BANC CORP
Form 10-Q
May 10, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

OR

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

FOR THE TRANSITION PERIOD FROM __________________ TO __________________

Commission File number 0-25033

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

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

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

(205) 327-3600
(Registrant's Telephone Number, Including Area Code)

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

Class	Outstanding as of March 31, 2005
Common stock, $.001 par value	18,756,632

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	MARCH 2005 (UNAUDI
Assets	
Cash and due from banks	$ 25
Interest-bearing deposits in other banks	8
Federal funds sold	7
Investment securities available for sale	264
Mortgage loans held for sale	21
Loans, net of unearned income	942
Less: Allowance for loan losses	(12
Net loans	929
Premises and equipment, net	57
Accrued interest receivable	6
Stock in FHLB and Federal Reserve Bank	11
Cash surrender value of life insurance	38
Other assets	56
TOTAL ASSETS	$ 1,426
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	
Noninterest-bearing	$ 93
Interest-bearing	985
TOTAL DEPOSITS	1,079
Advances from FHLB	146
Federal funds borrowed and security repurchase agreements	47
Notes payable	3
Junior subordinated debentures owed to unconsolidated subsidiary trusts	31
Accrued expenses and other liabilities	18
TOTAL LIABILITIES	1,327
Stockholders' Equity	
Convertible preferred stock, par value $.001 per share; authorized 5,000,000 shares; shares issued and outstanding 62,000 at March 31, 2005 and December 31, 2004	
Common stock, par value $.001 per share; authorized 25,000,000 shares; shares issued 19,020,943 and 18,025,932, respectively; outstanding 18,756,632 and 17,749,846, respectively	
Surplus - preferred	6
- common stock	76
Retained earnings	21
Accumulated other comprehensive loss	(2
Treasury stock, at cost	
Unearned ESOP stock	(1
Unearned restricted stock	

TOTAL STOCKHOLDERS' EQUITY	99
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,426

See Notes to Condensed Consolidated Financial Statements.

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

	THREE MONTHS ENDED MARCH 31,	
	2005	2004
INTEREST INCOME		
Interest and fees on loans	$ 14,878	$ 13,567
Interest on investment securities		
Taxable	2,925	1,713
Exempt from Federal income tax	58	15
Interest on federal funds sold	82	34
Interest and dividends on other investments	243	165
Total interest income	18,186	15,494
INTEREST EXPENSE		
Interest on deposits	6,037	4,277
Interest on other borrowed funds	1,844	1,666
Interest on subordinated debentures	698	626
Total interest expense	8,579	6,569
NET INTEREST INCOME	9,607	8,925
Provision for loan losses	750	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,857	8,925
NONINTEREST INCOME		
Service charges and fees on deposits	1,112	1,391
Mortgage banking income	446	404
Investment securities (losses) gains	(909)	391
Gain on sale of branches	-	739
Increase in cash surrender value of life insurance	351	403
Other income	477	646
TOTAL NONINTEREST INCOME	1,477	3,974

NONINTEREST EXPENSES		
Salaries and employee benefits	5,402	5,586
Occupancy, furniture and equipment expense	1,981	2,164
Management separation costs	12,377	-
Other operating expenses	3,562	3,602
TOTAL NONINTEREST EXPENSES	23,322	11,352
(Loss) income before income taxes	(12,988)	1,547
INCOME TAX (BENEFIT) EXPENSE	(4,972)	319
NET (LOSS) INCOME	$ (8,016)	$ 1,228
BASIC NET (LOSS) INCOME PER COMMON SHARE	$ (0.44)	$ 0.07
DILUTED NET (LOSS) INCOME PER COMMON SHARE	$ (0.44)	$ 0.07
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	18,406	17,559
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, ASSUMING DILUTION	18,406	18,572

See Notes to Condensed Consolidated Financial Statements.

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

	THREE MONTHS ENDED MARCH 31	
	2005	2004
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (20,000)	$ 4,16
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease (increase) in interest-bearing deposits in other banks	2,831	(36,59
Net decrease (increase) in federal funds sold	4,000	(9,00
Proceeds from sales of securities available for sale	-	59,26
Proceeds from maturities of investment securities available for sale	15,489	23,43
Purchases of investment securities available for sale	(5,040)	(111,10
Net (increase) decrease in loans	(5,690)	5,20
Net sales (purchases) of premises and equipment	2,093	(1,42
Net cash paid in branch sale	-	(6,62
Purchase of life insurance	-	(5,00
Increase in other investments	(43)	(1,75
Net cash provided (used) by investing activities	13,640	(83,58

CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposit accounts	12,130	48,83
Net (decrease) increase in FHLB advances and other borrowed funds	(11,643)	39,14
Payments made on notes payable	(53)	(5
Proceeds from sale of common stock	7,455	
Net cash provided by financing activities	7,889	87,92
Net increase in cash and due from banks	1,529	8,51
Cash and due from banks at beginning of period	23,489	31,67
CASH AND DUE FROM BANKS AT END OF PERIOD	$ 25,018	$ 40,19

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED 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-month period ended March 31, 2005, are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

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

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, Share-Based Payment (SFAS 123R), which is a revision of SFAS 123 and supersedes Accounting Principles Board 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 No. 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 Statement No. 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 No. 123R; it changes only the dates for compliance with the standard. The new standard requires companies to recognize an expense in the statement of operations for the grant-date fair value of stock options and other equity-based compensation issued to employees, but expresses no preference for a type of valuation method. This expense will be recognized over the period during which an employee is required to provide service in exchange for the award. SFAS 123R

carries forward prior guidance on accounting for awards to non-employees. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately prior to the modification. The Corporation is evaluating the impact on its results of operations that will result from adopting SFAS 123R, but expects it to be comparable to the pro forma effects of applying the original SFAS 123 (see Note 10).

NOTE 3 - RECENT DEVELOPMENTS

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 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 allowed 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. that would allow them 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 and directors of the Corporation's banking subsidiary.

Under the agreement with Mr. Taylor, in lieu of the payments to which he would have been entitled under his employment agreement, the Corporation paid to Mr. Taylor $3,940,155 on January 24, 2005, and is scheduled to pay an additional $3,152,124 on January 24, 2006, and $788,031 on January 24, 2007. The agreement also provides for the provision of certain insurance benefits to Mr. Taylor, the transfer of a "key man" life insurance policy to Mr. Taylor, and the maintenance of such policy by 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, the Corporation paid to 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 management separation transaction, the Corporation recognized pre-tax expenses of $12.4 million in the first quarter of 2005. At March 31, 2005, the Corporation had $4.2 million of accrued liabilities related to these agreements. See Note 24 to the Consolidated Financial Statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004 for further information.

NOTE 4 - ASSET SALES

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

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

NOTE 5 - SEGMENT REPORTING

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

The Corporation evaluates performance and allocates resources based on profit or loss from operations. There are no material intersegment sales or transfers. Net interest revenue is used as the basis for performance evaluation rather than its components, total interest revenue and total interest expense. The accounting policies used by each reportable segment are the same as those discussed in Note 1 to the Consolidated Financial Statements included in the Form 10-K for the year ended December 31, 2004. All costs have been allocated to the reportable segments. Therefore, combined amounts agree to the consolidated totals (in thousands).

	Alabama Region	Florida Region	Combined
Three months ended March 31, 2005			
Net interest income	$ 6,778	$ 2,829	$ 9,607
Provision for loan losses	733	17	750
Noninterest income	1,153	324	1,477
Noninterest expense(2) (3)	22,174	1,148	23,322
Income tax (benefit) expense	(5,554)	582	(4,972)
Net (loss) income	(9,422)	1,406	(8,016)
Total assets	1,151,774	275,075	1,426,849
Three months ended March 31, 2004			
Net interest income	$ 6,327	$ 2,598	$ 8,925
Provision for loan losses(1)	972	(972)	-
Noninterest income(1)	3,604	370	3,974
Noninterest expense(2)	8,875	2,477	11,352
Income tax (benefit) expense	(104)	423	319
Net income	188	1,040	1,228
Total assets(1)	1,034,729	214,008	1,248,737

(1) See Note 4 concerning branch sales. Also, in January 2004, certain loans were transferred from the Florida segment to our special assets department which is included in the Alabama segment.

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

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

NOTE 6 - NET (LOSS) INCOME PER 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 March 31	
	2005	2004
Numerator:		
For basic and diluted, net (loss) income	$ (8,016)	$ 1,228
Denominator:		
For basic, weighted average common shares outstanding	18,406	17,559
Effect of dilutive stock options and convertible preferred	-	1,013
Average diluted common shares outstanding	18,406	18,572
Basic and diluted net (loss) income per common share	$ (.44)	$ .07

NOTE 7 - COMPREHENSIVE (LOSS) INCOME

Total comprehensive (loss) income was $ (9,481,000) and $1,756,000 for the three-month periods ended March 31, 2005 and 2004, respectively. Total comprehensive income consists of net (loss) income and the unrealized gain or loss on the Corporation's available for sale investment 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 will be classified as available for sale.

NOTE 8 - INCOME TAXES

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

NOTE 9 - JUNIOR SUBORDINATED DEBENTURES

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

guarantee the trust preferred securities subject to the terms of each of the guarantees. The debentures held by the TBC Capital II and TBC Capital III capital trusts are first redeemable, in whole or in part, by the Corporation on September 7, 2010 and July 25, 2006, respectively.

