BANC CORP
Form 10-Q/A
February 17, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC
Form 10-Q/A
AMENDMENT NO. 1 TO

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005**

OR

o **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 þ No o

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

Large Accelerated Filer o Accelerated Filer þ Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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 September 30, 2005
Common stock, $.001 par value	19,775,886

TABLE OF CONTENTS

Introductory Note 2005 Amendment to Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2005

This Amendment No. 1 to Form 10-Q is being filed by The Banc Corporation (the Corporation) to amend its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 filed with the Securities and Exchange Commission (the SEC) on November 9, 2005 (the Initial Form 10-Q). This Amendment No. 1 is required due to inaccuracies in the Initial Form 10-Q related to our accounting for certain derivative financial instruments under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133).

This Amendment No. 1 contains restated unaudited Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2005, which supersede the Corporation s previously issued unaudited Condensed Consolidated Financial Statements contained in our original Quarterly Report on Form 10-Q for the same interim period. For information regarding the amendment, see Note 1 to our unaudited Condensed Consolidated Financial Statements contained herein. This Amendment No. 1 includes amendments to Part I Items 1, 2 and 4. For the convenience of readers, we have also included the remaining unamended Items, which are unchanged from the date of the original filing.

Except as otherwise specifically noted, all information contained herein is as of September 30, 2005 and does not reflect any events or changes that have occurred subsequent to that date. The Corporation is not required to and has not updated any forward-looking statements previously included in the Initial Form 10-Q.

This Amendment No. 1 includes amendments to Part 1, Item 4, Controls and Procedures , reflecting management s revised assessment of our disclosure controls and procedures as of September 30, 2005. This revised assessment results from our determination that there was a material weakness in our internal control over financial reporting related to our accounting for certain interest rate swaps commonly used by financial institutions to hedge their interest rate exposure with respect to brokered certificates of deposit. We have entered into such swap arrangements from time to time, and have historically accounted for these swaps using an abbreviated method of fair value hedge accounting under SFAS 133, known as the short-cut method, which assumes that the hedging transactions are effective. However, in light of recent informal technical interpretations of accounting for these instruments, we determined that these swaps did not qualify for the short-cut method in prior periods because the related certificates-of-deposit broker placement fee caused the swaps not to have a fair value of zero at inception, which is a requirement for use of the short-cut method under SFAS 133. Therefore, after discussions with our independent registered public accounting firm, we concluded that any fluctuations in the market value of these interest rate swaps should have been recorded through our income statement. Accordingly, while we believe that the swaps have been and will continue to be highly effective hedges, we determined that the use of the short-cut method in 2004 and 2005 constituted a material weakness in the Corporation s internal control over financial reporting in light of our subsequent determination that such treatment did not comply with generally accepted accounting principles. Solely as a result of such material weakness, we concluded, upon reevaluation, that our internal control over financial reporting was not effective as of December 31, 2004 or during the year ended December 31, 2005.

Our determination that such swaps did not qualify for hedge accounting under SFAS 133 did not have a material effect on our reported results of operations for the year ending December 31, 2004 or for prior periods, and thus we have not restated or amended such previously reported results for periods ending on or prior to December 31, 2004.

Table of Contents

PART I FINANCIAL INFORMATION
Item 1. ***FINANCIAL STATEMENTS***

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

	(Restated) September 30, 2005 (Unaudited)	December 31, 2004
ASSETS		
Cash and due from banks	$ 22,140	$ 23,489
Interest-bearing deposits in other banks	7,341	11,411
Federal funds sold	25,565	11,000
Investment securities available for sale	257,080	288,308
Mortgage loans held for sale	17,447	8,095
Loans, net of unearned income	903,398	934,868
Less: Allowance for loan losses	(12,024)	(12,543)
Net loans	891,374	922,325
Premises and equipment, net	55,957	60,434
Accrued interest receivable	6,238	6,237
Stock in FHLB and Federal Reserve Bank	11,821	11,787
Cash surrender value of life insurance	38,804	38,369
Other assets	42,552	41,673
TOTAL ASSETS	$ 1,376,319	$ 1,423,128
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Noninterest-bearing	$ 91,265	$ 89,487
Interest-bearing	961,176	977,719
TOTAL DEPOSITS	1,052,441	1,067,206
Advances from FHLB	146,090	156,090
Federal funds borrowed and security repurchase agreements	20,861	49,456
Notes payable	3,808	3,965
Junior subordinated debentures owed to unconsolidated subsidiary trusts	31,959	31,959
Accrued expenses and other liabilities	17,983	13,913
TOTAL LIABILITIES	1,273,142	1,322,589
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 20,023,756 and 18,025,932, respectively; outstanding 19,775,886 and 17,749,846, respectively	20	18

Surplus - preferred		6,193
- common stock	86,446	68,428
Retained earnings	20,403	29,591
Accumulated other comprehensive loss	(1,755)	(1,094)
Treasury stock, at cost	(341)	(390)
Unearned ESOP stock	(1,597)	(1,758)
Unearned restricted stock		(449)
TOTAL STOCKHOLDERS EQUITY	103,176	100,539
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,376,319	$ 1,423,128

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Restated)		(Restated)	
INTEREST INCOME				
Interest and fees on loans	$ 16,063	$ 14,244	$ 46,531	$ 41,502
Interest on investment securities				
Taxable	2,919	2,270	8,789	6,092
Exempt from Federal income tax	62	47	179	88
Interest on federal funds sold	163	32	354	107
Interest and dividends on other investments	272	157	769	553
Total interest income	19,479	16,750	56,622	48,342
INTEREST EXPENSE				
Interest on deposits	7,346	4,859	19,911	13,641
Interest on other borrowed funds	1,927	1,510	5,665	4,632
Interest on subordinated debentures	732	653	2,116	1,905
Total interest expense	10,005	7,022	27,692	20,178
NET INTEREST INCOME	9,474	9,728	28,930	28,164
Provision for loan losses	500		2,750	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,974	9,728	26,180	28,164
NONINTEREST INCOME				
Service charges and fees on deposits	1,239	1,526	3,517	4,314
Mortgage banking income	693	463	1,901	1,250
Investment security (losses) gains		(4)	(977)	424
Change in fair value of derivatives	(863)		(160)	
Gain on sale of branches				739
Increase in cash surrender value of life insurance	389	399	1,131	1,212
Insurance proceeds			5,000	
Other income	479	345	1,466	1,357
TOTAL NONINTEREST INCOME	1,937	2,729	11,878	9,296
NONINTEREST EXPENSE				
Salaries and employee benefits	6,048	5,925	17,377	17,382
Occupancy, furniture and equipment expense	1,898	1,982	5,938	6,034
Management separation costs	64		15,402	
Loss on sale of loans		2,260		2,260
Other operating expenses	3,028	3,605	11,126	10,409
TOTAL NONINTEREST EXPENSE	11,038	13,772	49,843	36,085

