BANC CORP
Form 10-Q
August 09, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM __________________ TO __________________

Commission File number 0-25033

The Banc Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware	63-1201350
(State or Other Jurisdiction of Incorporation)	(IRS Employer Identification No.)

17 North 20th Street, Birmingham, Alabama 35203
(Address of Principal Executive Offices)

(205) 326-2265
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of June 30, 2005
Common stock, $.001 par value	19,551,411

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE BANC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(DOLLARS IN THOUSANDS)

	JUNE 30 2005
	(UNAUDIT
ASSETS	
Cash and due from banks	$ 29,
Interest-bearing deposits in other banks	4,
Federal funds sold	7,
Investment securities available for sale	264,
Mortgage loans held for sale	29,
Loans, net of unearned income	903,
Less: Allowance for loan losses	(12,
Net loans	891,
Premises and equipment, net	55,
Accrued interest receivable	6,
Stock in FHLB and Federal Reserve Bank	11,
Cash surrender value of life insurance	38,
Other assets	44,
TOTAL ASSETS	$ 1,383,
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	
Noninterest-bearing	$ 95,
Interest-bearing	944,
TOTAL DEPOSITS	1,040,
Advances from FHLB	146,
Federal funds borrowed and security repurchase agreements	38,
Notes payable	3,
Junior subordinated debentures owed to unconsolidated subsidiary trusts	31,
Accrued expenses and other liabilities	21,
TOTAL LIABILITIES	1,281,
Stockholders' Equity	
Convertible preferred stock, par value $.001 per share; authorized 5,000,000 shares; shares issued and outstanding -0- and 62,000, respectively	
Common stock, par value $.001 per share; authorized 35,000,000 shares; shares issued 19,805,956 and 18,025,932, respectively; outstanding 19,551,411 and 17,749,846, respectively	
Surplus - preferred	

- common stock	84,
Retained earnings	19,
Accumulated other comprehensive loss	(
Treasury stock, at cost	(
Unearned ESOP stock	(1,
Unearned restricted stock	
TOTAL STOCKHOLDERS' EQUITY	101,
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,383,

See Notes to Condensed Consolidated Financial Statements.

THE BANC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED JUNE 30,		SIX
	2005	2004	2005
INTEREST INCOME			
Interest and fees on loans	$ 15,590	$ 13,691	$ 30,
Interest on investment securities			
Taxable	2,945	2,109	5,
Exempt from Federal income tax	59	26	
Interest on federal funds sold	109	41	
Interest and dividends on other investments	254	231	
Total interest income	18,957	16,098	37,
INTEREST EXPENSE			
Interest on deposits	6,528	4,505	12,
Interest on other borrowed funds	1,881	1,456	3,
Interest on subordinated debentures	699	626	1,
Total interest expense	9,108	6,587	17,
NET INTEREST INCOME	9,849	9,511	19,
Provision for loan losses	1,500	-	2,
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,349	9,511	17,
NONINTEREST INCOME			
Service charges and fees on deposits	1,166	1,397	2,
Mortgage banking income	762	383	1,
Investment security (losses) gains	(68)	37	(
Gain on sale of branches	-	-	

Increase in cash surrender value of life insurance	391	410	
Insurance proceeds	5,000	-	5,
Other income	510	572	
TOTAL NONINTEREST INCOME	7,761	2,799	9,
NONINTEREST EXPENSES			
Salaries and employee benefits	5,927	5,871	11,
Occupancy, furniture and equipment expense	2,059	2,094	4,
Management separation costs	2,961	-	15,
Other operating expenses	4,536	3,202	8,
TOTAL NONINTEREST EXPENSES	15,483	11,167	38,
Income (loss) before income taxes	627	1,143	(12,
INCOME TAX EXPENSE (BENEFIT)	67	79	(4,
NET INCOME (LOSS)	560	1,064	(7,
PREFERRED STOCK DIVIDENDS	305	217	
EFFECT OF EARLY CONVERSION OF PREFERRED STOCK	2,006	-	2,
NET (LOSS) INCOME APPLICABLE TO COMMON STOCKHOLDERS	$ (1,751)	$ 847	$ (9,
BASIC NET (LOSS) INCOME PER COMMON SHARE	$ (0.09)	$ 0.05	$ (0
DILUTED NET (LOSS) INCOME PER COMMON SHARE	$ (0.09)	$ 0.05	$ (0
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	18,726	17,578	18,
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, ASSUMING DILUTION	18,726	18,487	18,

See Notes to Condensed Consolidated Financial Statements.

THE BANC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)
(DOLLARS IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30	
	2005	2004
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (20,929)	$ 5,02
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease (increase) in interest-bearing deposits in other banks	6,642	(4,92
Net decrease (increase) in federal funds sold	3,405	(18,00

Proceeds from sales of securities available for sale	57,150	71,72
Proceeds from maturities of investment securities available for sale	20,105	36,10
Purchases of investment securities available for sale	(53,609)	(161,81
Net decrease (increase) in loans	31,603	(39,34
Purchases of premises and equipment	(511)	(2,80
Proceeds from sales of premises and equipment	3,055	57
Net cash paid in branch sale	-	(6,62
Purchase of life insurance	-	(5,00
Increase in other investments	(34)	(1,74
Net cash provided (used) by investing activities	67,806	(131,85
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposit accounts	(26,711)	82,14
Net (decrease) increase in FHLB advances and other borrowed funds	(21,299)	39,32
Payments made on long term debt	(105)	(10
Proceeds from sale of common stock	7,705	4
Cash dividends paid	(305)	(21
Net cash (used) provided by financing activities	(40,715)	121,19
Net increase (decrease) in cash and due from banks	6,162	(5,63
Cash and due from banks at beginning of period	23,489	31,67
CASH AND DUE FROM BANKS AT END OF PERIOD	$ 29,651	$ 26,04

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q, and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. For a summary of significant accounting policies that have been consistently followed, see Note 1 to the Consolidated Financial Statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004. It is management's opinion that all adjustments, consisting of only normal and recurring items necessary for a fair presentation, have been included. Operating results for the three- and six-month periods ended June 30, 2005, are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

The statement of financial condition at December 31, 2004, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Note 2 - RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment (SFAS 123R), which is a revision of SFAS 123 and supersedes Accounting Principles Board (APB) Opinion 25. On April 14, 2005, the Securities and Exchange Commission announced the adoption of a new rule that amended the compliance dates for SFAS No. 123R. Under SFAS 123R, registrants would have been required to implement the standard as of the beginning of the first interim or annual period that begins after June 15, 2005. The Commission's new rule allows issuers to implement SFAS 123R at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005. The Commission's new rule does not change the accounting required by SFAS 123R; it changes only the dates for compliance with the standard. The new standard requires companies to recognize an expense in the statement of operations for the grant-date fair value of stock options and other equity-based compensation issued to employees, but expresses no preference for a type of valuation method. This expense will be recognized over the period during which an employee is required to provide service in exchange for the award. SFAS 123R carries forward prior guidance on accounting for awards to non-employees. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately prior to the modification. The Corporation is evaluating the impact on its results of operations from adopting SFAS 123R, but expects it to be comparable to the pro forma effects of applying the original SFAS 123 (see Note 10).

In December 2004, the FASB issued SFAS 153, Exchanges of Nonmonetary Assets, to amend APB Opinion No. 29. The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. SFAS 153 amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and re-

places it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date SFAS 153 was issued. The provisions of SFAS 153 are to be applied prospectively. The Corporation does not believe SFAS 153 will have a material impact on its financial statements.

In May of 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections. SFAS 154 replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle.

SFAS 154 carries forward without change the guidance contained in Opinion 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. This Statement also carries forward the guidance in Opinion 20 requiring justification of a change in accounting principle on the basis of preferability. SFAS 154 is effective for fiscal years beginning after December 15, 2005. The Corporation does not believe SFAS 154 will have a material impact on its financial statements.

Note 3 - RECENT DEVELOPMENTS

In May 2005, the Corporation received $5,000,000 (approximately $3,200,000 after-tax or $.17 per common share) to resolve its insurance claims relating to fraud losses which occurred in previous periods.

On July 21, 2005, the Corporation announced that it had bought out the employment contracts of the Chief Financial Officer and the General Counsel, effective June 30, 2005. Under these agreements, in lieu of the payments to which they would have been entitled under their employment agreements, the Corporation paid a total of $2,392,343 on July 22, 2005. In addition, these officers became fully vested in stock options and restricted stock previously granted to them and in benefits under their deferred compensation agreements with the Corporation.

On June 17, 2005, the Corporation's banking subsidiary filed an application to change its charter to a federal savings bank charter under the Office of Thrift Supervision. The Corporation's banking subsidiary is currently regulated by the Alabama Banking Department and the Federal Reserve.

On January 24, 2005, the Corporation announced that it had entered into a series of executive management change agreements. These agreements set forth the employment of C. Stanley Bailey as Chief Executive Officer and a director of the Corporation and chairman of the Corporation's banking subsidiary, C. Marvin Scott as President of the

Corporation and the Corporation's banking subsidiary, and Rick D. Gardner as Chief Operating Officer of the Corporation and the Corporation's banking subsidiary. These agreements also provided for the purchase by Mr. Bailey, Mr. Scott and Mr. Gardner, along with other investors, of 925,636 shares of common stock of the Corporation at $8.17 per share. The Corporation also entered into agreements with James A. Taylor and James A. Taylor, Jr. under which they will continue to serve as Chairman of the Board of the Corporation and as a director of the Corporation, respectively, but would cease their employment as officers of the Corporation and officers and directors of the Corporation's banking subsidiary.