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

Consolidated debt obligations related to subsidiary trusts holding solely debentures of the Corporation follow:

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

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

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

On April 1, 2002, the Corporation issued 157,500 shares of restricted common stock to certain directors and key employees pursuant to the Second Amended and Restated 1998 Stock Incentive Plan. Under the Restricted Stock Agreements, the 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 classified as a contra-equity account, "Unearned restricted stock", in stockholders' equity. During 2003, 15,000 shares of this restricted common 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 management separation agreement (see Note 3) entered into during the first quarter of 2005, vesting was accelerated on 99,375 shares of restricted stock. Restricted shares outstanding as of March 31, 2005 were 92,500 and the remaining amount in the unearned restricted stock account is $333,000. This balance is being amortized as expense as the stock is earned during the restricted period. The amounts of restricted

shares are included in the diluted earnings per share calculation, using the treasury stock method, until the shares vest.

Once vested, the shares become outstanding for basic earnings per share. For the periods ended March 31, 2005 and 2004, the Corporation recognized $519,000 and $50,000, respectively, in restricted stock expense. Of the $519,000 expense in 2005, $486,000 is related to the accelerated vesting from the management separation agreements 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 that have attained the age of twenty-one and have completed a year of service. As of March 31, 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 periods ended March 31, 2005 and 2004 was $66,000 and $52,000, respectively. The ESOP shares as of March 31, 2005 were as follows:

	March 31, 2005
Allocated shares	55,328
Estimated shares committed to be released	6,675
Unreleased shares	211,397
Total ESOP shares	273,400
Fair value of unreleased shares	$ 2,807,818

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. All options granted under this plan vest 20% on the grant date and an additional 20% annually on the anniversary 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. They have a ten year term and a tiered vesting schedule as discussed in Note 24 to the Consolidated Financial Statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004.

The Corporation has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (Statement 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 Statement 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	
	March 31, 2005	March 31, 2004
Net (loss) income:		
As reported	$ (8,016)	$ 1,228
Pro forma	(10,177)	919
(Loss) earnings per common share:		
As reported	$ (.44)	$ .07
Pro forma	(.55)	.05
Diluted (loss) earnings per common share:		
As reported	$ (.44)	$ .07
Pro forma	(.55)	.05

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

	March 31, 2005	March 31, 2004
Risk free interest rate	4.34%	3.84%
Volatility factor	.41	.32
Weighted average life of options	7.0	7.0
Dividend yield	0.00	0.00

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

Basis of Presentation

The following is a discussion and analysis of our March 31, 2005 consolidated financial condition and results of operations for the three-month periods ended March 31, 2005 (first quarter of 2005) and 2004 (first quarter of 2004). All significant intercompany accounts and transactions have been eliminated. Our accounting and reporting policies conform to generally accepted accounting principles.

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

Overview

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

Our total assets were $1.427 billion at March 31, 2005, an increase of $3.7 million, or .26%, from $1.423 billion as of December 31, 2004. Our total loans, net of unearned income, were $942 million at March 31, 2005, an increase of $7.5 million, or .80%, from $935 million as of December 31, 2004. Our total deposits were $1.079 billion at March 31, 2005, an increase of $12.1 million, or 1.14%, from $1.067 billion as of December 31, 2004. Our total stockholders' equity was $99.1 million at March 31, 2005, a decrease of $1.4 million, or 1.39%, from $100.5 million as of December 31, 2004.

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. that would allow them 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 and directors of our banking subsidiary.

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

Under the agreement with Mr. Taylor, Jr., in lieu of the payments to which he would have been entitled under his employment agreement, we paid to 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 management separation transaction, we recognized pre-tax expenses of $12.4 million in the first quarter of 2005. At March 31, 2005, we had $4.2 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 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

We incurred an $8.02 million net loss for the first quarter of 2005, compared to $1.23 million net income for the first quarter of 2004. Basic and diluted net (loss) income per common share was $(.44) and $.07, respectively, for the first quarters of 2005 and 2004, based on weighted average shares outstanding for the respective periods. Return on average assets, on an annualized basis, was (2.27)% for the first quarter of 2005 compared to .41% for the first quarter of 2004. Return on average stockholders' equity, on an annualized basis, was (32.21)% for the first quarter of 2005 compared to 4.91% for the first quarter of 2004. Book value per share at March 31, 2005 was $4.96, compared to $5.31 as of December 31, 2004. Tangible book value per share at March 31, 2005 was $4.30, compared to $4.62 as of December 31, 2004.