Income (loss) before income taxes	(127)	(1,315)	(11,785)	1,375
INCOME TAX EXPENSE (BENEFIT)	(264)	(485)	(4,909)	(87)
NET INCOME (LOSS)	137	(830)	(6,876)	1,462
PREFERRED STOCK DIVIDENDS			305	217
EFFECT OF EARLY CONVERSION OF PREFERRED STOCK			2,006	
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	$ 137	$ (830)	$ (9,187)	$ 1,245
BASIC NET INCOME (LOSS) PER COMMON SHARE	$ 0.01	$ (0.05)	$ (0.49)	$ 0.07
DILUTED NET INCOME (LOSS) PER COMMON SHARE	$ 0.01	$ (0.05)	$ (0.49)	$ 0.07
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	19,625	17,590	18,920	17,576
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, ASSUMING DILUTION	20,240	17,590	18,920	17,741

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Nine Months Ended September 30	
	2005	**2004**
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (6,540)	$ 5,970
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease (increase) in interest-bearing deposits in other banks	4,071	(659)
Net increase in federal funds sold	(14,565)	(33,000)
Proceeds from sales of securities available for sale	57,150	83,613
Proceeds from maturities of investment securities available for sale	26,274	45,826
Purchases of investment securities available for sale	(54,765)	(214,270)
Net decrease (increase) in loans	30,332	(79,779)
Purchases of premises and equipment	(1,654)	(3,222)
Proceeds from sales of premises and equipment	3,243	
Net cash paid in branch sale		(6,626)
Purchase of life insurance		(5,000)
Increase in other investments	(34)	(545)
Net cash provided (used) by investing activities	50,052	(213,662)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposit accounts	(14,925)	149,878
Net (decrease) increase in FHLB advances and other borrowed funds	(38,595)	67,973
Payments made on long term debt	(158)	(157)
Proceeds from sale of common stock	9,122	49
Cash dividends paid	(305)	(217)
Net cash (used) provided by financing activities	(44,861)	217,526
Net (decrease) increase in cash and due from banks	(1,349)	9,834
Cash and due from banks at beginning of period	23,489	31,679
CASH AND DUE FROM BANKS AT END OF PERIOD	$ 22,140	$ 41,513

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 nine-month periods ended September 30, 2005, are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

The condensed statement of financial condition at December 31, 2004, which has been derived from the financial statements audited by Carr, Riggs & Ingram, LLC, independent public accountants, as indicated in their report included in the Corporation s Annual Report on Form 10-K, does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Restated Results of Operations and Financial Condition:

The Corporation is restating its previously reported financial information for the third quarter and first nine months of 2005 to correct errors in those consolidated financial statements relating to its derivative accounting under Statement of Financial Accounting Standards 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). In addition, the following Notes to the Consolidated Financial Statements have been restated: 5, 6, 7 and 10. These restated consolidated financial statements supercede the Corporation s previously issued condensed consolidated financial statements reported in the Corporation s Initial Form 10-Q filed with the SEC on November 9, 2005.

In 2005 and prior years, the Corporation entered into interest rate swap agreements (CD swaps) to hedge the interest rate risk inherent in certain of its brokered certificates of deposit (brokered CDs). From the inception of the hedging program, the Corporation applied a method of fair value hedge accounting under SFAS 133 to account for the CD swaps that allowed the Corporation to assume no ineffectiveness in these transactions (the so-called short-cut method). The Corporation has recently concluded that the CD swaps did not qualify for this method in prior periods because the related CD broker placement fee was determined, in retrospect, to have caused the swap not to have a fair value of zero at inception (which is required under SFAS 133 to qualify for the short-cut method).

Fair value hedge accounting allows a company to record the effective portion of the change in fair value of the hedged item (in this case, the brokered CDs) as an adjustment to income that offsets the fair value adjustment on the related interest rate swaps. Eliminating the application of fair value hedge accounting reverses the fair value adjustments that were made to the brokered CDs. Therefore, while the interest rate swap is recorded on the consolidated statement of condition at its fair value, the related hedged item, the brokered CDs, are required to be carried at par, net of the unamortized balance of the CD broker placement fee. In addition, the CD broker placement fee, which was incorporated into the swap, is now separately recorded as an adjustment to the par amount of the brokered CDs and amortized through the maturity date of the related CDs.

The net cumulative pre-tax effect of eliminating the fair value adjustment to the brokered CDs at September 30, 2005 is $160,000 (representing a $849,000 elimination of the fair value adjustment to the brokered CDs less a $689,000 adjustment to record the unamortized CD broker placement fees). The cumulative after-tax impact was a $101,000 reduction to retained earnings.

Table of Contents

The following tables summarize the effects of the amendment on the condensed consolidated statement of financial condition at September 30, 2005 and condensed consolidated statements of operations for the three and nine months ended September 30, 2005. The restatement did not affect previously reported cash flows from operating activities, investing activities or financing activities.

Condensed Consolidated Statement of Condition (In thousands)	September 30, 2005 As previously Reported	Restated
Other assets	$ 42,492	$ 42,552
Interest-bearing deposits	961,016	961,176
Retained earnings	20,504	20,403

Condensed Consolidated Statement of Operations (In thousands, except per share data)	For the three months ended September 30, 2005 As previously Reported	Restated	For the nine months ended September 30, 2005 As previously Reported	Restated
Change in fair value of derivatives	$	$ (863)	$	$ (160)
Income (loss) before income tax expense (benefit)	736	(127)	(11,625)	(11,785)
Income tax expense (benefit)	56	(264)	(4,849)	(4,909)
Net income (loss)	680	137	(6,776)	(6,876)
Net income (loss) applicable to common stockholders	680	137	(9,087)	(9,187)
Basic and diluted net income (loss) per common share	$ 0.03	$ 0.01	$ (0.48)	$ (0.49)

As of September 30, 2005, the notional amount of these CD swaps totaled $46,500,000 with a recorded negative fair value of $849,000. The weighted average life as of September 30, 2005 is 9.14 years; the weighted average fixed rate (receiving rate) is 4.48%, which matches the brokered CD rate, and the weighted average variable rate (paying rate) is 3.75% (LIBOR based).

