

SOUTHERN CONNECTICUT BANCORP INC
Form 10-Q
November 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

Commission file number: 0-49784

Southern Connecticut Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Connecticut
(State or other jurisdiction of
incorporation or organization)

06-1609692
(I.R.S. Employer
Identification No.)

215 Church Street
New Haven, Connecticut

06510

(203) 782-1100
(Registrant's telephone number, including area code)

[None]
(Former name, former address and former fiscal year, if changed since last report)

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," and "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated (do not check if a smaller reporting Smaller reporting
filer company) company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

| Class | Outstanding at November 13, 2008 |
|---|----------------------------------|
| [Common Stock, \$.01 par value per share] | 2,737,528 shares |

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2008 and December 31, 2007 (unaudited)

| ASSETS | 2008 | 2007 |
|---|----------------|----------------|
| Cash and due from banks | \$ 4,483,738 | \$ 3,891,258 |
| Federal funds sold | 95,847 | 21,100,000 |
| Short-term investments | 15,830,604 | 8,355,686 |
| Cash and cash equivalents | 20,410,189 | 33,346,944 |
| Available for sale securities (at fair value) | 5,057,919 | 5,265,679 |
| Federal Home Loan Bank stock | 66,100 | 66,100 |
| Loans held for sale | - | 354,606 |
| Loans receivable | | |
| Loans receivable - portfolio | 88,233,751 | 80,404,844 |
| Loans receivable - branch disposed of | - | 6,847,249 |
| Allowance for loan losses | (1,049,226) | (1,256,965) |
| Loans receivable, net | 87,184,525 | 85,995,128 |
| Accrued interest receivable | 521,889 | 533,690 |
| Premises and equipment | | |
| Premises and equipment | 2,826,164 | 2,921,459 |
| Premises and equipment - branch disposed of | - | 656,261 |
| Premises and equipment, net | 2,826,164 | 3,577,720 |
| Other assets held for sale | 414,920 | 414,920 |
| Other assets | 1,375,367 | 1,009,474 |
| Total assets | \$ 117,857,073 | \$ 130,564,261 |

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS, Continued
September 30, 2008 and December 31, 2007 (unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY

| Liabilities | 2008 | 2007 |
|---|----------------|----------------|
| Deposits | | |
| Noninterest bearing deposits | | |
| Noninterest bearing deposits | \$ 24,803,530 | \$ 23,610,756 |
| Noninterest bearing deposits - branch disposed of | - | 4,187,632 |
| Total noninterest bearing deposits | 24,803,530 | 27,798,388 |
| Interest bearing deposits | | |
| Interest bearing deposits | 70,732,106 | 73,911,903 |
| Interest bearing deposits - branch disposed of | - | 5,712,101 |
| Total interest bearing deposits | 70,732,106 | 79,624,004 |
| Total deposits | 95,535,636 | 107,422,392 |
| Repurchase agreements | 764,828 | 544,341 |
| Capital lease obligations | 1,182,266 | 1,186,043 |
| Accrued expenses and other liabilities | 1,244,046 | 1,327,002 |
| Total liabilities | 98,726,776 | 110,479,778 |
| Commitments and Contingencies | | |
| Shareholders' Equity | | |
| Preferred stock, no par value; shares authorized: 500,000; none issued | - | - |
| Common stock, par value \$.01; shares authorized: 5,000,000; shares issued and outstanding: 2008 2,767,528; 2007 2,969,714 | 27,675 | 29,697 |
| Additional paid-in capital | 22,947,151 | 24,263,531 |
| Accumulated deficit | (3,801,002) | (4,169,051) |
| Accumulated other comprehensive loss - net unrealized loss on available for sale securities | (43,527) | (39,694) |
| Total shareholders' equity | 19,130,297 | 20,084,483 |
| Total liabilities and shareholders' equity | \$ 117,857,073 | \$ 130,564,261 |

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months and Nine Months Ended September 30, 2008 and 2007