Under the agreement with Mr. Taylor, in lieu of the payments to which he would have been entitled under his employment agreement, the Corporation paid Mr. Taylor $3,940,155 on January 24, 2005, and is scheduled to pay an additional $3,152,124 on January 24, 2006, and $788,031 on January 24, 2007. The agreement also provides for the provision of certain insurance benefits to Mr. Taylor, the transfer of a "key man" life insurance policy to Mr. Taylor, and the maintenance of such policy by the Corporation for five years (with the cost of maintaining such policy included in the above amounts), in each case substantially as required by his employment agreement. This obligation to provide such payments and benefits to Mr. Taylor is absolute and will survive the death or disability of Mr. Taylor.

Under the agreement with Mr. Taylor, Jr., in lieu of the payments to which he would have been entitled under his employment agreement, the Corporation paid Mr. Taylor, Jr., $1,382,872 on January 24, 2005. The agreement also provides for the provision of certain insurance benefits to Mr. Taylor, Jr. and for the immediate vesting of his unvested incentive awards and deferred compensation in each case substantially as required by his employment agreement. This obligation to provide such payments and benefits to Mr. Taylor, Jr. is absolute and will survive the death or disability of Mr. Taylor, Jr.

In connection with the above described management separation transactions, the Corporation recognized pre-tax expenses of $3.0 million and $15.3 million for

the three- and six-months periods ended June 30, 2005. At June 30, 2005, the Corporation had $6.7 million of accrued liabilities related to these agreements. See Note 24 to the Consolidated Financial Statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004 for further information.

NOTE 4 - ASSET SALES

In February 2004, the Corporation's banking subsidiary sold its Morris, Alabama branch, which had assets of approximately $1,037,000 and liabilities of $8,217,000. The Corporation realized a $739,000 pre-tax gain on the sale.

In March 2005, the Corporation sold its corporate aircraft, realizing a $355,000 pre-tax loss.

NOTE 5 - SEGMENT REPORTING

The Corporation has two reportable segments, the Alabama Region and the Florida Region. The Alabama Region consists of operations located throughout the state of Alabama. The Florida Region consists of operations located in the eastern panhandle region of Florida. The Corporation's reportable segments are managed as separate business units because they are located in different geographic areas. Both segments derive revenues from the delivery of financial services. These services include commercial loans, mortgage loans, consumer loans, deposit accounts and other financial services.

The Corporation evaluates performance and allocates resources based on profit or loss from operations. There are no material intersegment sales or transfers. Net interest revenue is used as the basis for performance evaluation rather than its components, total interest revenue and total interest expense. The accounting policies used by each reportable segment are the same as those discussed in Note 1 to the Consolidated Financial

Statements included in the Form 10-K for the year ended December 31, 2004. All costs have been allocated to the reportable segments. Therefore, combined amounts agree to the consolidated totals (in thousands).

	Alabama Region	Florida Region	Combined
Three months ended June 30, 2005			
Net interest income	$ 6,757	$ 3,092	$ 9,849
Provision for loan losses	1,379	121	1,500
Noninterest income (1)	7,432	329	7,761
Noninterest expense (2)(3)	14,456	1,027	15,483
Income tax (benefit) expense	(551)	618	67
Net (loss) income	(1,095)	1,655	560
Total assets	1,108,322	275,205	1,383,527
Three months ended June 30, 2004			
Net interest income	$ 6,886	$ 2,625	$ 9,511
Provision for loan losses (1)	984	(984)	-
Noninterest income (1)	2,467	332	2,799
Noninterest expense (2)	8,743	2,424	11,167
Income tax (benefit) expense	(377)	456	79
Net income	3	1,061	1,064
Total assets (1)	1,063,265	224,771	1,288,036

Six months ended June 30, 2005			
Net interest income	$ 13,535	$ 5,921	$ 19,456
Provision for loan losses	2,112	138	2,250
Noninterest income (1)	8,585	653	9,238
Noninterest expense (2)(3)	36,630	2,175	38,805
Income tax (benefit) expense	(6,105)	1,200	(4,905)
Net (loss) income	(10,517)	3,061	(7,456)
Six months ended June 30, 2004			
Net interest income	$ 13,213	$ 5,223	$ 18,436
Provision for loan losses (1)	1,956	(1,956)	-
Noninterest income (1)	5,865	702	6,567
Noninterest expense (2)	17,412	4,901	22,313
Income tax (benefit) expense	(481)	879	398
Net income	191	2,101	2,292

(1) See Notes 3 and 4 concerning branch sales and insurance proceeds. Also, in January 2004, certain loans were transferred from the Florida segment to the Corporation's special assets department, which is included in the Alabama segment.

(2) Noninterest expense for the Alabama region includes all expenses for the holding company, which have not been prorated to the Florida region.

(3) See Notes 3 and 4 concerning the amount of management separation charges and loss on the sale of assets.

NOTE 6 - NET (LOSS) INCOME PER COMMON SHARE

The following table sets forth the computation of basic and diluted net (loss) income per common share (in thousands, except per share amounts):

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Numerator:				
Net income (loss)	$ 560	$ 1,064	(7,456)	2,29
Less preferred dividends	305	217	305	21
Less effect of preferred stock conversion	2,006	-	2,006	
For basic and diluted, net (loss) income applicable to common stockholders	$ (1,751)	$ 847	$ (9,767)	$ 2,07
Denominator:				
For basic, weighted average common shares outstanding	18,726	17,578	18,562	17,56
Effect of dilutive stock options, restricted stock and convertible preferred	-	909	-	96
Weighted average common shares outstanding, assuming dilution	18,726	18,487	18,562	18,53

Basic net (loss) income per common share	$ (.09)	$ .05	$ (.53)	$ .1
Diluted net (loss) income per common share	$ (.09)	$ .05	$ (.53)	$ .1

Net (loss) income applicable to common stockholders and net (loss) income per common share reflect the effects of the early conversion of 62,000 shares of the Corporation's convertible preferred stock into 775,000 shares of common stock at a conversion price of $8.00 per share. Such conversion was effective as of June 30, 2005. As a result of such conversion, the excess of the market value of the common stock issued at the date of conversion over the aggregate issue price is reflected as a reduction in retained earnings with a corresponding increase in surplus, thereby reducing net income applicable to common stockholders for purposes of calculating earnings per common share. This non-cash charge did not affect total stockholders' equity.

Common stock equivalents of 1,387,000 and 1,357,000 were not included in computing diluted net loss per common share for the three- and six-month periods ended June 30, 2005, respectively, because their effects were anti-dilutive.

Note 7 - COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) was $2,472,000 and $(7,010,000), respectively, for the three- and six-month periods ended June 30, 2005, and $(1,879,000) and $(122,000) respectively, for the three- and six-month periods ended June 30, 2004. Total comprehensive (loss) income consists of net (loss) income and the unrealized gain or loss on the Corporation's available-for-sale securities portfolio arising during the period.

During the first quarter of 2005, the Corporation realized a $909,000 pre-tax loss as a result of a $50 million sale of bonds in the investment portfolio which closed in April 2005. The Corporation reinvested the proceeds in bonds intended to enhance the yield and cash flows of its investment securities portfolio. The new investment securities are classified as available for sale.

Note 8 - INCOME TAXES

The difference between the effective tax rate and the federal statutory rate in 2005 and 2004 is primarily due to certain tax-exempt income.

NOTE 9 - JUNIOR SUBORDINATED DEBENTURES

The Corporation has sponsored two trusts, TBC Capital Statutory Trust II ("TBC Capital II") and TBC Capital Statutory Trust III ("TBC Capital III"), of which 100% of the common equity is owned by the Corporation. The trusts were formed for the purpose of issuing Corporation-obligated mandatory redeemable trust preferred securities to third-party investors and investing the proceeds from the sale of such trust preferred securities solely in junior subordinated debt securities of the Corporation (the debentures). The debentures held by each trust are the sole assets of that trust. Distributions on the trust preferred securities issued by each trust are payable semi-annually at a rate per annum equal to the interest rate being earned by the trust on the debentures held by that trust. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The Corporation has entered into agreements which, taken collectively, fully and unconditionally guarantee the trust preferred securities subject to the terms of each of the guarantees. The debentures held by the TBC Capital II and TBC Capital III

capital trusts are first redeemable, in whole or in part, by the Corporation on September 7, 2010 and July 25, 2006, respectively.

The trust preferred securities held by the trusts qualify as Tier 1 capital for the Corporation under Federal Reserve Board guidelines.

Consolidated debt obligations related to subsidiary trusts holding solely debentures of the Corporation follow (in thousands):

	June 30, 2005	December 31,
10.6% junior subordinated debentures owed to TBC Capital Statutory Trust II due September 7, 2030	$ 15,464	$ 15,4
6-month LIBOR plus 3.75% junior subordinated debentures owed to TBC Capital Statutory Trust III due July 25, 2031	16,495	16,4
Total junior subordinated debentures owed to unconsolidated subsidiary trusts	$ 31,959	$ 31,9

As of June 30, 2005 and December 31, 2004, the interest rate on the $16,495,000 subordinated debentures was 6.71% and 5.74%, respectively.

Currently, the Corporation must obtain regulatory approval prior to paying any dividends on these trust preferred securities. The Federal Reserve approved the timely payment of the Corporation's semi-annual distributions on our trust preferred securities in January, March and July, 2005.