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,

Table of Contents

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.

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 replaces 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 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. SFAS 154 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

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 application was accepted and the charter conversion became effective November 1, 2005. Through October 31, 2005, the Corporation s banking subsidiary was regulated by the Alabama Banking Department and the Federal Reserve.

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 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 would 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. Mr. Taylor, Jr. subsequently resigned as a director of the Corporation effective September 28, 2005 to pursue other business opportunities.

Table of Contents

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 by January 24, 2006, and $788,031 by 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 $15.4 million for the nine-month period ended September 30, 2005. At September 30, 2005, the Corporation had $4.3 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 (Restated)	**Florida Region**	**Combined** (Restated)
Three months ended September 30, 2005			
Net interest income	$ 6,277	$ 3,197	$ 9,474
Provision for loan losses	503	(3)	500
Noninterest income (1)	1,917	20	1,937
Noninterest expense (2)(3)	9,986	1,052	11,038
Income tax (benefit) expense	(968)	704	(264)
Net (loss) income	(1,327)	1,464	137
Total assets	1,149,436	226,883	1,376,319
Three months ended September 30, 2004			
Net interest income	$ 6,955	$ 2,773	$ 9,728
Provision for loan losses (1)	18	(18)	
Noninterest income (1)	2,418	311	2,729
Noninterest expense (2)	12,674	1,098	13,772
Income tax (benefit) expense	(1,883)	1,398	(485)
Net (loss) income	(1,436)	606	(830)
Total assets (1)	1,133,525	247,768	1,381,293
Nine months ended September 30, 2005			
Net interest income	$ 19,812	$ 9,118	$ 28,930
Provision for loan losses	2,615	135	2,750
Noninterest income (1)	11,205	673	11,878
Noninterest expense (2)(3)	46,616	3,227	49,843
Income tax (benefit) expense	(6,813)	1,904	(4,909)
Net (loss) income	(11,401)	4,525	(6,876)
Nine months ended September 30, 2004			
Net interest income	$ 20,168	$ 7,996	$ 28,164

Provision for loan losses (1)	1,974	(1,974)	
Noninterest income (1)	8,283	1,013	9,296
Noninterest expense (2)	30,086	5,999	36,085
Income tax (benefit) expense	(2,364)	2,277	(87)
Net income	(1,245)	2,707	1,462

10

Table of Contents

(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 INCOME (LOSS) 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 September 30,		Nine Months Ended September 30,	
	2005 (Restated)	2004	2005 (Restated)	2004
Numerator:				
Net income (loss)	$ 137	$ (830)	$ (6,876)	$ 1,462
Less preferred dividends			305	217
Less effect of preferred stock conversion			2,006	
For basic and diluted, net income (loss) applicable to common stockholders	$ 137	$ (830)	$ (9,187)	$ 1,245
Denominator:				
For basic, weighted average common shares outstanding	19,625	17,590	18,920	17,576
Effect of dilutive stock options, restricted stock and convertible preferred	615			165
Weighted average common shares outstanding, assuming dilution	20,240	17,590	18,920	17,741
Basic net income (loss) per common share	$ .01	$ (.05)	$ (.49)	$ .07
Diluted net income (loss) per common share	$ .01	$ (.05)	$ (.49)	$ .07

Net income (loss) applicable to common stockholders and net income (loss) 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 (CSEs) of 1,109,341 were not included in computing diluted net loss per common share for the nine-month period ended September 30, 2005 and CSEs of 939,444 and 775,000 were not included for the three- and nine-month periods ended September 30, 2004, respectively, because their effects were anti-dilutive in each case.

Note 7 COMPREHENSIVE (LOSS) INCOME (Restated)

Total comprehensive (loss) income was $(970,000) and $(7,537,000), respectively, for the three- and nine-month periods ended September 30, 2005, and $1,186,000 and $1,064,000 respectively, for the three- and nine-month periods ended September 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.

Table of Contents

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):

	September 30, 2005	December 31, 2004
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 September 30, 2005 and December 31, 2004, the interest rate on the $16,495,000 subordinated debentures was 7.67% and 5.74%, respectively.

Prior to the conversion of its subsidiary s charter to a federal savings bank charter, the Corporation was required to 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 its trust preferred securities in January, March, July and September, 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. The Corporation also has received $1,791,000 in proceeds from the exercise of 276,984 stock options primarily during the second and third quarters of 2005.

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

12

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 September 30, 2005 were 13,334. 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 September 30, 2005 and 2004, the Corporation has recognized $599,000 and $150,000, 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 nine-month periods ended September 30, 2005, and 2004, was $135,000 and $142,000, respectively. The ESOP shares as of September 30, 2005 were as follows:

	September 30, 2005
Allocated shares	55,328
Estimated shares committed to be released	20,025
Unreleased shares	198,047
Total ESOP shares	273,400
Fair value of unreleased shares	$ 2,953,000

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.

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.

As described in Note 2 above, SFAS 123R will require the Corporation to begin recognizing an expense in the amount of the grant-date fair value of outstanding and subsequently granted stock options beginning in 2006. The expense is required to be recognized over the vesting period of the options. The Corporation s Board of Directors has approved the full vesting as of November 15, 2005 of all unvested stock options outstanding at that date. Management estimates that this immediate vesting will eliminate approximately $2.0 million of non-cash expense, net of taxes, that would otherwise be incurred in future periods. In conjunction with the Board s approval of the full vesting, members of the Corporation s senior management executive team announced that they will not accept any performance bonus for which they might have been eligible at year-end 2005. The number of shares represented by unvested options that will be vested effective November 15, 2005 is 803,342, of which 665,942 are held by directors and executive officers of the Corporation. Pro forma information relating to such options will continue to be presented under SFAS 123 and APB Opinion 25, as described below.