The decrease in our net income during the first quarter of 2005 compared to the first quarter of 2004 is the result of certain nonoperating charges related to the management changes which occurred in the first quarter of 2005, the recognition of losses in the bond portfolio and losses from the sale of certain assets (see notes 3 and 4 in the condensed consolidated financial statements and the noninterest income and noninterest expenses sections of management's discussion and analysis).

Net interest income is the difference between the income earned on interest-earning assets and interest paid on interest-bearing liabilities used to support such assets. Net interest income increased $682,000, or 7.64%, to $9.6 million for the first quarter of 2005 compared to $8.9 million for the first quarter of 2004. Net interest income increased primarily due to a $2.7 million increase in total interest income offset by a $2.0 increase in total interest expense. The increase in total interest income is primarily due to a $95.6 million increase in the average volume of loans and a $121.4 million increase in the average volume of investment securities.

The increase in total interest expense is attributable to a 24 basis point increase in the average interest rate paid on interest-bearing liabilities and a $207 million increase in the volume of average interest-bearing liabilities. The average rate paid on interest-bearing liabilities was 2.84% for the first quarter of 2005, compared to 2.60% for the first quarter of 2004. Our net interest spread and net interest margin were 2.94% and 3.06%, respectively, for the first quarter of 2005, compared to 3.22% and 3.35% for the first quarter of 2004.

Average interest-earning assets for the first quarter of 2005 increased $206 million, or 19.2%, to $1.277 billion from $1.071 billion in the first quarter of 2004. This increase in average interest-earning assets was offset by a $208 million, or 20.4%, increase in average interest-bearing liabilities, to $1.224 billion for the first quarter of 2005 from $1.016 billion for the first quarter of 2004. The ratio of average interest-earning assets to average interest-bearing liabilities was 104.4% and 105.4% for the first quarters of 2005 and 2004, respectively. Average interest-bearing assets produced a taxable equivalent yield of 5.78% for the first quarter of 2005 compared to 5.82% for the first quarter of 2004.

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

	THREE MONTHS ENDED M			
	2005			
	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	A B
	(Dollars in thous			
ASSETS				
Interest-earning assets:				
Loans, net of unearned income(1)..................	$ 953,891	$ 14,878	6.33%	$
Investment securities				

Taxable	276,595	2,925	4.29	
Tax-exempt(2)	6,632	88	5.38	
Total investment securities	283,227	3,013	4.31	
Federal funds sold	13,589	82	2.45	
Other investments	26,380	243	3.74	
Total interest-earning assets	1,277,087	18,216	5.78	
Noninterest-earning assets:				
Cash and due from banks	27,483			
Premises and equipment	59,959			
Accrued interest and other assets	79,797			
Allowance for loan losses	(12,802)			
Total assets	$ 1,431,524			$
LIABILITIES AND STOCKHOLDERS' EQUITY				
Interest-bearing liabilities:				
Demand deposits	$ 302,756	1,110	1.49	$
Savings deposits	28,214	11	0.16	
Time deposits	658,162	4,916	3.03	
Other borrowings	202,603	1,857	3.69	
Subordinated debentures	31,959	685	8.69	
Total interest-bearing liabilities	1,223,694	8,579	2.84	
Noninterest-bearing liabilities:				
Demand deposits	95,483			
Accrued interest and other liabilities	11,429			
Stockholders' equity	100,918			
Total liabilities and stockholders' equity	$ 1,431,524			$
Net interest income/net interest spread		9,637	2.94%	
Net yield on earning assets			3.06%	
Taxable equivalent adjustment:				
Investment securities(2)		30		
Net interest income		$ 9,607		

(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 percent.

The following table sets forth, on a taxable equivalent basis, the effect which the varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the three months ended March 31, 2005 and 2004.

THREE MONTHS ENDED MARCH 31 (1)

	2005 VS. 2004		
		CHANGES DUE TO	
	INCREASE (DECREASE)	RATE	VOLUME
	(Dollars in thousands)		
Increase (decrease) in:			
Income from interest-earning assets:			
Interest and fees on loans	$ 1,311	$ (69)	$ 1,380
Interest on securities:			
Taxable	1,212	-	1,212
Tax-exempt	65	(7)	72
Interest on federal funds	48	50	(2)
Interest on other investments	78	134	(56)
Total interest income	2,714	108	2,606
Expense from interest-bearing liabilities:			
Interest on demand deposits	429	223	206
Interest on savings deposits	(2)	(1)	(1)
Interest on time deposits	1,333	542	791
Interest on other borrowings	191	(78)	269
Interest on subordinated debentures	59	59	-
Total interest expense	2,010	745	1,265
Net interest income	$ 704	$ (637)	$ 1,341