(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------|-------------------|--------------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Interest Income | | | | |
| Interest and fees on loans | \$ 1,496,517 | \$ 2,004,997 | \$ 4,769,642 | \$ 5,574,987 |
| Interest on securities | 59,801 | 65,331 | 136,089 | 195,640 |
| Interest on federal funds sold and short-term investments | 79,666 | 339,171 | 382,827 | 1,010,950 |
| Total interest income | 1,635,984 | 2,409,499 | 5,288,558 | 6,781,577 |
| Interest Expense | | | | |
| Interest on deposits | 459,639 | 837,803 | 1,577,076 | 2,395,799 |
| Interest on capital lease obligations | 44,025 | 43,978 | 132,105 | 131,782 |
| Interest on repurchase agreements | 2,632 | 2,244 | 6,780 | 6,739 |
| Total interest expense | 506,296 | 884,025 | 1,715,961 | 2,534,320 |
| Net interest income | 1,129,688 | 1,525,474 | 3,572,597 | 4,247,257 |
| Provision (Credit) for Loan Losses | 39,661 | 319,218 | (64,082) | 446,462 |
| Net interest income after provision (credit) for loan losses | 1,090,027 | 1,206,256 | 3,636,679 | 3,800,795 |
| Noninterest Income | | | | |
| Service charges and fees | 136,851 | 171,448 | 402,960 | 452,450 |
| Gain on sale of branch | 50,669 | - | 874,912 | - |
| Gains on sales of loans | - | - | - | 45,286 |
| Other noninterest income | 5,970 | 54,434 | 175,728 | 248,824 |
| Total noninterest income | 193,490 | 225,882 | 1,453,600 | 746,560 |
| Noninterest Expense | | | | |
| Salaries and benefits | 835,386 | 774,420 | 2,957,384 | 2,600,138 |
| Occupancy and equipment | 171,573 | 202,052 | 528,520 | 634,582 |
| Professional services | 5,927 | 267,845 | 254,686 | 526,298 |
| Data processing and other outside services | 98,267 | 102,639 | 302,669 | 313,218 |
| Advertising and promotional expense | 18,488 | 7,364 | 50,346 | 19,213 |
| Forms, printing and supplies | 24,943 | 20,795 | 81,975 | 59,961 |
| FDIC insurance | 16,115 | 30,625 | 59,478 | 94,097 |
| Other operating expenses | 154,440 | 169,143 | 487,172 | 433,687 |
| Total noninterest expense | 1,325,139 | 1,574,883 | 4,722,230 | 4,681,194 |
| Net (loss) income | \$ (41,622) | \$ (142,745) | \$ 368,049 | \$ (133,839) |
| Basic (loss) income per share | \$ (0.01) | \$ (0.05) | \$ 0.13 | \$ (0.05) |
| Diluted (loss) income per share | \$ (0.01) | \$ (0.05) | \$ 0.13 | \$ (0.05) |

See Notes to Consolidated Financial Statements.

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SOUTHERN CONNECTICUT BANCORP, INC. AND
SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS'
EQUITY

For the Nine Months Ended September 30, 2008 and 2007
(unaudited)

| | Number of Shares | Common Stock | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total |
|---|---------------------|-----------------|----------------------------------|------------------------|---|---------------|
| Balance December 31, 2006 | 2,941,297 | \$ 29,413 | \$ 24,147,883 | \$ (3,595,370) | \$ (250,077) | \$ 20,331,849 |
| Comprehensive Income: | | | | | | |
| Net loss | - | - | - | (133,839) | - | (133,839) |
| Unrealized holding gains on available for sale securities | - | - | - | - | 140,586 | 140,586 |
| Total comprehensive income | | | | | | 6,747 |
| Directors fees settled in common stock | 3,885 | 39 | 29,291 | - | - | 29,330 |
| Restricted stock compensation | 1,000 | 10 | 16,085 | - | - | 16,095 |
| Stock option compensation | - | - | 37,791 | - | - | 37,791 |
| Balance September 30, 2007 | 2,946,182 | \$ 29,462 | \$ 24,231,050 | \$ (3,729,209) | \$ (109,491) | \$ 20,421,812 |
| Balance December 31, 2007 | 2,969,714 | \$ 29,697 | \$ 24,263,531 | \$ (4,169,051) | \$ (39,694) | \$ 20,084,483 |
| Comprehensive Income: | | | | | | |
| Net income | - | - | - | 368,049 | - | 368,049 |
| Unrealized holding losses on available for sale securities | - | - | - | - | (3,833) | (3,833) |
| Total comprehensive income | | | | | | 364,216 |
| Restricted stock compensation | - | - | 40,670 | - | - | 40,670 |
| Stock option compensation | - | - | 16,930 | - | - | 16,930 |
| Stock repurchase | (202,186) | (2,022) | (1,373,980) | - | - | (1,376,002) |
| Balance September 30, 2008 | 2,767,528 | \$ 27,675 | \$ 22,947,151 | \$ (3,801,002) | \$ (43,527) | \$ 19,130,297 |