The Corporation has adopted the disclosure-only provisions of SFAS 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 Nine Months Ended**	
	September 30, 2005 (Restated)	**September 30, 2004**	**September 30, 2005** (Restated)	**September 30, 2004**
Net income (loss):				
As reported	$ 137	$ (830)	$ (6,876)	$ 1,462
Pro forma	(200)	(1,230)	(10,929)	557
Earnings (loss) per common share:				
As reported	$ .01	$ (.05)	$ (.49)	$ .07
Pro forma	(.01)	(.07)	(.70)	.02
Diluted earnings (loss) per common share:				
As reported	$ .01	$ (.05)	$ (.49)	$ .07
Pro forma	(.01)	(.07)	(.70)	.02

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

	September 30	
	2005	**2004**
Risk-free interest rate	4.33%	4.56%
Volatility factor	.44	.32
Weighted average life of options	7.00	3.50

Dividend yield	0.00	0.00

14

Table of Contents

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 September 30, 2005 consolidated financial condition and results of operations for the three- and nine-month periods ended September 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.

Restated Results of Operations and Financial Condition:

We are restating our previously reported financial information for the second quarter and first six months of 2005 to correct errors in those consolidated financial statements relating to its derivative accounting under Statement of Financial Accounting Standards 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133).

In 2005 and prior years, we entered into interest rate swap agreements (CD swaps) to hedge the interest rate risk inherent in certain of our brokered certificates of deposit (brokered CDs). From the inception of the hedging program, we applied a method of fair value hedge accounting under SFAS 133 to account for the CD swaps that allowed us to assume no ineffectiveness in these transactions (the so-called short-cut method). We have recently concluded that the CD swaps did not qualify for this method in prior periods because the related CD broker placement fee was determined, in retrospect, to have caused the swap not to have a fair value of zero at inception (which is required under SFAS 133 to qualify for the short-cut method).

Fair value hedge accounting allows a company to record the effective portion of the change in fair value of the hedged item (in this case, the brokered CDs) as an adjustment to income that offsets the fair value adjustment on the related interest rate swaps. Eliminating the application of fair value hedge accounting reverses the fair value adjustments that were made to the brokered CDs. Therefore, while the interest rate swap is recorded on the consolidated statement of condition at its fair value, the related hedged item, the brokered CDs, are required to be carried at par, net of the unamortized balance of the CD broker placement fee. In addition, the CD broker placement fee, which was incorporated into the swap, is now separately recorded as an adjustment to the par amount of the brokered CDs and amortized through the maturity date of the related CDs.

The net cumulative pre-tax effect of eliminating the fair value adjustment to the brokered CDs at September 30, 2005 is $160,000 (representing a $849,000 elimination of the fair value adjustment to the brokered CDs less a $689,000 adjustment to record the unamortized CD broker placement fees). The cumulative after-tax impact was a $101,000 reduction to retained earnings. Although these CD swaps cannot retrospectively qualify for hedge accounting under SFAS 133, there is no effect on cash flows for these changes, and the effectiveness of the CD swaps as economic hedge transactions has not been affected by these changes in accounting treatment. The increase to previously reported net loss and reduction in retained earnings did not cause either our or our subsidiary bank s regulatory capital ratios to fall below the well-capitalized levels at the end of the period.

Overview

Our principal subsidiary is The Bank (which was an Alabama-chartered financial institution until November 1, 2005, when it converted to a federal savings bank, as described below). The Bank is headquartered in Birmingham, Alabama and 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 $1.376 billion at September 30, 2005, a decrease of $47 million, or 3.29%, from $1.423 billion as of December 31, 2004. Our total loans, net of unearned income, were $903 million at September 30, 2005, a decrease of $32 million, or 3.37%, from $935 million as of December 31, 2004. Our total deposits were $1.052 billion at September 30, 2005, a decrease of $15 million, or 1.40%, 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 $103.1 million at September 30, 2005, an increase of $2.6 million, or 2.62%, 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 regulation by the Office of Thrift Supervision. The application was accepted and the charter conversion became effective November 1, 2005. Through October 31, 2005, our banking subsidiary was 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 would 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. Mr. Taylor, Jr. subsequently resigned as a director of the Corporation effective September 28, 2005 to pursue other business opportunities.

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 by January 24, 2006, and $788,031 by 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 $15.4 million for the nine-month period ended September 30, 2005. At September 30, 2005, we had $4.3 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 September 30, 2005 (third quarter of 2005) was $137,000, compared to a net loss of $(830,000) for the three-month period ended September 30, 2004 (third quarter of 2004). Basic and diluted net income (loss) per common share was $.01 and $(.05), respectively, for the third quarters of 2005 and 2004, based on weighted average common shares outstanding for the respective periods. Return on average assets, on an annualized basis, was .04% for the third quarter of 2005 compared to (.25)% for the third quarter of 2004. Return on average stockholders equity, on an annualized basis, was .54% for the third quarter of 2005 compared to (3.26)% for the third quarter of 2004.

The increase in our net income during the third quarter of 2005 compared to the third quarter of 2004 is the result of the $2.3 million loss on sale of loans recorded in the third quarter of 2004, partially offset by an increase in the provision for loan losses and a decline in the fair value of derivatives.

We incurred a $6.9 million net loss for the nine-month period ended September 30, 2005 (first nine months of 2005), compared to $1.5 million in net income for the nine-month period ended September 30, 2004 (first nine months of 2004). Net (loss) income per common share was $(.49) for the first nine months of 2005 compared to $.07 per common share for the first nine months of 2004. Return on average assets, on an annualized basis, was (.65)% for the first nine months of 2005 compared to .15% for the first nine months of 2004. Return on average stockholders equity, on an annualized basis, was (9.09)% for the first nine months of 2005 compared to 1.94% for the first nine months of 2004. Book value per share at September 30, 2005 was $5.22, compared to $5.31 as of December 31, 2004. Tangible book value per share at September 30, 2005 was $4.60, compared to $4.62 as of December 31, 2004.

The decrease in our net income during the first nine months of 2005 compared to the first nine 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 decreased $254,000, or 2.61%, to $9.5 million for the third quarter of 2005 compared to $9.7 million for the third quarter of 2004. Net interest income decreased primarily due to a $2.7 million increase in total interest income offset by a $3.0 increase in total interest expense. The increase in total interest income is primarily due to a 67 basis point (bp) increase in the average rate on loans and a $47 million increase in the average volume of investment securities. The increase in the interest expense is primarily due to an 85 bp increase in interest-bearing liabilities, which comprise, for the most part, demand and time deposits.