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

Noninterest income. Noninterest income decreased $2.5 million, or 62.8%, to $1.50 million for the first quarter of 2005 from $4.0 million for the first quarter of 2004, primarily due to the $739,000 gain we realized on the sale of our Morris branch during the first quarter of 2004 combined with the $909,000 loss we realized in 2005 in our investment securities portfolio. The investment portfolio losses were realized as a result of a $50 million sale of bonds in the investment portfolio that closed in April 2005. We reinvested the proceeds in bonds intended to enhance the yield and cash flows of our investment securities portfolio. The new investment securities will be classified as available for sale. Service charges and fees on deposits decreased $279,000, or 20.1%, to $1.1 million in the first quarter of 2005 from $1.4 million in the first quarter of 2004. 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. Mortgage banking income increased $42,000, or 10.4%, to $446,000 in the first quarter of 2005 from $404,000 in the first quarter of 2004.

Noninterest expenses. Noninterest expenses increased $12.0 million, or 105.4%, to $23.3 million for the first quarter of 2005 from $11.4 million for the first quarter of 2004. This increase is primarily due to the management separation costs of $12.4 million incurred in the first quarter of 2005. The management separation charges primarily include severance payments, accelerated vesting of restricted stock and professional fees (see note 3 in the condensed consolidated financial statements). Salaries and benefits decreased $184,000, or 3.3%, to $5.4 million for the first quarter of 2005 from $5.6 million for the first

quarter of 2004. Occupancy expenses decreased $183,000, or 8.5%, to $2.0 million for the first quarter of 2005 from $2.2 million for the first quarter of 2004. We also realized a $355,000 loss on the sale of our corporate aircraft in the first quarter of 2005.

Income tax expense. An income tax benefit of $4.97 million was recognized for the first quarter of 2005, compared to income tax expense of $319,000 for the first quarter of 2004. The primary difference in the effective rate and the federal statutory rate (34%) for the first quarter of 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 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 for loan losses 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 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 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 ("SFAS") Statement No. 114 to determine the appropriate reserve allocation. Management compares the investment in an impaired loan with the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral, if the loan is collateral-dependent, to determine the specific reserve allowance. Reserve percentages assigned to non-rated loans are based on historical charge-off experience adjusted for other risk factors. To evaluate the overall adequacy of the allowance to absorb losses inherent in our loan portfolio, management considers historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, economic conditions and other pertinent information. Based on future evaluations, additional provisions for loan losses may be necessary to maintain the allowance for loan losses at an appropriate level. See "Financial Condition -- Allowance for Loan Losses" for additional discussion.

The provision for loan losses was $750,000 for the first quarter of 2005. We did not record a provision for loan loss in the first quarter of 2004. During the first quarter of 2005, we had net charged-off loans totaling $336,000, compared to net charged-off loans of $2.6 million in the first quarter of 2004. The annualized ratio of net charged-off loans to average loans was .14% in the first quarter of 2005, compared to 1.20% for the first quarter of 2004 and 1.52% for the year 2004. The allowance for loan losses totaled $13.0 million, or 1.37% of loans, net of unearned income at March 31, 2005, compared to $12.5 million, or 1.34% of loans, net of unearned income, at December 31, 2004. See "Financial Condition - Allowance for Loan Losses" for additional discussion.

Financial Condition

Total assets were $1.427 billion at March 31, 2005, an increase of $4 million, or .26%, from $1.423 billion as of December 31, 2004. Average total assets for the first quarter of 2005 were $1.432 billion, which was supported by average

total liabilities of $1.331 billion and average total stockholders' equity of $101 million.

Short-term liquid assets. Short-term liquid assets (cash and due from banks, interest-bearing deposits in other banks and federal funds sold) decreased $5.3 million, or 11.6%, to $40.6 million at March 31, 2005 from $45.9 million at December 31, 2004. At March 31, 2005, short-term liquid assets comprised 2.9% 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 $23.7 million, or 8.2%, to $264.6 million at March 31, 2005, from $288.3 million at December 31, 2004. Mortgage-backed securities, which comprised 21.7% of the total investment portfolio at March 31, 2005, decreased $3.3 million, or 5.4%, to $57.3 million from $60.6 million at December 31, 2004. Investments in U.S. agency securities, which comprised 58.5% of the total investment portfolio at March 31, 2005, decreased $25.1 million, or 14.0 %, to $154.7 million from $179.8 million at December 31, 2004. During the first quarter of 2005, we had a $50 million sale of bonds in the investment portfolio that closed in April 2005. We reinvested the proceeds in bonds intended to enhance the yield and cash flows of our investment securities portfolio. The new investment securities will be classified as available for sale. The total investment portfolio at March 31, 2005 comprised 21.6% of all interest-earning assets compared to 22.8% at December 31, 2004 and produced an average taxable equivalent yield of 4.3% for the first quarter of 2005 and 2004.