Note 10 - STOCKHOLDERS' EQUITY

During the first quarter of 2005, the Corporation issued 925,636 shares of its common stock at $8.17 per share, the then-current market price, to the new members of the management team and other investors, in a private placement. The Corporation received proceeds, net of issuance cost, of $7,328,000.

Effective June 30, 2005, 62,000 shares of the Corporation's convertible preferred stock were converted into 775,000 shares of common stock at a conversion price of $8.00 per share. As a result of such conversion, the excess of the market value of the common stock issued at the date of conversion over the aggregate issue price is reflected as a reduction in retained earnings with a corresponding increase in surplus, thereby reducing net income applicable to common stockholders for purposes of calculating earnings per common share. This non-cash charge did not affect total stockholders' equity.

On April 1, 2002, the Corporation issued 157,000 shares of restricted common stock to certain directors and key employees pursuant to the Second Amended and Restated 1998 Stock Incentive Plan. Under the Restricted Stock Agreements, the shares of restricted stock may not be sold or assigned in any manner for a five-year period that began on April 1, 2002. During this restricted period, the participant is eligible to receive dividends and exercise voting privileges. The restricted stock also has a corresponding vesting period with one-third vesting at the end of each of the third, fourth and fifth years. The restricted stock was issued at $7.00 per share, or $1,120,000, and is classified as a contra-equity account, "Unearned restricted stock", in stockholders' equity.

During 2003, 15,000 shares of this restricted common stock were forfeited. During the second quarter of 2005, an additional 29,171 shares of this restricted stock were forfeited. On January 24, 2005 the Corporation issued 49,375 additional shares of restricted common stock to certain key employees. Under the terms of the employment contract buyouts during the second quarter of 2005 and the management separation agreement entered into during the first quarter of 2005 (see Note 3), vesting was accelerated on 25,000 and 99,375 shares of restricted stock, respectively.

Unvested restricted shares outstanding as of June 30, 2005 were 13,334 and the remaining amount in the unearned restricted stock account is $49,000. This balance is being amortized as expense as the stock is earned during the restricted period. The amounts of restricted shares are included in the diluted earnings per share calculation, using the treasury stock method, until the shares vest. Once vested, the shares become outstanding for basic earnings per share. For the periods ended June 30, 2005 and 2004, the Corporation has recognized $599,000 and $100,000, respectively, in restricted stock expense. The current year expense is primarily related to the accelerated vesting from the management separation agreements and employment contract buyouts and is included in the amount of management separation cost.

The Corporation adopted a leveraged employee stock ownership plan (the "ESOP") effective May 15, 2002, that covers all eligible employees who are at least age 21 and have completed a year of service. As of June 30, 2005 the ESOP has been leveraged with 273,400 shares of the Corporation's common stock purchased in the open market and classified as a contra-equity account, "Unearned ESOP shares", in stockholders' equity.

On January 29, 2003, the ESOP trustees finalized a $2,100,000 promissory note to reimburse the Corporation for the funds used to leverage the ESOP. The unreleased shares and a guarantee of the Corporation secure the promissory note, which has been classified as a note payable on the Corporation's statement of financial condition. As the debt is repaid, shares are released from collateral based on the proportion of debt service. Principal payments on the debt are $17,500 per month for 120 months. The interest rate is adjusted annually to the Wall Street Journal prime rate. Released shares are allocated to eligible employees at the end of the plan year based on the employee's eligible compensation to total compensation. The Corporation recognizes compensation expense during the period as the shares are earned and committed to be released.

As shares are committed to be released and compensation expense is recognized, the shares become outstanding for basic and diluted earnings per share computations. The amount of compensation expense reported by the Corporation is equal to the average fair value of the shares earned and committed to be released during the period. Compensation expense that the Corporation recognized during the six month periods ended June 30, 2005, and 2004, was $135,000 and $98,000, respectively. The ESOP shares as of June 30, 2005 were as follows:

	June 30, 2005
Allocated shares	55,328
Estimated shares committed to be released	13,350
Unreleased shares	204,722
Total ESOP shares	273,400
Fair value of unreleased shares	$ 2,166,000

The Corporation has established a stock incentive plan for directors and certain key employees that provides for the granting of restricted stock and incentive and nonqualified options to purchase up to 2,500,000 shares of the Corporation's common stock. The compensation committee of the Board determines the terms of the restricted stock and options granted.

All options granted have a maximum term of ten years from the grant date, and the option price per share of options granted cannot be less than the fair market value of the Corporation's common stock on the grant date. Most options granted under this plan vest 20% on the grant date and an additional 20% annually on the next four anniversaries of the grant date. Other options granted under this plan vest based on the Corporation's achievement of certain stock price levels or five years from the grant date, whichever occurs first.

In addition, the Corporation granted 1,423,940 options to the new management team. These options have an exercise price of $8.17 per share. These options have a ten-year term and a tiered vesting schedule as discussed in Note 24 to the Consolidated Financial Statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004.

The Corporation has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), which allows an entity to continue to measure compensation costs for those plans using the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. The Corporation has elected to follow APB Opinion 25 and related interpretations in accounting for its employee stock options. Accordingly, compensation cost for fixed and variable stock-based awards is measured by the excess, if any, of the fair market price of the underlying stock over the amount the individual is required to pay. Compensation cost for fixed awards is measured at the grant date, while compensation cost for variable awards is estimated until both the number of shares an individual is entitled to receive and the exercise or purchase price are known (measurement date). No option-based employee compensation cost is reflected in net income, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The pro forma information below was determined as if the Corporation had accounted for its employee stock options under the fair value method of SFAS 123. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Corporation's pro forma information follows (in thousands except earnings per share information):

	For the three months ended		For the six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 20
Net income (loss):				
As reported	$ 560	$ 1,064	$ (7,456)	$ 2,29
Pro forma	(995)	666	(11,172)	1,78
(Loss) earnings per common share:				
As reported	$ (.09)	$ .05	$ (.53)	$ .1
Pro forma	(.18)	.03	(.73)	.0
Diluted (loss) earnings per common share:				
As reported	$ (.09)	$ .05	$ (.53)	$ .1
Pro forma	(.18)	.02	(.73)	.0

The fair value of the options granted was based upon the Black-Scholes pricing model. The Corporation used the following weighted average assumptions for:

	June 30	
	2005	2004
Risk-free interest rate	4.34%	4.69%
Volatility factor	.41	.41
Weighted average life of options	7.00	7.00
Dividend yield	0.00	0.00

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Basis of Presentation

The following is a discussion and analysis of our June 30, 2005 consolidated financial condition and results of operations for the three- and six-month periods ended June 30, 2005 and 2004. All significant intercompany accounts and transactions have been eliminated. Our accounting and reporting policies conform to generally accepted accounting principles.

This information should be read in conjunction with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this report and the audited consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations", appearing in our Annual Report on Form 10-K for the year ended December 31, 2004.

Overview

Our principal subsidiary is The Bank, an Alabama-chartered financial institution headquartered in Birmingham, Alabama which operates 26 banking offices in Alabama and the eastern panhandle of Florida. Other subsidiaries include TBC Capital Statutory Trust II ("TBC Capital II"), a Connecticut statutory trust, TBC Capital Statutory Trust III ("TBC Capital III"), a Delaware business trust, and Morris Avenue Management Group, Inc. ("MAMG"), an Alabama corporation, all of which are wholly owned. TBC Capital II and TBC Capital III are unconsolidated special purpose entities formed solely to issue cumulative trust preferred securities. MAMG is a real estate management company that manages our headquarters, our branch facilities and certain other real estate owned by The Bank.

Our total assets were $1.384 billion at June 30, 2005, a decrease of $39 million, or 2.78%, from $1.423 billion as of December 31, 2004. Our total loans, net of unearned income, were $903 million at June 30, 2005, a decrease of $32 million, or 3.36%, from $935 million as of December 31, 2004. Our total deposits were $1.040 billion at June 30, 2005, a decrease of $27 million, or 2.50%, from $1.067 billion as of December 31, 2004. These declines reflect our strategy of deleveraging the balance sheet and focusing on deposit and loan mix realignment which management expects will improve net interest margin. Our total stockholders' equity was $101.7 million at June 30, 2005, an increase of $1.2 million, or 1.20%, from $100.5 million as of December 31, 2004.

On July 21, 2005, we announced we had bought out the employment contracts of our Chief Financial Officer and our General Counsel, effective June 30, 2005. Under these agreements, in lieu of the payments to which they would have been entitled under their employment agreements we paid these officers a total of $2,392,343 on July 22, 2005. In addition, these officers became fully vested in stock options and restricted stock previously granted to them and in benefits under their deferred compensation agreements with us.

On June 17, 2005, our banking subsidiary filed an application to change its charter to a federal savings bank charter under the Office of Thrift Supervision. Our banking subsidiary is currently regulated by the Alabama Banking Department and the Federal Reserve.

On January 24, 2005, we announced that we had entered into a series of executive management change agreements. These agreements set forth the employment of C. Stanley Bailey as Chief Executive Officer and a director of the corporation and chairman of our banking subsidiary, C. Marvin Scott as President of the corporation and our banking subsidiary, and Rick D. Gardner as Chief Operating Officer of the corporation and our banking subsidiary. These agreements also provided for the purchase by Mr. Bailey, Mr. Scott and Mr. Gardner, along

with other investors, of 925,636 shares of common stock of the corporation at $8.17 per share. We also entered into agreements with James A. Taylor and James A. Taylor, Jr. under which they will continue to serve as Chairman of the Board of the Corporation and as a director of the Corporation, respectively, but would cease their employment as officers of the Corporation and officers and directors of our banking subsidiary.