Average interest-earning assets for the third quarter of 2005 increased $71 million, or 6.1%, to $1.234 billion from $1.163 billion in the third quarter of 2004. This increase in average interest-earning assets was offset by a $72 million, or 6.5%, increase in average interest-bearing liabilities, to $1.179 billion for the third quarter of 2005 from $1.107 billion for the third quarter of 2004. The ratio of average interest-earning assets to average interest-bearing liabilities was 104.7% and 105.1% for the third quarters of 2005 and 2004, respectively. Average interest-bearing assets produced a taxable equivalent yield of 6.27% for the third quarter of 2005 compared to 5.74% for the third quarter of 2004.

For the third quarter of 2005 as compared to the third quarter of 2004, the increase in total interest expense is attributable to an 85 bp increase in the average interest rate paid on interest-bearing liabilities and a $72 million increase in the volume of average interest-bearing liabilities. The average rate paid on interest-bearing liabilities was 3.37% for the third quarter of 2005, compared to 2.52% for the third quarter of 2004. Our net interest spread and net interest margin were 2.90% and 3.06%, respectively, for the third quarter of 2005, compared to 3.22% and 3.34% for the third quarter of 2004.

Table of Contents

Net interest income increased $0.8 million, or 2.8%, to $29.0 million for the first nine months of 2005 compared to $28.2 million for the first nine months of 2004. Net interest income increased primarily due to an $8.3 million increase in total interest income offset by a $7.5 million increase in total interest expense. The increase in total interest income is primarily due to a $61.5 million increase in the average volume of loans and a $80.9 million increase in the average volume of investment securities.

Average interest-earning assets for the first nine months of 2005 increased $132 million, or 11.8%, to $1.251 billion from $1.119 billion in the first nine months of 2004. This increase in average interest-earning assets was offset by a $133 million, or 12.5%, increase in average interest-bearing liabilities, to $1.198 billion for the first nine months of 2005 from $1.065 billion for the first nine months of 2004. The ratio of average interest-earning assets to average interest-bearing liabilities was 104.4% and 105.1% for the first nine months of 2005 and 2004, respectively. Average interest-bearing assets produced a taxable equivalent yield of 6.06% for the first nine months of 2005 compared to 5.78% for the first nine months of 2004.

For the nine-month period ended September 30, 2005 compared to the nine-month period ended September 30, 2004, the increase in total interest expense is attributable to a 56 bp increase in the average interest rate paid on interest-bearing liabilities and a $133 million increase in the volume of average interest-bearing liabilities. The average rate paid on interest-bearing liabilities was 3.09% for the first nine months of 2005, compared to 2.53% for the first nine months of 2004. Our net interest spread and net interest margin were 2.97% and 3.10%, respectively, for the first nine months of 2005, compared to 3.25% and 3.37% for the first nine 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.

Table of Contents

	Three Months Ended September 30, 2005 Average Balance	Income/ Expense	Yield/ Rate	2004 Average Balance	Income/ Expense	Yield/ Rate
	(Dollars in thousands)					
ASSETS						
Interest-earning assets:						
Loans, net of unearned income(1)	$ 931,598	$ 16,063	6.84%	$ 918,093	$ 14,244	6.17%
Investment securities						
Taxable	253,960	2,919	4.56	206,422	2,270	4.37
Tax-exempt(2)	6,897	94	5.40	5,201	71	5.43
Total investment securities	260,857	3,013	4.58	211,623	2,341	4.40
Federal funds sold	18,904	163	3.42	9,435	32	1.35
Other investments	22,743	272	4.74	23,480	157	2.66
Total interest-earning assets	1,234,102	19,511	6.27	1,162,631	16,774	5.74
Noninterest-earning assets:						
Cash and due from banks	34,991			26,906		
Premises and equipment	55,849			58,309		
Accrued interest and other assets	84,175			83,046		
Allowance for loan losses	(12,368)			(20,433)		
Total assets	$ 1,396,749			$ 1,310,459		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Demand deposits	$ 362,520	2,094	2.29	$ 276,490	860	1.24
Savings deposits	25,178	9	0.14	29,081	10	0.14
Time deposits	579,977	5,243	3.59	588,166	3,989	2.70
Other borrowings	179,306	1,927	4.26	181,055	1,510	3.32
Subordinated debentures	31,959	732	9.09	31,959	653	8.13
Total interest-bearing liabilities	1,178,940	10,005	3.37	1,106,751	7,022	2.52
Noninterest-bearing liabilities:						
Demand deposits	94,219			90,803		
Accrued interest and other liabilities	22,112			11,661		
Stockholders equity	101,478			101,244		
	$ 1,396,749			$ 1,310,459		

Total liabilities and stockholders equity				
Net interest income/net interest spread	9,506	2.90%	9,752	3.22%
Net yield on earning assets		3.06%		3.34%
Taxable equivalent adjustment:				
Investment securities(2)	32		24	
Net interest income	$ 9,474		$ 9,728	

(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 September 30, 2005 and 2004.

Table of Contents

	Three Months Ended September 30, 2005 vs 2004 (1)		
	Increase	Changes Due To	
	(Decrease)	Rate	Volume
	(Dollars in thousands)		
Increase (decrease) in:			
Income from interest-earning assets:			
Interest and fees on loans	$ 1,819	$ 1,602	$ 217
Interest on securities:			
Taxable	649	103	546
Tax-exempt	23		23
Interest on federal funds	131	79	52
Interest on other investments	115	120	(5)
Total interest income	2,737	1,904	833
Expense from interest-bearing liabilities:			
Interest on demand deposits	1,234	902	332
Interest on savings deposits	(1)		(1)
Interest on time deposits	1,254	1,310	(56)
Interest on other borrowings	417	432	(15)
Interest subordinated debentures	79	79	
Total interest expense	2,983	2,723	260
Net interest income	$ (246)	$ (819)	$ 573

(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.