Loans. Loans, net of unearned income, totaled $942.4 million at March 31, 2005, an increase of .80%, or $7.5 million, from $934.9 million at December 31, 2004. Mortgage loans held for sale totaled $22.0 million at March 31, 2005, an increase of $13.9 million from $8.1 million at December 31, 2004. Average loans, including mortgage loans held for sale, totaled $953.9 million for the first quarter of 2005 compared to $858.2 million for the first quarter of 2004. Loans, net of unearned income, comprised 75.01% of interest-earning assets at March 31, 2005, compared to 73.88% at December 31, 2004. Mortgage loans held for sale comprised 1.75% of interest-earning assets at March 31, 2005, compared to .6% at December 31, 2004. The loan portfolio produced an average yield of 6.3% for the first quarter of 2005, compared to 6.4% for the first quarter of 2004. The following table details the distribution of the loan portfolio by category as of March 31, 2005 and December 31, 2004:

DISTRIBUTION OF LOANS BY CATEGORY

	MARCH 31, 2005		DECEMBER 31	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	P
Commercial and industrial..........................	$ 135,495	14.3%	$ 131,979	
Real estate -- construction and land development ...	272,319	28.9	249,188	
Real estate -- mortgage				
Single-family	230,863	24.5	250,718	
Commercial......................................	248,282	26.3	242,279	
Other...	25,814	2.7	25,745	
Consumer..	24,484	2.6	28,431	
Other...	6,636	.7	8,045	

Total loans	943,893	100.0%	936,385
Unearned income	(1,502)		(1,517)
Allowance for loan losses	(12,957)		(12,543)
Net loans	$ 929,434		$ 922,325

Deposits. Noninterest-bearing deposits totaled $93.5 million at March 31, 2005, an increase of 4.5%, or $4.0 million, from $89.5 million at December 31, 2004. Noninterest-bearing deposits comprised 8.7% of total deposits at March 31, 2005, compared to 8.4% at December 31, 2004. Of total noninterest-bearing deposits $69.0 million, or 73.8%, were in the Alabama branches while $24.5 million, or 26.2%, were in the Florida branches.

Interest-bearing deposits totaled $985.8 million at March 31, 2005, an increase of .83%, or $8.1 million, from $977.7 million at December 31, 2004. Interest-bearing deposits averaged $989.1 million for the first quarter of

2005 compared to $812.2 million for the first quarter of 2004. The average rate paid on all interest-bearing deposits during the first quarter of 2005 was 2.5%, compared to 2.1% for the first quarter of 2004. Of total interest-bearing deposits, $731.1 million, or 74.2%, were in the Alabama branches while $254.7 million, or 25.8%, were in the Florida branches.

Borrowings. Advances from the Federal Home Loan Bank ("FHLB") totaled $146.1 million at March 31, 2005 and $156.1 million at December 31, 2004. Borrowings from the FHLB were used primarily to fund growth in the loan portfolio and have a weighted average rate of approximately 4.04% at March 31, 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 expires January 6, 2006 upon sixty days' prior notice; otherwise, it will automatically extend for a successive one-year term.

Junior Subordinated Debentures. We have sponsored two trusts, TBC Capital Statutory Trust II ("TBC Capital II") and TBC Capital Statutory Trust III ("TBC Capital III"), of which we own 100% of the common. 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:

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

Currently, we must obtain regulatory approval prior to paying any dividends on these trust preferred securities. The Federal Reserve approved the timely payment of our semi-annual distributions on our trust preferred securities in January and March, 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, we have engaged Credit Risk Management, LLC, an independent loan review firm, to supplement our existing independent loan review function.

Loan portfolio concentration risk is reduced through concentration limits for borrowers, collateral types and geographic 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 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 (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.

Pursuant to SFAS No. 114, impaired loans are specifically reviewed loans for which it is probable that we will be unable to collect all amounts due according to the terms of the loan agreement. Impairment is measured by comparing the recorded investment in the loan with the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A valuation allowance is provided to the extent that the measure of the impaired loans is less than the recorded investment. A loan is not considered impaired during a period of delay in payment if we continue to expect that all amounts due will ultimately be collected. Larger groups of homogenous loans such as consumer installment and residential real estate mortgage loans are collectively evaluated for impairment.