See Notes to Consolidated Financial
Statements.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2008 and 2007 (unaudited)

| | 2008 | 2007 |
|---|---------------|---------------|
| Cash Flows From Operations | | |
| Net Income | \$ 368,049 | \$ (133,839) |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Amortization and accretion of premiums and discounts on investments, net | 3,924 | (349) |
| (Credit) provision for loan losses | (64,082) | 446,462 |
| Gain on sale of branch | (874,912) | - |
| Share based compensation | 57,600 | 53,886 |
| Loans originated for sale, net of principal payments received | (58,513) | (148,674) |
| Proceeds from the sales of loans | - | 195,286 |
| Gains on sales of loans | - | (45,286) |
| Depreciation and amortization | 215,664 | 309,557 |
| Increase in cash surrender value of life insurance | (33,138) | (30,600) |
| Changes in assets and liabilities: | | |
| Increase (decrease) in deferred loan fees | 31,854 | (11,375) |
| Decrease (increase) in accrued interest receivable | 11,801 | (79,020) |
| Increase in other assets | (310,559) | (50,078) |
| Increase in accrued expenses and other liabilities | 25,166 | 294,697 |
| Net cash (used in) provided by operating activities | (627,146) | 800,667 |
| Cash Flows From Investing Activities | | |
| Purchases of available for sale securities | (11,500,000) | - |
| Proceeds from maturities/calls of available for sale securities | 11,700,003 | 1,000,002 |
| Net payments on sale of branch | (495,521) | - |
| Net decrease in loans receivable | (7,992,794) | (13,707,837) |
| Purchases of premises and equipment | (101,481) | (62,169) |
| Acquisition of mortgage broker | (137,668) | - |
| Net cash used in investing activities | (8,527,461) | (12,770,004) |
| Cash Flows From Financing Activities | | |
| Net (decrease) increase in demand, savings and money market deposits | (4,122,341) | 2,040,927 |
| Net increase in certificates of deposit | 1,499,485 | 4,160,447 |
| Net increase (decrease) in repurchase agreements | 220,487 | (193,834) |
| Principal payments on capital lease obligations | (3,777) | (891) |
| Stock repurchased | (1,376,002) | - |
| Net cash (used in) provided by financing activities | (3,782,148) | 6,006,649 |
| Net decrease in cash and cash equivalents | (12,936,755) | (5,962,688) |
| Cash and cash equivalents | | |
| Beginning | 33,346,944 | 34,809,747 |
| Ending | \$ 20,410,189 | \$ 28,847,059 |

(continued)

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the Nine Months Ended September 30, 2008 and 2007 (unaudited)

| | 2008 | 2007 |
|--|--------------|--------------|
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 1,745,913 | \$ 2,523,719 |
| Income taxes | \$ - | \$ - |
| Supplemental Disclosures of Noncash Investing and Financing Activities: | | |
| Assets and Liabilities transferred in sale of branch: | | |
| Premises and equipment | \$ 644,723 | \$ - |
| Loans receivable | \$ 7,248,744 | \$ - |
| Deposits | \$ 9,263,900 | \$ - |
| Transfer of loans receivable to loans held for sale | \$ - | \$ 59,309 |
| Transfer of loans held for sale to loans receivable | \$ 413,119 | \$ - |
| Accrued director's fees paid in common stock | \$ - | \$ 29,330 |
| Unrealized holding (loss) gains on available for sale securities arising during the period | \$ (3,833) | \$ 140,586 |

See Note 12 for information regarding the acquisition of certain assets and liabilities of a mortgage broker.