	Nine Months Ended September 30,					
	2005			2004		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
	(Dollars in thousands)					
ASSETS						
Interest-earning assets:						
Loans, net of unearned income(1)	$ 943,550	$ 46,531	6.59%	$ 882,030	$ 41,502	6.29%
Investment securities:						
Taxable	260,734	8,789	4.51	183,468	6,092	4.44
Tax-exempt(2)	6,716	271	5.39	3,109	133	5.71

Total investment securities	267,450	9,060	4.53	186,577	6,225	4.46
Federal funds sold	16,134	354	2.93	13,832	107	1.03
Other investments	23,551	769	4.37	36,534	553	2.02
Total interest-earning assets	1,250,685	56,714	6.06	1,118,973	48,387	5.78
Noninterest-earning assets:						
Cash and due from banks	32,212			27,716		
Premises and equipment	57,325			58,154		
Accrued interest and other assets	83,712			81,650		
Allowance for loan losses	(12,649)			(23,064)		
Total assets	$ 1,411,285			$ 1,263,429		

20

Table of Contents

	Nine Months Ended September 30,					
	2005			2004		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
	(Dollars in thousands)					
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Demand deposits	$ 333,912	4,849	1.94	$ 257,805	2,354	1.22
Savings deposits	26,812	30	0.15	29,487	34	0.15
Time deposits	614,288	15,032	3.27	570,182	11,253	2.64
Other borrowings	190,589	5,665	3.97	175,443	4,632	3.53
Subordinated debentures	31,959	2,116	8.85	31,959	1,905	7.96
Total interest-bearing liabilities	1,197,560	27,692	3.09	1,064,876	20,178	2.53
Noninterest-bearing liabilities:						
Demand deposits	93,936			86,417		
Accrued interest and other liabilities	18,636			11,500		
Stockholders equity	101,153			100,636		
Total liabilities and stockholders equity	$ 1,411,285			$ 1,263,429		
Net interest income/net interest spread		29,022	2.97%		28,209	3.25%
Net yield on earning assets			3.10%			3.37%
Taxable equivalent adjustment:						
Investment securities(2)		92			45	
Net interest income		$ 28,930			$ 28,164	

(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 nine months ended September 30, 2005 and 2004.

Nine Months Ended September 30,

	2005 vs 2004 (1)		
	Increase	Changes Due To	
	(Decrease)	Rate	Volume
	(Dollars in thousands)		
Increase (decrease) in:			
Income from interest-earning assets:			
Interest and fees on loans	$ 5,029	$ 2,042	$ 2,987
Interest on securities:			
Taxable	2,697	97	2,600
Tax-exempt	138	(9)	147
Interest on federal funds	247	227	20
Interest on other investments	216	466	(250)
Total interest income	8,327	2,823	5,504
Expense from interest-bearing liabilities:			
Interest on demand deposits	2,495	1,663	832
Interest on savings deposits	(4)		(4)
Interest on time deposits	3,779	2,854	925
Interest on other borrowings	1,033	610	423
Interest subordinated debentures	211	211	
Total interest expense	7,514	5,338	2,176
Net interest income	$ 813	$ (2,515)	$ 3,328

(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.

Table of Contents

Noninterest income. Noninterest income decreased $792,000, or 29.0%, to $1.9 million for the third quarter of 2005 from $2.7 million for the third quarter of 2004. This decline is primarily due to a decline in fair value during the quarter of our derivatives (See Note 1 to the financial statements). Mortgage banking income increased $230,000, or 49.7%, to $693,000 in the third quarter of 2005 from $463,000 in the third quarter of 2004. This increase in mortgage banking income was offset by a decrease in service charges on deposits of $287,000 in the third 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 $73,000, or 6.3%, in the third quarter of 2005 over second quarter of 2005.

Noninterest income increased $2.6 million, or 27.8%, to $11.9 million for the first nine months of 2005 from $9.3 million for the first nine 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 $797,000, or 18.5%, to $3.5 million in the first nine months of 2005 from $4.3 million in the first nine 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 $651,000, or 50.1%, to $1.9 million in the first nine months of 2005 from $1.3 million in the first nine months of 2004.

Noninterest expense. Noninterest expense decreased $2.7 million, or 19.9%, to $11.0 million for third quarter of 2005 from $13.8 million for the third quarter of 2004. This decrease is primarily due to the loss that was incurred on sale of loans in the third quarter of 2004.

Noninterest expense increased $13.7 million, or 38.2%, to $49.8 million for first nine months of 2005 from $36.1 million for the first nine months of 2004. This increase is primarily due to the management separation costs of $15.4 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). This is partially offset by the decrease in loss on the sales of loans from third quarter 2004. All other noninterest expense increased $717,000, or 6.9%, to $11.1 million for the first nine months of 2005 from $10.4 million for the first nine 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 benefit was $264,000 for the third quarter of 2005, compared to an income tax benefit of $485,000 for the third quarter of 2004. We recognized an income tax benefit of $4.9 million for the first nine months of 2005, compared to $87,000 for the first nine months of 2004. The primary difference in the effective rate and the federal statutory rate (34%) for the three- and nine-month periods ended September 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

Table of Contents

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 $500,000 for the third quarter of 2005 and $2.75 million for the first nine months of 2005. The third quarter 2005 provision was less than the second quarter 2005 provision primarily due to the payoff of two classified loans which had approximately $750,000 in allocated allowance. We did not record a provision for loan loss in the first nine months of 2004. During the first nine months of 2005, we had net charged-off loans totaling $3.3 million, compared to net charged-off loans of $12.4 million in the first nine months of 2004. The annualized ratio of net charged-off loans to average loans was .46% in the first nine months of 2005 compared to 1.87% for the first nine months of 2004. The allowance for loan losses totaled $12.0 million, or 1.33% of loans, net of unearned income, at September 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 $1.376 billion at September 30, 2005, a decrease of $47 million, or 3.29%, from $1.423 billion as of December 31, 2004. Average total assets for the first nine months of 2005 totaled $1.411 billion, which was supported by average total liabilities of $1.310 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) increased $9.1 million, or 19.8%, to $55.0 million at September 30, 2005 from $45.9 million at December 31, 2004. At September 30, 2005, short-term liquid assets comprised 4.0% 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 $31.2 million, or 10.8%, to $257.1 million at September 30, 2005, from $288.3 million at December 31, 2004. Mortgage-backed securities, which comprised 37.7% of the total investment portfolio at September 30, 2005, increased $36.2 million, or 59.8%, to $96.8 million from $60.6 million at December 31, 2004. Investments in U.S. agency securities, which comprised 42.1% of the total investment portfolio at September 30, 2005, decreased $71.7 million, or 39.9%, to $108.1 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 September 30, 2005 comprised 21.0% of all interest-earning assets, compared to 22.8% at December 31, 2004, and produced an average taxable equivalent yield of 4.56% for the third quarter of 2005, compared to 4.37% for the third quarter of 2004 and 4.51% for the first nine months of 2005 and 4.44% for the first nine months of 2004.