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

As stated above, risk ratings are subject to independent review by 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

	THREE-MONTH PERIOD ENDED MARCH 31, 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........................	41	7,690
Real estate -- construction and land development...	1	765
Real estate -- mortgage		
Single-family................................	87	1,012
Commercial...................................	210	5,820
Other..	-	86
Consumer...	125	1,881
Other..	91	87
Total charge-offs........................	555	17,341

Recoveries:		
Commercial and industrial	82	1,468
Real estate -- construction and land development	10	4
Real estate -- mortgage		
Single-family	29	470
Commercial	1	737
Other	10	97
Consumer	48	549
Other	39	410
Total recoveries	219	3,735
Net charge-offs	336	13,606
Provision for loan losses	750	975
Allowance for loan losses at end of period	$ 12,957	$ 12,543
Loans at end of period, net of unearned income	$ 942,391	$ 934,868
Average loans, net of unearned income	953,891	894,406
Ratio of ending allowance to ending loans	1.37%	1.34%
Ratio of net charge-offs to average loans(1)	0.14%	1.52%
Net charge-offs as a percentage of:		
Provision for loan losses	44.8%	1395.49%
Allowance for loan losses(1)	10.52%	108.47%
Allowance for loan losses as a percentage of nonperforming loans	183.97%	169.36%

(1) Annualized.

The allowance for loan losses as a percentage of loans, net of unearned income, at March 31, 2005 was 1.37%, compared to 1.34% as of December 31, 2004. The allowance for loan losses as a percentage of nonperforming loans increased to 183.97% at March 31, 2005 from 169.36% at December 31, 2004.

Net charge-offs were $336,000 for the first quarter of 2005. Net charge-offs to average loans on an annualized basis totaled 0.14% for the first quarter of 2005. Net commercial real estate loan charge-offs totaled $209,000, or 62.2% of total net charge-off loans, for the first quarter 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 $58,000, or 17.3% of total net charge-off loans, for the first quarter of 2005 compared to 4.0% of total net charge-off loans for the year 2004. Net consumer loan charge-offs totaled $77,000, or 22.9% of total net charge-off loans, for the first quarter of 2005 compared with 9.8% of total net charge-off loans for the year 2004.

Nonperforming Assets. Nonperforming assets decreased $2.4 million, to $10.0 million as of March 31, 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 1.06% at March 31, 2005. The following table represents our nonperforming assets for the dates indicated.

NONPERFORMING ASSETS

	MARCH 31, 2005
	(Dollars in T
Nonaccrual	$ 7,014
Accruing loans 90 days or more delinquent	29
Restructured	-
Total nonperforming loans	7,043
Other real estate owned	2,971
Repossessed assets	4
Total nonperforming assets	$ 10,018
Nonperforming loans as a percent of loans	.75%
Nonperforming assets as a percent of loans plus nonperforming assets	1.06%

Loans past due 30 days or more, net of non-accruals, improved to .54% at March 31, 2005 from .88% at December 31, 2004.

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

	MARCH 31 2005	DECEMBER 31, 2004
	(Dollars in thousands)	
Commercial and industrial	$ 1,636	$ 2,445
Real estate -- construction and land development	229	187
Real estate -- mortgages		
Single-family	1,926	2,060
Commercial	2,961	2,273
Other	127	183
Consumer	164	250
Other	-	8
Total nonperforming loans	$ 7,043	$ 7,406

A delinquent loan is placed on nonaccrual status when it becomes 90 days or more past due and management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that the collection of interest is doubtful. When a loan is placed on nonaccrual status, all interest which has been accrued on the loan during the current period but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income; any prior period accrued and unpaid interest is reversed and charged against the allowance for loan losses. No additional interest income is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. When a problem loan is finally resolved, there may ultimately be an actual write-down or charge-off of the principal balance of the loan to the allowance for loan losses, which may necessitate additional charges to earnings.

Impaired Loans. At March 31, 2005, the recorded investment in impaired loans under FAS 114 totaled $5.4 million, with approximately $1.9 million in allowance for loan losses specifically allocated to impaired loans. This represents an increase of $300,000 from $5.1 million at December 31, 2004. The following is a summary of impaired loans and the specifically allocated allowance for loan losses by category as of March 31, 2005:

	OUTSTANDING BALANCE	SPECIFIC ALLOWANCE
Commercial and industrial	$ 2,253	$ 1,097
Real estate -- construction and land development	229	57
Real estate -- mortgages		
Commercial	2,762	686
Other	113	19
Total	$ 5,357	$ 1,859

Potential Problem Loans. In addition to nonperforming loans, management has identified $140,000 in potential problem loans as of March 31, 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 March 31, 2005, total stockholders' equity was $99.1 million, a decrease of $1.4 million from $100.5 million at December 31, 2004. The decrease in stockholders' equity during the first quarter of 2005 resulted primarily from a net loss of $8.0 million offset by additional net proceeds of $7.3 million resulting from the sale of 925,636 shares of our common stock at $8.17 per share, the then current market price, to the new members of the management team and other investors, in a private placement. As of March 31, 2005 we had 19,020,943 shares of common stock issued and 18,756,632 outstanding. As of March 31, 2005, there were 52,914 shares held in treasury at a cost of $368,000.