Under the agreement with Mr. Taylor, in lieu of the payments to which he would have been entitled under his employment agreement, we paid Mr. Taylor $3,940,155 on January 24, 2005, and are scheduled to pay an additional $3,152,124 on January 24, 2006, and $788,031 on January 24, 2007. The agreement also provides for the provision of certain insurance benefits to Mr. Taylor, the transfer of a "key man" life insurance policy to Mr. Taylor, and the maintenance of such policy by us for five years (with the cost of maintaining such policy included in the above amounts), in each case substantially as required by his employment agreement. This obligation to provide such payments and benefits to Mr. Taylor is absolute and will survive the death or disability of Mr. Taylor.

Under the agreement with Mr. Taylor, Jr., in lieu of the payments to which he would have been entitled under his employment agreement, we paid Mr. Taylor, Jr., $1,382,872 on January 24, 2005. The agreement also provides for the provision of certain insurance benefits to Mr. Taylor, Jr. and for the immediate vesting of his unvested incentive awards and deferred compensation in each case substantially as required by his employment agreement. This obligation to provide such payments and benefits to Mr. Taylor, Jr. is absolute and will survive the death or disability of Mr. Taylor, Jr.

In connection with the above described employment contract buyouts and management separation transaction, we recognized pre-tax expenses of $3.0 million and $15.3 million for the three- and six-month periods ended June 30, 2005. At June 30, 2005, we had $6.7 million of accrued liabilities related to these agreements. See Note 24 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2004 for further information.

Management reviews the adequacy of the allowance for loan losses on a quarterly basis. The provision for loan losses represents the amount determined by management to be necessary to maintain the allowance for loan losses at a level capable of absorbing inherent losses in the loan portfolio. Management's determination of the adequacy of the allowance for loan losses, which is based

on the factors and risk identification procedures discussed in the following pages, requires the use of judgments and estimates that may change in the future. Changes in the factors used by management to determine the adequacy of the allowance or the availability of new information could cause the allowance for loan losses to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require that additions or reductions be made to the allowance for loan losses based on their judgments and estimates.

Results of Operations

Our net income for the three-month period ended June 30, 2005 (second quarter of 2005) was $560,000, compared to $1.1 million for the three-month period ended June 30, 2004 (second quarter of 2004). Basic and diluted net (loss) income per common share was $(.09) and $.05, respectively, for the second quarter of 2005 and 2004, based on weighted average common shares outstanding for the respective periods. Net loss per common share reflects a $2.0 million effect from the early conversion of our convertible preferred stock (see Note 6 in the condensed consolidated financial statements). Return on average assets, on an annualized basis, was .16% for the second quarter of 2005 compared to .34% for the second quarter of 2004. Return on average stockholders' equity, on an annualized basis, was 2.22% for the second quarter of 2005 compared to 4.26% for the second quarter of 2004.

The decrease in our net income during the second quarter of 2005 compared to the second quarter of 2004 is the result of certain nonoperating charges related to the management changes which occurred in the second quarter of 2005, the recognition of losses on other real estate and an increase in the provision for loan losses.

We incurred a $7.46 million net loss for the six-month period ended June 30, 2005 (first six months of 2005), compared to $2.29 million in net income for the six-month period ended June 30, 2004 (first six months of 2004). Net (loss) income per common share was $(.53) for the first six months of 2005 compared to $.11 per common share for the first six months of 2004. Return on average assets, on an annualized basis, was (1.06)% for the first six months of 2005 compared to .37% for the first six months of 2004. Return on average stockholders' equity, on an annualized basis, was (14.89)% for the first six months of 2005 compared to 4.59% for the first six months of 2004. Book value per share at June 30, 2005 was $5.20, compared to $5.31 as of December 31, 2004. Tangible book value per share at June 30, 2005 was $4.58, compared to $4.62 as of December 31, 2004.

The decrease in our net income during the first six months of 2005 compared to the first six months of 2004 is the result of certain nonoperating charges related to the management changes which occurred in the first and second quarters of 2005, the recognition of losses in the bond portfolio, losses on other real estate, losses from the sale of certain assets and an increase in the provision for loan losses.

Net interest income is the difference between the income earned on interest-earning assets and interest paid on interest-bearing liabilities used to support such assets. Net interest income increased $338,000, or 3.55%, to $9.8 million for the second quarter of 2005 compared to $9.5 million for the second quarter of 2004. Net interest income increased primarily due to a $2.8 million increase in total interest income offset by a $2.5 increase in total interest expense. The increase in total interest income is primarily due to a $76 million increase in the average volume of loans and a $72 million increase in the average volume of investment securities.

Average interest-earning assets for the second quarter of 2005 increased $120

million, or 10.7%, to $1.241 billion from $1.121 billion in the second quarter of 2004. This increase in average interest-earning assets was offset by a $120 million, or 11.2%, increase in average interest-bearing liabilities to $1.191 billion for the second quarter of 2005 from $1.071 billion for the second quarter of 2004. The ratio of average interest-earning assets to average interest-bearing liabilities was 104.3% and 104.7% for the second quarters of 2005 and 2004, respectively. Average interest-bearing assets produced a taxable equivalent yield of 6.14% for the second quarter of 2005 compared to 5.78% for the second quarter of 2004.

For the second quarter of 2005 as compared to the second quarter of 2004, the increase in total interest expense is attributable to a 60 basis point increase in the average interest rate paid on interest-bearing liabilities and a $120 million increase in the volume of average interest-bearing liabilities. The average rate paid on interest-bearing liabilities was 3.07% for the second quarter of 2005, compared to 2.47% for the second quarter of 2004. Our net interest spread and net interest margin were 3.07% and 3.19%, respectively, for the second quarter of 2005, compared to 3.31% and 3.42% for the second quarter of 2004.

Net interest income increased $1.0 million, or 5.53%, to $19.4 million for the first six months of 2005 compared to $18.4 million for the first six months of 2004. Net interest income increased primarily due to a $5.5 million increase in total interest income offset by a $4.5 increase in total interest expense. The increase in total interest income is primarily due to a $85.8 million increase in the average volume of loans and a $98.1 million increase in the average volume of investment securities.

Average interest-earning assets for the first six months of 2005 increased $164 million, or 15.0%, to $1.259 billion from $1.095 billion in the first six months of 2004. This increase in average interest-earning assets was offset by a $163 million, or 15.7%, increase in average interest-bearing liabilities, to $1.207 billion for the first six months of 2005 from $1.044 billion for the first six months of 2004. The ratio of average interest-earning assets to average interest-bearing liabilities was 104.3% and 104.9% for the first six months of 2005 and 2004, respectively. Average interest-bearing assets produced a taxable equivalent yield of 5.96% for the first six months of 2005 compared to 5.81% for the first six months of 2004.

For the six-month period ended June 30, 2005 as compared to the six-month period ended June 30, 2004, the increase in total interest expense is attributable to a 42 basis point increase in the average interest rate paid on

interest-bearing liabilities and a $163 million increase in the volume of average interest-bearing liabilities. The average rate paid on interest-bearing liabilities was 2.95% for the first six months of 2005, compared to 2.53% for the first six months of 2004. Our net interest spread and net interest margin were 3.01% and 3.13%, respectively, for the first six months of 2005, compared to 3.28% and 3.39% for the first six months of 2004.

Average Balances, Income, Expense and Rates. The following table depicts, on a taxable equivalent basis for the periods indicated, certain information related to our average balance sheet and average yields on assets and average costs of liabilities. Average yields are calculated by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been calculated on a daily basis.

THREE MONTHS ENDED JUNE 30

	2005			
	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE
			(Dollars in thousands)	
ASSETS				
Interest-earning assets:				
Loans, net of unearned income(1)............................	$ 945,407	$ 15,590	6.61%	$ 869,376
Investment securities				
Taxable..............................	251,876	2,945	4.69	183,643
Tax-exempt(2)........................	6,616	89	5.40	2,744
Total investment securities.....................	258,492	3,034	4.71	186,387
Federal funds sold...................	15,851	109	2.76	17,670
Other investments....................	21,571	254	4.72	47,945
Total interest-earning assets.........................	1,241,321	18,987	6.14	1,121,378
Noninterest-earning assets:				
Cash and due from banks.................	29,032			30,783
Premises and equipment..................	57,211			58,129
Accrued interest and other assets............................	87,290			83,443
Allowance for loan losses..............	(12,783)			(23,308)
Total assets.....................	$1,402,071			$1,270,425
LIABILITIES AND STOCKHOLDERS' EQUITY				
Interest-bearing liabilities:				
Demand deposits........................	$ 335,803	1,645	1.96	$ 258,926
Savings deposits.......................	27,078	10	0.15	28,987
Time deposits..........................	605,584	4,873	3.23	578,039
Other borrowings.......................	190,113	1,881	3.97	173,170
Subordinated debentures................	31,959	699	8.77	31,959
Total interest-bearing liabilities....................	1,190,537	9,108	3.07	1,071,081
Noninterest-bearing liabilities:				
Demand deposits........................	92,120			87,153
Accrued interest and other liabilities	18,356			11,643
Stockholders' equity...................	101,058			100,548
Total liabilities and stockholders' equity...........	$1,402,071			$1,270,425
Net interest income/net interest spread................................		9,879	3.07%	
Net yield on earning assets..............			3.19%	
Taxable equivalent adjustment:				
Investment securities(2)................		30		
Net interest income..............		$ 9,849		

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(1) Nonaccrual loans are included in loans, net of unearned income. No adjustment has been made for these loans in the calculation of yields.