Loans. Loans, net of unearned income, totaled $903.4 million at September 30, 2005, a decrease of 3.5%, or $31.5 million, from $934.9 million at December 31, 2004. Mortgage loans held for sale totaled $17.5 million at September 30, 2005, an increase of $9.4 million from $8.1 million at December 31, 2004. Average loans, including mortgage loans held for sale, totaled $931.6 million for the third quarter of 2005 compared to $918.1 million for the third quarter of 2004. Average loans, including mortgage loans held for sale, totaled $943.6 million for the first nine months of 2005 compared to $882.0 million for the first nine months of 2004. Loans, net of unearned income, comprised 73.89% of interest-earning assets at September 30, 2005, compared to 73.88% at December 31, 2004. Mortgage loans held for sale comprised 1.4% of interest-earning assets at September 30, 2005, compared to .6% at December 31, 2004. The loan portfolio produced an average yield of 6.84% for the third quarter of 2005 and 6.59% for the first nine months of 2005, compared to 6.17% for the third quarter and 6.29% for the first nine months of

Table of Contents

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

Distribution of Loans by Category

	September 30, 2005		December 31, 2004	
	Amount	Percent of Total	Amount	Percent of Total
Commercial and industrial	$ 124,997	13.8%	$ 131,979	14.1%
Real estate construction and land development	259,843	28.7	249,188	26.6
Real estate mortgage				
Single-family	235,233	26.0	250,718	26.8
Commercial	229,882	25.4	242,279	25.9
Other	28,164	3.1	25,745	2.7
Consumer	19,970	2.2	28,431	3.0
Other	6,604	.8	8,045	.9
Total loans	904,693	100.0%	936,385	100.0%
Unearned income	(1,295)		(1,517)	
Allowance for loan losses	(12,024)		(12,543)	
Net loans	$ 891,374		$ 922,325	

Deposits. Noninterest-bearing deposits totaled $91.3 million at September 30, 2005, an increase of 2.0%, or $1.8 million, from $89.5 million at December 31, 2004. Noninterest-bearing deposits comprised 8.7% of total deposits at September 30, 2005, compared to 8.4% at December 31, 2004. Of total noninterest-bearing deposits $66.4 million, or 73%, were in our Alabama branches while $24.9 million, or 27%, were in our Florida branches.

Interest-bearing deposits totaled $961.2 million at September 30, 2005, a decrease of 1.7%, or $16.5 million, from $977.7 million at December 31, 2004. Our average interest-bearing deposits for the third quarter of 2005 totaled $967.7 million compared to $893.7 million for the third quarter of 2004, an increase of $73.9 million, or 8.3%. Interest-bearing deposits averaged $975.0 million for the first nine months of 2005 compared to $857.5 million for the first nine months of 2004, an increase of $117.5 million, or 13.7%.

The average rate paid on all interest-bearing deposits was 3.01% during the third quarter of 2005 compared to 2.16% for the third quarter of 2004 and 2.73% during the first nine months of 2005 compared to 2.12% for the first nine months of 2004. Of total interest-bearing deposits $690.8 million, or 72%, were in the Alabama branches while $270.4 million, or 28%, were in the Florida branches.

Borrowings. Advances from the Federal Home Loan Bank (FHLB) totaled $146.1 million at September 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 3.88% at September 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.

During the third quarter of 2005, $58 million in advances from the FHLB were restructured. This restructuring is expected to reduce interest expense approximately $620,000 during the first twelve-month period and then $426,000 per year thereafter. In conjunction with this restructuring, we entered a $15 million one-year interest rate swap, under which we will pay a 4.33% fixed amount on the 28th day of March, June, September and December beginning

December 28, 2005 and receive a floating amount equal to the three-month LIBOR rate.

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:

	September 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 September 30, 2005 and December 31, 2004, the interest rate on the $16,495,000 subordinated debentures was 7.67% and 5.74%, respectively.

Prior to the conversion of our subsidiary s charter to a federal savings bank charter, we were required to 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, July and September 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 internal 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

Table of Contents

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

	Nine-Month Period Ended September 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	1,417	7,690
Real estate construction and land development	354	765
Real estate mortgage		
Single-family	601	1,012
Commercial	1,131	5,820
Other	26	86
Consumer	631	1,881
Other	255	87
Total charge-offs	4,415	17,341
Recoveries:		
Commercial and industrial	285	1,468
Real estate construction and land development	36	4
Real estate mortgage		
Single-family	329	470
Commercial	135	737
Other	97	97
Consumer	211	549
Other	53	410
Total recoveries	1,146	3,735

Net charge-offs	3,269	13,606
Provision for loan losses	2,750	975
Allowance for loan losses at end of period	$ 12,024	$ 12,543
Loans at end of period, net of unearned income	$ 903,398	$ 934,868
Average loans, net of unearned income	943,550	894,406
Ratio of ending allowance to ending loans	1.33%	1.34%
Ratio of net charge-offs to average loans (1)	.46%	1.52%
Net charge-offs as a percentage of:		
Provision for loan losses	118.87%	1395.49%
Allowance for loan losses (1)	36.35%	108.47%
Allowance for loan losses as a percentage of nonperforming loans	196.21%	169.36%

(1) Annualized.

The allowance for loan losses as a percentage of loans, net of unearned income, at September 30, 2005 was 1.33%, compared to 1.34% as of December 31, 2004. The allowance for loan losses as a percentage of nonperforming loans increased to 196.21% at September 30, 2005 from 169.36% at December 31, 2004.

Net charge-offs were $3.3 million for the first nine months of 2005. Net charge-offs to average loans on an annualized basis totaled 0.46% for the first nine months of 2005. Net commercial loan charge-offs totaled $1,132,000, or 34.6% of total net charge-off loans, for the first nine 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 $996,000, or 30.5% of total net charge-off loans, for the first nine 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 $272,000, or 8.3% of total net charge-off loans, for the first nine months of 2005 compared to 4.0% of total net charge-off loans for the year 2004. Net consumer loan charge-offs totaled $420,000, or 12.8% of total net charge-off loans, for the first nine months of 2005 compared to 9.8% of total net charge-off loans for the year 2004.