See Notes to Consolidated Financial Statements.

Southern Connecticut Bancorp, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Nature of Operations

Southern Connecticut Bancorp, Inc. (the “Company”) is a bank holding company headquartered in New Haven, Connecticut that was incorporated on November 8, 2000. The Company’s strategic objective is to serve as a bank holding company for a community-based commercial bank and a mortgage broker serving primarily New Haven County (the “Southern Connecticut Market”). The Company owns 100% of the capital stock of The Bank of Southern Connecticut (the “Bank”), a Connecticut-chartered bank with its headquarters in New Haven, Connecticut.

The Bank operates branches at four locations, including downtown New Haven, the Amity/Westville section of New Haven, Branford and North Haven. The Bank’s branches have a consistent, attractive appearance. Each location has an open lobby, comfortable waiting area, offices for the branch manager and a loan officer, and a conference room. The design of the branches complements the business development strategy of the Bank, affording an appropriate space to deliver personalized banking services in professional, confidential surroundings.

The Bank focuses on serving the banking needs of small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Southern Connecticut market. The Bank’s target commercial customer has between \$1.0 and \$30.0 million in revenues, 15 to 150 employees, and borrowing needs of up to \$3.0 million. The primary focus on this commercial market makes the Bank uniquely qualified to move deftly in responding to the needs of its clients. The Bank has been successful in winning business by offering a combination of competitive pricing for its services, quick decision making processes and a high level of personalized, “high touch” customer service.

During the first quarter of 2008, the Bank sold its branch location in New London, Connecticut. In connection with the transaction, the Bank transferred \$7.2 million in loans, \$9.3 million in deposits, and fixed assets of \$645,000 to the purchaser. The Company received a premium in connection with the sale of \$875,000.

On August 1, 2008 the Company’s wholly owned subsidiary, SCB Capital, Inc., purchased assets of Evergreen Financial LLC for \$180,000. The Company incurred legal fees and assumed the liability for certain employee benefits totaling \$65,790 relating to the acquisition. At September 30, 2008, the Company has recorded goodwill of \$233,440 relating to this transaction (see Note 12). SCB Capital, Inc., operating under the name “Evergreen Financial,” now offers mortgage brokerage services. SCB Capital, Inc. operates from the Company’s headquarters in New Haven, Connecticut and is licensed by the State of Connecticut Department of Banking to operate a mortgage brokerage business.

Evergreen will focus on meeting the mortgage brokerage needs of residential and small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Southern Connecticut market.

Note 2. Basis of Financial Statement Presentation

The consolidated interim financial statements include the accounts of the Company and its subsidiaries. The consolidated interim financial statements and notes thereto have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of

management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions have been eliminated in consolidation. Amounts in prior period financial statements are reclassified whenever necessary to conform to current period presentations. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the results which may be expected for the year as a whole. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements of the Company and notes thereto as of December 31, 2007, filed with the Securities and Exchange Commission on Form 10-KSB on March 27, 2008.

Note 3. Available for Sale Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available for sale securities at September 30, 2008 and December 31, 2007 are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| September 30, 2008 | | | | |
| U.S. Government Sponsored Agency Obligations | \$ 4,996,040 | \$ - | \$ (39,546) | \$ 4,956,494 |
| Mortgage Backed Securities | 105,406 | - | (3,981) | 101,425 |
| | \$ 5,101,446 | \$ - | \$ (43,527) | \$ 5,057,919 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| December 31, 2007 | | | | |
| U.S. Government Sponsored Agency Obligations | \$ 5,199,956 | \$ - | \$ (35,054) | \$ 5,164,902 |
| Mortgage Backed Securities | 105,417 | - | (4,640) | 100,777 |
| | \$ 5,305,373 | \$ - | \$ (39,694) | \$ 5,265,679 |