(2) Interest income and yields are presented on a fully taxable equivalent basis using a tax rate of 34%.

The following table sets forth, on a taxable equivalent basis, the effect that the varying levels of our interest-earning assets and interest-bearing liabilities and the applicable rates have had on the changes in net interest income for the three months ended June 30, 2005 and 2004.

	THREE MONTHS ENDED JUNE 30 (1)		
	2005 VS 2004		
		CHANGES DUE TO	
	INCREASE (DECREASE)	RATE	VOLUME
	(Dollars in thousands)		
Increase (decrease) in:			
Income from interest-earning assets:			
Interest and fees on loans..................	$ 1,899	$ 638	$ 1,261
Interest on securities:			
Taxable...............................	836	33	803
Tax-exempt............................	50	(2)	52
Interest on federal funds..................	68	73	(5)
Interest on other investments..............	23	201	(178)
Total interest income.................	2,876	943	1,933
Expense from interest-bearing liabilities:			
Interest on demand deposits...................	832	542	290
Interest on savings deposits..................	(1)	-	(1)
Interest on time deposits.....................	1,192	1,008	184
Interest on other borrowings..................	425	272	153
Interest subordinated debentures..............	73	73	-
Total interest expense................	2,521	1,895	626
Net interest income...................	$ 355	$ (952)	$ 1,307

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(1) The change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the changes in each.

The following table depicts, on a taxable equivalent basis for the periods indicated, certain information related to our average balance sheet and our average yields on assets and average costs of liabilities. Average yields are

calculated by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been calculated on a daily basis.

	SIX MONTHS ENDED JU			
	2005			
	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	AVERAG BALANC
	(Dollars in thousan			
ASSETS				
Interest-earning assets:				
Loans, net of unearned income(1).............	$ 949,626	$ 30,468	6.47%	$ 863,8
Investment securities				
Taxable...................................	264,178	5,870	4.48	170,6
Tax-exempt(2).............................	6,624	177	5.39	2,0
Total investment securities............	270,802	6,047	4.50	172,6
Federal funds sold.........................	14,726	191	2.62	16,0
Other investments..........................	23,962	497	4.18	42,2
Total interest-earning assets..........	1,259,116	37,203	5.96	1,094,7
Noninterest-earning assets:				
Cash and due from banks......................	30,748			29,0
Premises and equipment.......................	58,076			58,0
Accrued interest and other assets............	83,525			82,1
Allowance for loan losses....................	(12,792)			(24,3
Total assets...........................	$1,418,673			$1,239,6
LIABILITIES AND STOCKHOLDERS' EQUITY				
Interest-bearing liabilities:				
Demand deposits..............................	$ 319,371	2,755	1.74	$ 248,3
Savings deposits.............................	27,643	21	0.15	29,6
Time deposits................................	631,728	9,789	3.12	561,0
Other borrowings.............................	196,323	3,738	3.84	172,6
Subordinated debentures......................	31,959	1,384	8.73	31,9
Total interest-bearing liabilities......	1,207,024	17,687	2.95	1,043,7
Noninterest-bearing liabilities:				
Demand deposits..............................	93,792			84,2
Accrued interest and other liabilities........	16,870			11,4
Stockholders' equity.........................	100,987			100,3
Total liabilities and stockholders' equity.................	$1,418,673			$1,239,6
Net interest income/net interest spread.......................................		19,516	3.01%	
Net yield on earning assets....................			3.13%	
Taxable equivalent adjustment:				
Investment securities(2).....................		60		

Net interest income....................	$ 19,456

(1) Nonaccrual loans are included in loans, net of unearned income. No adjustment has been made for these loans in the calculation of yields.

(2) Interest income and yields are presented on a fully taxable equivalent basis using a tax rate of 34%.

The following table sets forth, on a taxable equivalent basis, the effect that the varying levels of our interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the six months ended June 30, 2005 and 2004.

	SIX MONTHS ENDED JUNE 30 (1)		
	2005 VS 2004		
		CHANGES DUE TO	
	INCREASE (DECREASE)	RATE	VOLUME
	(Dollars in thousands)		
Increase (decrease) in:			
Income from interest-earning assets:			
Interest and fees on loans..................	$ 3,210	$ 513	$ 2,697
Interest on securities:			
Taxable...............................	2,048	-	2,048
Tax-exempt............................	115	(2)	117
Interest on federal funds...................	116	117	(1)
Interest on other investments...............	101	201	(100)
Total interest income.................	5,590	829	4,761
Expense from interest-bearing liabilities:			
Interest on demand deposits....................	1,261	763	498
Interest on savings deposits...................	(3)	(1)	(2)
Interest on time deposits......................	2,525	1,550	975
Interest on other borrowings...................	616	176	440
Interest subordinated debentures...............	132	132	-
Total interest expense.................	4,531	2,620	1,911
Net interest income....................	$ 1,059	$ (1,791)	$ 2,850

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(1) The change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the changes in each.

Noninterest income. Noninterest income increased $5.0 million, or 177.3%, to $7.8 million for the second quarter of 2005 from $2.8 million for the second quarter of 2004, primarily due to $5.0 million in insurance proceeds received in

the second quarter of 2005 which resolved our claims arising from fraud losses which occurred in previous periods. Mortgage banking income increased $379,000, or 99.0%, to $762,000 in the second quarter of 2005 from $383,000 in the second quarter of 2004. This increase in mortgage banking income was offset by a decrease in gains on securities of $105,000 and a decrease in service charges on deposits of $231,000 in the second quarter of 2005. This decrease is primarily due to a loss of transaction accounts from 2004 to 2005. Management is currently pursuing new accounts and customers through direct marketing and other promotional efforts to increase this source of revenue. Service charges on deposit accounts increased $54,000, or 4.9%, in the second quarter of 2005 over first quarter of 2005.

Noninterest income increased $2.6 million, or 40.7%, to $9.2 million for the first six months of 2005 from $6.6 million for the first six months of 2004, primarily due to $5.0 million in insurance proceeds received in the second quarter of 2005, offset by losses we realized in 2005 on our investment portfolio compared to gains on the sale of investments and our Morris branch in 2004. The investment portfolio losses were realized primarily in the first quarter of 2005 as a result of a $50 million sale of bonds in the investment portfolio. We reinvested the proceeds in bonds intended to enhance the yield and cash flows of our investment securities portfolio. The new investment securities were classified as available for sale. Service charges on deposits decreased $510,000, or 18.3%, to $2.3 million in the first six months of 2005 from $2.8 million in the first six months of 2004. As discussed above, this decrease is primarily due to a loss of

transaction accounts from 2004 to 2005. Mortgage banking income increased $421,000, or 53.5%, to $1.2 million in the first six months of 2005 from $787,000 in the first six months of 2004.

Noninterest expense. Noninterest expense increased $4.3 million, or 38.7%, to $15.5 million for second quarter of 2005 from $11.2 million for the second quarter of 2004. This increase is primarily due to the employment contract buyouts of $3.0 million in the second quarter of 2005 (see Note 3 to the condensed consolidated financial statements). We also incurred $1.0 million of write-downs and losses on other real estate in the second quarter of 2005, primarily related to a single property on which an updated appraised value was obtained.

Noninterest expense increased $16.5 million, or 73.9%, to $38.8 million for first six months of 2005 from $22.3 million for the first six months of 2004. This increase is primarily due to the management separation costs of $15.3 million incurred in the first six months of 2005. The management separation charges primarily include severance payments, accelerated vesting of restricted stock and deferred compensation agreements, employment contract buy-outs and professional fees (see Note 3 to the condensed consolidated financial statements). Salaries and benefits decreased $128,000, or 1.1%, to $11.3 million for the first six months of 2005 from $11.4 million for the first six months of 2004. All other noninterest expenses increased $1.3 million, or 19.2%, to $8.1 million for the first six months of 2005 from $6.8 million for the first six months of 2004, primarily due to the $355,000 loss on the sale of our corporate aircraft in the first quarter of 2005 and the additional $1.0 million of other real estate losses in the second quarter of 2005.

Income tax expense. Our income tax expense was $67,000 for the second quarter of 2005, compared to $79,000 for the second quarter of 2004. We recognized an income tax benefit of $4.91 million for the first six months of 2005, compared to income tax expense of $398,000 for the first six months of 2004. The primary difference in the effective rate and the federal statutory rate (34%) for the three- and six-month periods ended June 30, 2005 and 2004 is due to certain

tax-exempt income from investments and insurance policies.