Nonperforming Assets. Nonperforming assets decreased $4.1 million, to $8.3 million as of September 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 0.91% at September 30, 2005. The following table represents our nonperforming assets for the dates indicated.

Nonperforming Assets

	September 30, 2005	December 31, 2004
	(Dollars in thousands)	
Nonaccrual	$ 6,022	$ 6,344
Accruing loans 90 days or more delinquent	34	431
Restructured	72	631
Total nonperforming loans	6,128	7,406
Other real estate owned	2,156	4,906
Repossessed assets		103
Total nonperforming assets	$ 8,284	$ 12,415
Nonperforming loans as a percent of loans	.68%	.79%
Nonperforming assets as a percent of loans plus nonperforming assets	0.91%	1.32%

Loans past due 30 days or more, net of non-accruals, improved to .41% at September 30, 2005 from .88% at December 31, 2004.

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

	September 30, 2005	December 31, 2004
	(Dollars in thousands)	
Commercial and industrial	$ 1,799	$ 2,445
Real estate construction and land development	64	187
Real estate mortgages		
Single-family	2,070	2,060
Commercial	1,858	2,273

Other	107	183
Consumer	230	250
Other		8
Total nonperforming loans	$ 6,128	$ 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.

Table of Contents

Impaired Loans. At September 30, 2005, the recorded investment in impaired loans totaled $4.7 million, with approximately $1.6 million in allowance for loan losses specifically allocated to impaired loans. This represents a decrease of $400,000 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 September 30, 2005:

	Outstanding Balance	Specific Allowance
Commercial and industrial	$ 1,845	$ 658
Real estate construction and land development	64	25
Real estate mortgages		
Commercial	2,687	868
Other	107	53
Total	$ 4,703	$ 1,604

Potential Problem Loans. In addition to nonperforming loans, management has identified $1.0 million in potential problem loans as of September 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 September 30, 2005, total stockholders equity was $103.2 million, an increase of $2.7 million from $100.5 million at December 31, 2004. The increase in stockholders equity during the first nine months of 2005 resulted primarily from a net loss of $6.8 million and other comprehensive loss of $661,000 offset by issuance, vesting and forfeitures of restricted stock totaling $737,000 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. Also, 276,984 stock options have been exercised for a total of $1.8 million in proceeds. As of September 30, 2005, we had 20,023,756 shares of common stock issued and 19,775,886 outstanding. As of September 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 September 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 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 September 30, 2005 and 2004 was $135,000 and $142,000, respectively. The ESOP shares as of September 30, 2005, were as follows:

Table of Contents

	September 30, 2005
Allocated shares	55,328
Estimated shares committed to be released	20,025
Unreleased shares	198,047
Total ESOP shares	273,400
Fair value of unreleased shares	$ 2,953,000

Regulatory Capital. The table below represents our and our subsidiary s regulatory and minimum regulatory capital requirements at September 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	$126,629	11.81%	$85,798	8.00%	$107,248	10.00%
The Bank	124,114	11.76	84,427	8.00	105,534	10.00
Tier 1 Risk-Based Capital						
Corporation	114,511	10.68	42,899	4.00	64,349	6.00
The Bank	112,090	10.62	42,214	4.00	63,321	6.00
Leverage Capital						
Corporation	114,511	8.32	55,021	4.00	68,777	5.00
The Bank	112,090	8.22	54,556	4.00	68,196	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, belie 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 September 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 PFO CERTIFICATION

Appearing as exhibits to this report are Certifications of our Chief Executive Officer (CEO) and our Principal Financial Officer (PFO). 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 PFO, 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 originally 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 our then-serving Chief Financial Officer (CFO), as of September 30, 2005. Based upon the Evaluation, our CEO and CFO concluded that, as of September 30, 2005, our disclosure controls and procedures were effective to ensure that material information relating to The Banc Corporation and its subsidiaries is made known to management, including the CEO and PFO, particularly during the period when our periodic reports are being prepared.

In connection with the amendment to our financial statements described in the Introductory Note and Items 1 and 2 of this Amendment No. 1, we re-evaluated our disclosure controls and procedures as of September 30, 2005 and, in connection therewith, we identified the following material weakness in our internal control over financial reporting with respect to accounting for hedge transactions: a failure to ensure the correct application of generally accepted accounting principles, including SFAS 133 and its related interpretations for certain derivative transactions, as described in the Introductory Note, and failure to correct that error subsequently. Solely as a result of this material weakness, we concluded that our disclosure controls and procedures were not effective as of September 30, 2005.

Simultaneously with the filing of this Amendment No. 1, we filed an amendment on Form 10-K/A to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as previously amended, reflecting the same material weakness as of that date and, for that reason, concluding that our internal control over financial reporting and disclosure controls and procedures were not effective as of December 31, 2004. Other than as set forth in that amendment and this Amendment no. 1, 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*

As previously disclosed by the Corporation, the Corporation offered those of its continuing directors who had previously entered into Deferred Compensation Agreements with the Corporation the opportunity to receive shares of the Corporation s common stock in full satisfaction of all benefits otherwise payable under such Deferred Compensation Agreements and in exchange for the termination of such Deferred Compensation Agreements. In that connection, the Corporation has agreed to issue to those continuing directors who elected to accept the Corporation s offer an aggregate of 34,995 shares of common stock, to be issued as of July 30, 2005 and to be valued at $10.61 per share, the closing price per share of the Corporation s common stock as reported on the NASDAQ National Market System on that date. The shares are being issued in reliance on the exemption provided by Section 4(2) of the Securities Act of 1933 as an issuance of securities not involving any public offering. The shares issued to each participating director were based on the value of such director s Deferral Account balance under the applicable Deferred Compensation Agreement. The termination of such agreements relieves the Corporation of an ongoing obligation to provide a variable deferred compensation benefit to such directors. The Corporation will receive no cash proceeds from the issuance of such shares.

Item 3. *DEFAULTS UPON SENIOR SECURITIES*

None.

Item 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.*

None.

Item 5. *OTHER INFORMATION*

None.

Table of Contents

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.

Table of Contents

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: February 17, 2006

By: /s/ C. Stanley Bailey
C. Stanley Bailey
Chief Executive Officer

Date: February 17, 2006

By: /s/ James C. Gossett
James C. Gossett
Chief Accounting Officer
(Principal Financial and Accounting Officer)