On April 1, 2002, we issued 157,500 shares of restricted common stock to certain directors and key employees pursuant to the Second Amended and Restated 1998 Stock Incentive Plan. Under the Restricted Stock Agreements, the 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 classified as a contra-equity account, "Unearned restricted stock", in stockholders' equity. During 2003, 15,000 shares of this restricted common 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 management separation agreement entered into during the first quarter of 2005, vesting was accelerated on 99,375 shares of restricted stock. Restricted shares outstanding as of March 31, 2005 were 92,500 and the remaining amount in the unearned restricted stock account is $333,000. This balance is being amortized as expense as the stock is earned during the

restricted period. The amounts of restricted shares are included in the diluted earnings per share calculation, using the treasury stock method, until the shares vest. Once vested, the shares become outstanding for basic earnings per share. For the periods ended March 31, 2005 and 2004, we recognized $519,000 and $50,000, respectively, in restricted stock expense. Of the $519,000 expense in 2005, $486,000 is related to the accelerated vesting from the management separation agreements and is included in the amount of management separation cost.

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 March 31, 2005, the ESOP has been leveraged with 273,400 shares of the our common stock purchased in the open market and classified as a contra-equity account, "Unearned ESOP stock," 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 March 31, 2005 and 2004 was $66,000 and $52,000, respectively. The ESOP shares as of March 31, 2005 were as follows:

	MARCH 31, 2005
Allocated shares	55,328
Estimated shares committed to be released	6,675
Unreleased shares	211,397
Total ESOP shares	273,400
Fair value of unreleased shares	$ 2,807,818

Regulatory Capital. The table below represents our and our subsidiary's regulatory and minimum regulatory capital requirements at March 31, 2005 (dollars in thousands):

	ACTUAL	FOR CAPITAL ADEQUACY PURPOSES	TO BE WELL CAPITALIZED

	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
Total Risk-Based Capital						
Corporation	$ 126,092	11.36%	$ 88,760	8.00%	$ 110,950	10.00%
The Bank	124,196	11.39%	87,244	8.00%	109,055	10.00%
Tier 1 Risk-Based Capital						
Corporation	111,959	10.09%	44,380	4.00%	66,570	6.00%
The Bank	111,239	10.20%	43,622	4.00%	65,433	6.00%
Leverage Capital						
Corporation	111,959	7.93%	56,483	4.00%	70,604	5.00%
The Bank	111,239	8.00%	55,610	4.00%	69,512	5.00%

Liquidity

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

Forward-Looking Statements

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

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

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

policies of the Board of Governors of the Federal Reserve System; (3) inflation, interest rate, market and monetary fluctuations; (4) our ability to successfully integrate the assets, liabilities, customers, systems and management we acquire or merge into our operations; (5) our timely development of new products and services in a changing environment, including the features, pricing and quality compared to the products and services of our competitors; (6) the willingness of users to substitute competitors' products and services for our products and services; (7) the impact of changes in financial services policies, laws and regulations, including laws, regulations and policies 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 annual 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 or qualitative disclosures about market risk as of March 31, 2005 from those presented in our annual report on Form 10-K for the year ended December 31, 2004.

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

ITEM 4. CONTROLS AND PROCEDURES

CEO AND CFO CERTIFICATION

Appearing as exhibits to this report are Certifications of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"). The Certifications are required to be made by Rule 13a - 14 of the Securities Exchange Act of 1934, as amended. This Item contains the information about the evaluation that is referred to in the Certifications, and the information set forth below in this Item 4 should be read in conjunction with the Certifications for a more complete understanding of the Certifications.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

We conducted an evaluation (the "Evaluation") of the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our management, including our CEO and CFO, as of March 31, 2005. Based upon the Evaluation, our CEO and CFO have concluded that, as of March 31, 2005, our disclosure controls and procedures are effective to ensure that material information relating to The Banc Corporation and its subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared. There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities 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 the 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.

None, other than as previously reported on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

(a) Exhibit:

- 31.01 Certification of principal executive officer pursuant to Rule 13a-14(a).
- 31.02 Certification of principal financial officer pursuant to 13a-14(a).
- 32.01 Certification of principal executive officer pursuant to 18 U.S.C. Section 1350.
- 32.02 Certification of principal financial officer pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant with 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: May 10, 2005

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

Date: May 10, 2005

By: /s/ David R. Carter
David R. Carter
Executive Vice President and
Chief Financial Officer
(Principal Accounting Officer)