Provision for Loan Losses. The provision for loan losses represents the amount determined by management to be necessary to maintain the allowance for loan losses at a level capable of absorbing inherent losses in the loan portfolio. Management reviews the adequacy of the allowance on a quarterly basis. The allowance for loan loss calculation is segregated into various segments that include classified loans, loans with specific allocations and pass rated loans. A pass rated loan is generally characterized by a very low to average risk of default and is a loan in which management perceives there is a minimal risk of loss. Loans are rated using an eight-point scale, with loan officers having the primary responsibility for assigning the risk ratings and for the timely reporting of changes in the risk ratings. These processes, and the assigned risk ratings, are subject to review by our internal loan review function and senior management. Based on the assigned risk ratings, the criticized and classified loans in the portfolio are segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss. Generally, regulatory reserve percentages are applied to these categories to estimate the amount of loan loss allowance, adjusted for previously mentioned risk factors. Impaired loans are reviewed specifically and separately under Statement of Financial Accounting Standards No. 114 (SFAS 114) to determine the appropriate reserve allocation. Management compares the investment in an impaired loan against the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral, if the loan is collateral-dependent, to determine the specific reserve allowance. Reserve percentages assigned to non-rated loans are based on historical charge-off experience adjusted for other risk factors. To evaluate the overall adequacy of the allowance to absorb losses inherent in our loan portfolio, management considers historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, economic conditions and other pertinent information. Based on future evaluations, additional provisions for loan losses may be necessary to maintain the allowance for loan losses at an appropriate level. See "Financial Condition - Allowance for Loan Losses" for additional discussion.

The provision for loan losses was $1.5 million for the second quarter of 2005 and $2.25 million for the first six months of 2005. Our provision for loan losses increased during the second quarter of 2005 primarily as a result of an increase in classified loans of $3.2 million identified during the second quarter. In addition, we incurred charge-offs during the second quarter of 2005 related to the reassessment of collateral values on certain nonperforming commercial credits and the settlement of a disputed collateral lien. We did not record a provision for loan loss in the first six months of 2004. During the first six months of 2005, we had net charged-off loans totaling $2.5 million, compared to net charged-off loans of $5.0 million in the first six months of 2004. The annualized ratio of net charged-off loans to average loans was .54% in the first six months of 2005 compared to 1.16% for the first six months of 2004 and 1.52% for the year 2004. The allowance for loan losses totaled $12.3 million, or 1.36% of loans, net of unearned income, at June 30, 2005 compared to $12.5 million, or 1.34% of loans, net of unearned income, at December 31, 2004. See "Allowance for Loan Losses" for additional discussion.

Financial Condition

Total assets were $1.384 billion at June 30, 2005, a decrease of $39 million, or 2.78%, from $1.423 billion as of December 31, 2004. Average total assets for the first six months of 2005 totaled $1.419 billion, which was supported by average total liabilities of $1.318 billion and average total stockholders' equity of $101 million.

Short-term liquid assets. Short-term liquid assets (cash and due from banks, interest-bearing deposits in other banks and federal funds sold) decreased $3.9 million, or 8.5%, to $42.0 million at June 30, 2005 from $45.9 million at December 31, 2004. At June 30, 2005, short-term liquid assets comprised 3.0% of total assets, compared to 3.2% at December 31, 2004. We continually monitor our liquidity position and will increase or decrease our short-term liquid assets as we deem necessary.

Investment Securities. Total investment securities decreased $24.1 million, or 8.4%, to $264.2 million at June 30, 2005, from $288.3 million at December 31, 2004. Mortgage-backed securities, which comprised 38.9% of the total investment portfolio at June 30, 2005, increased $42.3 million, or 69.7%, to $102.9 million from $60.6 million at December 31, 2004. Investments in U.S. agency securities, which comprised 41.3% of the total investment portfolio at June 30, 2005, decreased $70.6 million, or 39.3%, to $109.2 million from $179.8 million at December 31, 2004. During the second quarter of 2005, we closed on the sale of $50 million in bonds and reinvested the proceeds in bonds intended to enhance the yield and cash flows of our investment securities portfolio. The new investment securities were classified as available for sale. The total investment portfolio at June 30, 2005 comprised 21.6% of all interest-earning assets, compared to 22.8% at December 31, 2004, and produced an average taxable equivalent yield of 4.7% for the second quarter of 2005, compared to 4.6% for the second quarter of 2004 and 4.5% for the first six months of 2005 and 2004.

Loans. Loans, net of unearned income, totaled $903.5 million at June 30, 2005, a decrease of 3.4%, or $31.4 million, from $934.9 million at December 31, 2004. Mortgage loans held for sale totaled $29.8 million at June 30, 2005, an increase of $21.7 million from $8.1 million at December 31, 2004. Average loans, including mortgage loans held for sale, totaled $945.4 million for the second quarter of 2005 compared to $869.4 million for the second quarter of 2004. Average loans, including mortgage loans held for sale, totaled $949.6 million for the first six months of 2005 compared to $863.8 million for the first six months of 2004. Loans, net of unearned income, comprised 73.95% of interest-earning assets at June 30, 2005, compared to 73.88% at December 31, 2004. Mortgage loans held for sale comprised 2.4% of interest-earning assets at June 30, 2005, compared to .6% at December 31, 2004. The loan portfolio produced an average yield of 6.6% for the second quarter of 2005 and 6.5% for the first six months of 2005, compared to 6.3% for the second quarter and first six

months of 2004. The following table details the distribution of our loan portfolio by category as of June 30, 2005 and December 31, 2004 (in thousands):

DISTRIBUTION OF LOANS BY CATEGORY

	JUNE 30, 2005		DECEMBER 31, 2004	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
Commercial and industrial........................	$ 115,775	12.8%	$ 131,979	14.1%
Real estate -- construction and land development..	259,054	28.6	249,188	26.6
Real estate -- mortgage				
Single-family.................................	238,903	26.4	250,718	26.8
Commercial....................................	236,275	26.1	242,279	25.9
Other...	26,634	2.9	25,745	2.7

Consumer	21,481	2.4	28,431	3.0
Other	6,699	.8	8,045	.9
Total loans	904,821	100.0%	936,385	100.0%
Unearned income	(1,365)		(1,517)	
Allowance for loan losses	(12,263)		(12,543)	
Net loans	$ 891,193		$ 922,325	

Deposits. Noninterest-bearing deposits totaled $96.0 million at June 30, 2005, an increase of 7.3%, or $6.5 million, from $89.5 million at December 31, 2004. Noninterest-bearing deposits comprised 9.2% of total deposits at June 30, 2005, compared to 8.4% at December 31, 2004. Of total noninterest-bearing deposits $69.5 million, or 72% were in our Alabama branches while $26.5 million, or 28% were in our Florida branches.

Interest-bearing deposits totaled $944.5 million at June 30, 2005, a decrease of 3.4%, or $33.2 million, from $977.7 million at December 31, 2004. Our average interest-bearing deposits for the second quarter of 2005 totaled $968.5 million compared to $866.0 million for the second quarter of 2004, an increase of $102.5 million, or 11.8%. Interest-bearing deposits averaged $978.7 million for the first six months of 2005 compared to $839.1 million for the first six months of 2004, an increase of $139.6 million, or 16.6%.

The average rate paid on all interest-bearing deposits was 2.7% during the second quarter of 2005 compared to 2.1% for the second quarter of 2004 and 2.6% during the first six months of 2005 compared to 2.0% for the first six months of 2004. Of total interest-bearing deposits $698.7 million, or 74%, were in the Alabama branches while $245.8 million, or 26%, were in the Florida branches.

Borrowings. Advances from the Federal Home Loan Bank ("FHLB") totaled $146.1 million at June 30, 2005 and $156.1 million at December 31, 2004. Borrowings from the FHLB were used primarily to fund growth in the loan portfolio and have a weighted average rate of approximately 4.20% at June 30, 2005. The advances are secured by FHLB stock, agency securities and a blanket lien on certain residential real estate loans and commercial loans. The FHLB has issued for the benefit of our banking subsidiary a $20,000,000 irrevocable letter of credit in favor of the Chief Financial Officer of the State of Florida to secure certain deposits of the State of Florida. The letter of credit may be terminated January 6, 2006 upon sixty days' prior notice; otherwise, it will automatically extend for a successive one-year term.

Junior Subordinated Debentures. We have sponsored two trusts, TBC Capital Statutory Trust II ("TBC Capital II") and TBC Capital Statutory Trust III ("TBC Capital III"), of which we own 100% of the common equity. The trusts were formed for the purpose of issuing mandatory redeemable trust preferred securities to third-party investors and investing the proceeds from the sale of such trust preferred securities solely in our junior subordinated debt securities (the debentures). The debentures held by each trust are the sole assets of that trust. Distributions on the trust preferred securities issued by each trust are payable semi-annually at a rate per annum equal

to the interest rate being earned by the trust on the debentures held by that trust. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. We have entered into agreements which, taken collectively, fully and unconditionally guarantee the trust preferred securities subject to the terms of each of the guarantees. The

debentures held by the TBC Capital II and TBC Capital III capital trusts are first redeemable, in whole or in part, by us on September 7, 2010 and July 25, 2006, respectively.

The trust preferred securities held by the trusts qualify as Tier 1 capital under Federal Reserve Board guidelines.

Consolidated debt obligations related to subsidiary trusts holding solely our debentures follow:

	June 30, 2005	December 31, 2004
	(In thousands)	
10.6% junior subordinated debentures owed to TBC Capital Statutory Trust II due September 7, 2030	$ 15,464	$ 15,464
6-month LIBOR plus 3.75% junior subordinated debentures owed to TBC Capital Statutory Trust III due July 25, 2031	16,495	16,495
Total junior subordinated debentures owed to unconsolidated subsidiary trusts	$ 31,959	$ 31,959

As of June 30, 2005 and December 31, 2004, the interest rate on the $16,495,000 subordinated debentures was 6.71% and 5.74%, respectively.

