions in Huntsville and Jacksonville continued to leverage the investments we have made there."

Net interest income for the first quarter of 2007 rose 9% to \$3,953,000 from \$3,630,000 in the year-earlier period due primarily to an increase in interest-earning assets. Net interest margin declined 19 basis points in the first quarter to 3.50% versus 3.69% in the fourth quarter of 2006 and 20 basis points from 3.70% in the year-earlier period. These declines reflected an increasingly competitive environment for deposits. The Company expects that a challenging rate climate will continue, at least in the near term.

During the first quarter of 2007, CapitalSouth's provision for loan losses totaled \$136,000 versus \$236,000 in the year-earlier quarter. Non-performing assets were 0.62% of period-end loans and other real estate compared with 0.72% in the year-earlier quarter and 0.58% at December 31, 2006. Annualized net charge-offs as a percentage of average loans were nil, down from 0.05% in the first quarter of 2006 and unchanged from the fourth quarter of 2006. The allowance for loan losses as a percentage of period-end non-performing loans was 243% at March 31, 2007, compared with 190% at March 31, 2006, and 261% at December 31, 2006.

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Non-interest income for the first quarter increased 28% to \$717,000 versus \$561,000 in the year-earlier period, reflecting higher investment banking income, increased income from the Company's Business Capital Group, and higher service charges. Non-interest expense for the first quarter rose 8% to \$3,547,000 from \$3,283,000 in the same period last year. This increase was the result of merit increases in salaries and higher professional fees associated with the Company's investment banking income, offset by a decline in advertising expense.

Total assets at March 31, 2007, were \$505,558,000, representing a 16% increase over total assets of \$435,707,000 at March 31, 2006. The Company's loan portfolio totaled \$384,708,000 at the end of the first quarter of 2007, up 14% from \$336,345,000 at March 31, 2006. Deposits increased 23% in the first quarter, reaching \$444,722,000 versus \$363,021,000 a year ago. Stockholders' equity at March 31, 2007, totaled \$42,033,000, up 8% from \$38,883,000 a year ago. Book value per share was \$14.07 at March 31, 2007, versus \$13.13 at March 31, 2006.

On March 1, 2007, the Company announced an agreement to acquire privately held Monticello Bancshares, Inc. Monticello is the holding company for Monticello Bank, a federally chartered savings bank with two locations in Jacksonville, Florida. It also operates a wholesale residential mortgage operation based in Fitzgerald, Georgia. The mortgage operation originates and sells in the secondary market primarily prime conventional residential mortgage loans in Florida, Georgia, North Carolina and South Carolina. Terms of the merger call for Monticello stockholders to receive 1,047,619 shares of CapitalSouth common stock, \$14 million in cash and \$8 million in debt in exchange for all of Monticello's outstanding common stock, resulting in a transaction value of approximately \$41 million as of the announcement date. The merger, which is subject to regulatory approvals by the Federal Reserve Board and the Alabama State Banking Department, as well as approval by the stockholders of both companies, is expected to close in the third quarter of 2007.

Commenting on the proposed transaction, Puckett said, "We see tremendous opportunity to expand in Jacksonville, and we think our pending acquisition of Monticello Bancshares will greatly accelerate our growth in that market. Leveraging our administrative capacity across the Monticello franchise will result in improved efficiencies for our operations in Jacksonville. We look forward to welcoming the customers, employees and stockholders of Monticello to CapitalSouth."

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. 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.

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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)

	First Quarter Ended	
	March 31,	
	2007	2006
Interest income	\$ 8,679	\$ 6,849
Interest expense	<u>4,726</u>	<u>3,219</u>
Net interest income	3,953	3,630
Provision for loan losses	<u>136</u>	<u>236</u>
Net interest income after provision for loan losses	3,817	3,394
Non-interest income	717	561
Non-interest expense	<u>3,547</u>	<u>3,283</u>
Net income before income taxes	987	672
Provision for income taxes	<u>280</u>	<u>208</u>
Net income	<u>\$ 707</u>	<u>\$ 464</u>
Net income per share		
Basic	\$ 0.24	\$ 0.16
Diluted	\$ 0.23	\$ 0.16
Weighted average shares outstanding		
Basic	2,981	2,942
Diluted	3,016	3,003
	Mar. 31,	Mar. 31,
	2007	2006
Total assets	\$ 505,558	\$ 435,707
Loans	384,708	336,345
Allowance for loan losses	<u>(4,467)</u>	<u>(4,048)</u>
Net loans	<u>380,241</u>	<u>332,297</u>
Interest-bearing deposits	383,242	312,079
Non-interest bearing deposits	<u>61,480</u>	<u>50,942</u>
Total deposits	<u>444,722</u>	<u>363,021</u>
Stockholders' equity	42,033	38,883
Book value per share	14.07	13.13

Unaudited supplemental financial information for the first quarter ended March 31, 2007 and 2006, may be obtained by following this link: <http://www.irinfo.com/CAPB/1q07fsp.pdf>.

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