Currently, we must obtain regulatory approval prior to paying any dividends on these trust preferred securities. The Federal Reserve approved the timely payment of our semi-annual distributions on our trust preferred securities in January, March and July, 2005.

Allowance for Loan Losses. We maintain an allowance for loan losses within a range we believe is adequate to absorb estimated losses inherent in the loan portfolio. We prepare a quarterly analysis to assess the risk in the loan portfolio and to determine the adequacy of the allowance for loan losses. Generally, we estimate the allowance using specific reserves for impaired loans, and other factors, such as historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, economic conditions and other pertinent information. The level of allowance for loan losses to net loans will vary depending on the quarterly analysis.

We manage and control risk in the loan portfolio through adherence to credit standards established by the board of directors and implemented by senior management. These standards are set forth in a formal loan policy, which establishes loan underwriting and approval procedures, sets limits on credit concentration and enforces regulatory requirements. In addition, Credit Risk Management, LLC, an independent loan review firm, supplements our existing independent loan review function.

Loan portfolio concentration risk is reduced through concentration limits for borrowers, collateral types and geographical diversification. Concentration risk is measured and reported to senior management and the board of directors on a regular basis.

The allowance for loan loss calculation is segregated into various segments that include classified loans, loans with specific allocations and pass rated loans.

A pass rated loan is generally characterized by a very low to

average risk of default and in which management perceives there is a minimal risk of loss. Loans are rated using an eight-point scale with the loan officer having the primary responsibility for assigning risk ratings and for the timely reporting of changes in the risk ratings. These processes, and the assigned risk ratings, are subject to review by the internal loan review function and senior management. Based on the assigned risk ratings, the criticized and classified loans in the portfolio are segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss. Generally, regulatory reserve percentages (5%, Special Mention; 15%, Substandard; 50%, Doubtful; 100%, Loss) are applied to these categories to estimate the amount of loan loss allowance required, adjusted for previously mentioned risk factors.

Impaired loans are specifically reviewed loans for which it is probable that we will be unable to collect all amounts due according to the terms of the loan agreement. Impairment is measured by comparing the recorded investment in the loan with the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A valuation allowance is provided to the extent that the measure of the impaired loans is less than the recorded investment. A loan is not considered impaired during a period of delay in payment if we continue to expect that all amounts due will ultimately be collected. Larger groups of homogenous loans such as consumer installment and residential real estate mortgage loans are collectively evaluated for impairment.

Reserve percentages assigned to pass rated homogeneous loans are based on historical charge-off experience adjusted for current trends in the portfolio and other risk factors.

As stated above, risk ratings are subject to independent review by the internal loan review, which also performs ongoing, independent review of the risk management process. The risk management process includes underwriting, documentation and collateral control. Loan review is centralized and independent of the lending function. The loan review results are reported to the Audit Committee of the board of directors and senior management. We have also established a centralized loan administration services department to serve our entire bank. This department will provide standardized oversight for compliance with loan approval authorities and bank lending policies and procedures, as well as centralized supervision, monitoring and accessibility.

The following table summarizes certain information with respect to our allowance for loan losses and the composition of charge-offs and recoveries for the periods indicated.

SUMMARY OF LOAN LOSS EXPERIENCE

	SIX-MONTH PERIOD ENDED JUNE 30, 2005	YEAR ENDED DECEMBER 31, 2004
	(Dollars in thousands)	
Allowance for loan losses at beginning of period....	$ 12,543	$ 25,174
Charge-offs:		

Commercial and industrial	1,161	7,690
Real estate -- construction and land development	74	765
Real estate -- mortgage		
Single-family	499	1,012
Commercial	995	5,820
Other	20	86
Consumer	380	1,881
Other	254	87
Total charge-offs	3,383	17,341
Recoveries:		
Commercial and industrial	210	1,468
Real estate -- construction and land development	25	4
Real estate -- mortgage		
Single-family	282	470
Commercial	124	737
Other	73	97
Consumer	97	549
Other	42	410
Total recoveries	853	3,735
Net charge-offs	2,530	13,606
Provision for loan losses	2,250	975
Allowance for loan losses at end of period	$ 12,263	$ 12,543
Loans at end of period, net of unearned income	$ 903,456	$ 934,868
Average loans, net of unearned income	949,626	894,406
Ratio of ending allowance to ending loans	1.36%	1.34%
Ratio of net charge-offs to average loans (1)	.54%	1.52%
Net charge-offs as a percentage of:		
Provision for loan losses	112.44%	1395.49%
Allowance for loan losses (1)	41.60%	108.47%
Allowance for loan losses as a percentage of nonperforming loans	195.08%	169.36%

(1)Annualized.

The allowance for loan losses as a percentage of loans, net of unearned income, at June 30, 2005 was 1.36%, compared to 1.34% as of December 31, 2004. The allowance for loan losses as a percentage of nonperforming loans increased to 195.08% at June 30, 2005 from 169.36% at December 31, 2004.

Net charge-offs were $2.5 million for the first six months of 2005. Net charge-offs to average loans on an annualized basis totaled 0.54% for the first six months of 2005. Net commercial loan charge-offs totaled $951,000, or 37.6% of total net charge-off loans, for the first six months of 2005, compared to 45.7% of total net charge-off loans for the year 2004. Net commercial real estate loan charge-offs totaled $871,000, or 34.4% of total net charge-off loans, for the first six months of 2005 compared to 37.4% of total net charge-off loans for the year 2004. Net single family real estate loan charge-offs totaled $217,000, or 8.6% of total net charge-off loans, for the first six months of 2005 compared to 4.0% of total net charge-off loans for the year 2004. Net consumer loan charge-offs totaled $283,000, or 11.2% of total net charge-off loans, for the first six months of 2005 compared to 9.8% of total net charge-off loans for the year 2004.

Nonperforming Assets. Nonperforming assets decreased $4.6 million, to $7.8 million as of June 30, 2005 from $12.4 million as of December 31, 2004. As a percentage of net loans plus nonperforming assets, nonperforming assets decreased from 1.32% at December 31, 2004 to 0.86% at June 30, 2005. The following table represents our nonperforming assets for the dates indicated.

NONPERFORMING ASSETS

	JUNE 30, 2005 TOTAL	DECE
	(Dollars in Th	
Nonaccrual	$ 6,073	
Accruing loans 90 days or more delinquent	123	
Restructured	90	
Total nonperforming loans	6,286	
Other real estate owned	1,484	
Repossessed assets	-	
Total nonperforming assets	$ 7,770	
Nonperforming loans as a percent of loans	.70%	
Nonperforming assets as a percent of loans plus nonperforming assets.....	0.86%	

Loans past due 30 days or more, net of non-accruals, improved to .62% at June 30, 2005 from .88% at December 31, 2004.

The following is a summary of nonperforming loans by category for the dates shown:

	JUNE 30, 2005	DECEMBER 31, 2004
	(Dollars in thousands)	
Commercial and industrial...............................	$ 1,413	$ 2,445
Real estate -- construction and land development.........	155	187
Real estate -- mortgages................................		
Single-family....................................	2,499	2,060
Commercial.......................................	1,847	2,273
Other..	114	183
Consumer..	258	250
Other...	-	8
Total nonperforming loans....................	$ 6,286	$ 7,406

A delinquent loan is placed on nonaccrual status when it becomes 90 days or more

past due and management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that the collection of interest is doubtful. When a loan is placed on nonaccrual status, all interest which has been accrued on the loan during the current period but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income; any prior period accrued and unpaid interest is reversed and charged against the allowance for loan losses. No additional interest income is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. When a problem loan is finally resolved, there may ultimately be an actual write-down or charge-off of the principal balance of the loan to the allowance for loan losses, which may necessitate additional charges to earnings.

Impaired Loans. At June 30, 2005, the recorded investment in impaired loans totaled $4.8 million, with approximately $1.4 million in allowance for loan losses specifically allocated to impaired loans. This represents a decrease of $300,000 from $5.1 million at December 31, 2004. The following is a summary of impaired loans and the specifically allocated allowance for loan losses by category as of June 30, 2005:

	OUTSTANDING BALANCE	SPECIFIC ALLOWANCE
Commercial and industrial................................	$ 1,511	$ 621
Real estate -- construction and land development..........	155	38
Real estate -- mortgages................................		
Commercial...	2,984	701
Other..	113	57
Total...	$ 4,763	$ 1,417

Potential Problem Loans. In addition to nonperforming loans, management has identified $1.5 million in potential problem loans as of June 30, 2005 compared to $2.4 million as of December 31, 2004. Potential problem loans are loans where known information about possible credit problems of the borrowers causes management to have doubts as to the ability of such borrowers to comply with the present repayment terms and may result in disclosure of such loans as nonperforming.

Stockholders' Equity. At June 30, 2005, total stockholders' equity was $101.7 million, an increase of $1.2 million from $100.5 million at December 31, 2004. The increase in stockholders' equity during the first six months of 2005 resulted primarily from a net loss of $7.5 million offset by issuance, vesting and forfeitures of restricted stock totaling $737,000, other comprehensive income of $446,000 and additional net proceeds of $7.3 million resulting from the sale in January 2005 of 925,636 shares of our common stock at $8.17 per share, the then-current market price, to the new members of the management team and other investors in a private placement. As of June 30, 2005, we had 19,805,956 shares of common stock issued and 19,551,411 outstanding. As of June 30, 2005, there were 49,823 shares held in treasury at a cost of $341,000.

Effective June 30, 2005, 62,000 shares of our convertible preferred stock were converted into 775,000 shares of common stock at a conversion price of $8.00 per share. As a result of such conversion, the excess of the market value of the

common stock issued at the date of conversion over the aggregate issue price is reflected as a reduction in retained earnings with a corresponding increase in surplus, thereby reducing net income applicable to common stockholders for purposes of calculating earnings per common share. This non-cash charge did not affect total stockholders' equity.

We adopted a leveraged employee stock ownership plan (the "ESOP") effective May 15, 2002, that covers all eligible employees who are at least 21 years old and have completed a year of service. As of June 30, 2005, the ESOP has been internally leveraged with 273,400 shares of our common stock purchased in the open market and classified as a contra-equity account, "Unearned ESOP shares", in stockholders' equity.

On January 29, 2003, the ESOP trustees finalized a $2,100,000 promissory note to reimburse us for the funds used to leverage the ESOP. The unreleased shares and our guarantee secure the promissory note, which has been classified as long-term debt on our statement of financial condition. As the debt is repaid, shares are released from collateral based on the proportion of debt service. Principal payments on the debt are $17,500 per month for 120 months. The interest rate is adjusted annually to the Wall Street Journal prime rate. Released shares are allocated to eligible employees at the end of the plan year based on the employee's eligible compensation to total compensation. We recognize compensation expense during the period as the shares are earned and committed to be released. As shares are committed to be released and compensation expense is recognized, the

committed to be released. As shares are committed to be released and compensation expense is the shares become outstanding for basic and diluted earnings per share computations. The amount of compensation expense we report is equal to the average fair value of the shares earned and committed to be released during the period. Compensation expense that we recognized during the periods ended June 30, 2005 and 2004 was $135,000 and $98,000, respectively. The ESOP shares as of June 30, 2005, were as follows:

	June 30, 2005
Allocated shares	55,328
Estimated shares committed to be released	13,350
Unreleased shares	204,722
Total ESOP shares	273,400
Fair value of unreleased shares	$ 2,166,000

Regulatory Capital. The table below represents our and our subsidiary's regulatory and minimum regulatory capital requirements at June 30, 2005 (dollars in thousands):

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO

Total Risk-Based Capital						
Corporation	$ 124,547	11.63%	$ 85,636	8.00%	$ 107,046	10.00%
The Bank	122,673	11.67	84,091	8.00	105,114	10.00
Tier 1 Risk-Based Capital						
Corporation	111,320	10.40	42,818	4.00	64,227	6.00
The Bank	110,410	10.50	42,045	4.00	63,068	6.00
Leverage Capital						
Corporation	111,320	8.06	55,241	4.00	69,051	5.00
The Bank	110,410	8.06	54,495	4.00	68,494	5.00

Liquidity

Our principal sources of funds are deposits, principal and interest payments on loans, federal funds sold and maturities and sales of investment securities. In addition to these sources of liquidity, we have access to purchased funds from several regional financial institutions, brokered and internet deposits, and may borrow from the Federal Home Loan Bank under a blanket floating lien on certain commercial loans and residential real estate loans. Also, we have established certain repurchase agreements with a large financial institution. While scheduled loan repayments and maturing investments are relatively predictable, interest rates, general economic conditions and competition primarily influence deposit flows and early loan payments. Management places constant emphasis on the maintenance of adequate liquidity to meet conditions that might reasonably be expected to occur. Management believes it has established sufficient sources of funds to meet its anticipated liquidity needs.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. Some of the disclosures in this Quarterly Report on Form 10-Q, including any statements preceded by, followed by or which include the words "may," "could," "should," "will," "would,"

"hope," "might," "believe," "expect," "anticipate," "estimate," "intend," "plan," "assume" or similar expressions constitute forward-looking statements.

These forward-looking statements implicitly and explicitly include the assumptions underlying the statements and other information with respect to our beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business, including our expectations and estimates with respect to our revenues, expenses, earnings, return on equity, return on assets, efficiency ratio, asset quality, the adequacy of our allowance for loan losses and other financial data and capital and performance ratios.

Although we believe that the expectations reflected in our forward-looking statements are reasonable, these statements involve risks and uncertainties which are subject to change based on various important factors (some of which are beyond our control). The following factors, among others, could cause our financial performance to differ materially from our goals, plans, objectives, intentions, expectations and other forward-looking statements: (1) the strength of the United States economy in general and the strength of the regional and local economies in which we conduct operations; (2) the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate

policies of the Board of Governors of the Federal Reserve System; (3) inflation, interest rate, market and monetary fluctuations; (4) our ability to successfully integrate the assets, liabilities, customers, systems and management we acquire or merge into our operations; (5) our timely development of new products and services in a changing environment, including the features, pricing and quality compared to the products and services of our competitors; (6) the willingness of users to substitute competitors' products and services for our products and services; (7) the impact of changes in financial services policies, laws and regulations, including policies, laws and regulations concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies; (8) our ability to resolve any legal proceeding on acceptable terms and its effect on our financial condition or results of operations; (9) technological changes; (10) changes in consumer spending and savings habits; and (11) regulatory, legal or judicial proceedings.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this report. Therefore, we caution you not to place undue reliance on our forward-looking information and statements.

We do not intend to update our forward-looking information and statements, whether written or oral, to reflect change. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There have been no material changes in our quantitative and qualitative disclosures about market risk as of June 30, 2005 from those presented in our annual report on Form 10-K for the year ended December 31, 2004.

The information set forth under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Market Risk-Interest Rate Sensitivity" included in our Annual Report on Form 10-K for the year ended December 31, 2004, is hereby incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

CEO AND CFO CERTIFICATION

Appearing as exhibits to this report are Certifications of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"). The Certifications are required to be made by Rule 13a - 14 of the Securities Exchange

Act of 1934, as amended. This Item contains the information about the evaluation that is referred to in the Certifications, and the information set forth below in this Item 4 should be read in conjunction with the Certifications for a more complete understanding of the Certifications.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only

reasonable assurance of achieving the desired control objectives.

We conducted an evaluation (the "Evaluation") of the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our management, including our CEO and CFO, as of June 30, 2005. Based upon the Evaluation, our CEO and CFO have concluded that, as of June 30, 2005, our disclosure controls and procedures are effective to ensure that material information relating to The Banc Corporation and its subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared. There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

While we are a party to various legal proceedings arising in the ordinary course of business, we believe that there are no proceedings threatened or pending against us at this time that will individually, or in the aggregate, materially adversely affect our business, financial condition or results of operations. We believe that we have strong claims and defenses in each lawsuit in which we are involved. While we believe that we will prevail in each lawsuit, there can be no assurance that the outcome of any pending, or any future, litigation, either individually or in the aggregate, will not have a material adverse effect on our financial condition or our results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Effective June 30, 2005, we issued 775,000 shares of our common stock upon the conversion of 62,000 shares of our Series A Convertible Preferred Stock at a conversion price of $8.00 per share. The convertible preferred stock was originally issued in May 2003 in a transaction exempt from registration under the Securities Act of 1933 pursuant to the exemption contained in Section 4(2) thereof. The issuance of common stock upon conversion of the preferred stock was exempt from registration pursuant to the exemption from registration contained in Section 3(a)(9) of the Securities Act of 1933. We did not derive any proceeds from the issuance of common stock upon conversion of the preferred stock. See "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On June 15, 2005, we held our annual meeting of stockholders, at which the following actions were taken:

- The stockholders voted to approve an amendment to our Restated Certificate of Incorporation increasing the number of authorized shares of common stock from 25 million to 35 million. The votes on this proposal were as follows:

FOR	AGAINST	ABSTAIN
14,633,306	540,556	2,131

- The stockholders voted to approve an amendment to our Restated Certificate of Incorporation to declassify the Board of Directors and require all directors to stand for election annually. The votes on this proposal were as follows:

FOR	AGAINST	ABSTAIN
15,143,604	29,030	3,359

- The stockholders voted to elect the following persons as directors, each to serve a one-year term:

NAME	FOR	WITHHELD
C. Stanley Bailey	15,146,819	29,174
Roger Barker	14,990,544	185,449
K. Earl Durden	15,088,419	87,574
Rick D. Gardner	15,146,819	29,174
Thomas E. Jernigan, Jr.	14,987,785	188,208
James Mailon Kent, Jr.	15,032,160	143,833
James M. Link	15,029,044	146,949
Barry Morton	15,108,319	67,674
C. Marvin Scott	15,146,819	29,174
Michael E. Stephens	15,088,419	87,574
James A. Taylor	14,656,212	519,781
James A. Taylor, Jr.	14,610,453	565,540
James C. White, Sr.	14,987,785	188,208

- The stockholders voted to ratify the appointment of Carr, Riggs & Ingram, LLC as the independent registered public accounting firm to audit the Corporation's financial statements for the year ending December 31, 2005. The votes on this proposal were as follows:

FOR	AGAINST	ABSTAIN
15,144,786	10,828	50,379

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibit:

31.01 Certification of principal executive officer pursuant to Rule 13a-14(a).

31.02 Certification of principal financial officer pursuant to 13a-14(a).

32.01 Certification of principal executive officer pursuant to 18 U.S.C. Section 1350.

32.02 Certification of principal financial officer pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Banc Corporation
(Registrant)

Date: August 9, 2005   By: /s/ C. Stanley Bailey

C. Stanley Bailey
Chief Executive Officer

Date: August 9, 2005   By: /s/ David R. Carter

David R. Carter
Executive Vice President and Chief Financial Officer