As of September 30, 2008, gross unrealized losses on the available for sale securities portfolio totaled \$43,527. Management believes that none of the unrealized losses on available for sale securities are other than temporary because all of the unrealized losses in the Company's investment portfolio are due to market interest rate changes related to obligations and mortgage-backed securities issued by U.S. Government sponsored agencies, which the Company has the ability to hold until maturity or until the fair value fully recovers. In addition, management considers the issuers of the securities to be financially sound and further believes that the Company will receive all contractual principal and interest related to these investments. Management regularly reviews the investment portfolio with respect to the appropriateness of the investments. This includes the consideration of profitability, quality of the investment, interest rate risk and liquidity, as well as other considerations. While management feels the current portfolio is appropriate, in the future, as the Company's needs change, the Company may make changes to its investment portfolio.

At September 30, 2008, gross unrealized holding losses on available for sale securities totaled \$43,527. All such unrealized losses had existed for a period of less than twelve months.

At December 31, 2007, gross unrealized holding losses on available for sale securities totaled \$39,694. All such unrealized losses had existed for a period of twelve months or longer.

Note 4. Loans Receivable

A summary of the Company's loan portfolio at September 30, 2008 and December 31, 2007 is as follows:

| | September 30, 2008 | December 31, 2007 |
|---|-----------------------|----------------------|
| Commercial loans secured by real estate | \$ 42,240,521 | \$ 38,821,133 |
| Commercial loans | 38,523,808 | 40,763,176 |
| Construction and land loans | 6,647,523 | 6,248,455 |
| Consumer installment loans | 537,691 | 794,597 |
| Consumer home equity loans | 389,357 | 555,694 |
| Residential mortgage loans | - | 142,333 |
| Total gross loans | 88,338,900 | 87,325,388 |
| Net deferred loan fees | (105,149) | (73,295) |
| Allowance for loan losses | (1,049,226) | (1,256,965) |
| Loans receivable, net | \$ 87,184,525 | \$ 85,995,128 |

Allowance for Loan Losses

The following represents the activity in the allowance for loan losses for the nine months ended September 30, 2008 and 2007:

| | For the Nine Months Ended September 30, | |
|--|--|--------------|
| | 2008 | 2007 |
| Balance at beginning of period | \$ 1,256,965 | \$ 1,062,661 |
| Charge-offs | (180,413) | (356,149) |
| Recoveries | 36,756 | 11,897 |
| (Credit) provision charged to operations | (64,082) | 446,462 |
| Balance at end of period | \$ 1,049,226 | \$ 1,164,871 |

| | | |
|----------------------------------|-------|-------|
| Net charge-offs to average loans | 0.17% | 0.42% |
|----------------------------------|-------|-------|

Non-Accrual, Past Due and Restructured Loans

| | September 30, 2008 | December 31, 2007 |
|---|-----------------------|----------------------|
| Non-accrual loans | \$ 879,073 | \$ 530,246 |
| Accruing loans contractually past due 90 days or more | | |
| Loans past due 90 days or more and still accruing | \$ 738,541 | \$ 726,036 |
| Matured loans pending renewal and still accruing (1) | 3,353,915 | - |
| Total | \$ 4,092,456 | \$ 726,036 |

(1) In November 2007, the Company significantly revamped its underwriting procedures, including, among other items, a revised process for renewing matured loans. The Bank is in the process of completing negotiations of terms for the matured loans. Each of these loans is making timely payments as to interest since the date of maturity.

Note 5. Deposits

At September 30, 2008 and December 31, 2007, deposits consisted of the following:

| | September 30, 2008 | December 31, 2007 |
|--|-----------------------|----------------------|
| Noninterest bearing deposits | \$ 24,803,530 | \$ 27,798,388 |
| Interest bearing deposit | | |
| Checking | 7,821,703 | 5,792,493 |
| Money Market | 28,641,642 | 40,721,374 |
| Savings | 1,313,139 | 1,654,000 |
| Total checking, money market & savings | 37,776,484 | 48,167,867 |
| Time Certificates under \$100,000 (1) | 20,572,738 | 16,600,048 |
| Time Certificates of \$100,000 or more | 12,382,884 | 14,856,089 |
| Total time deposits | 32,955,622 | 31,456,137 |
| Total interest bearing deposits | 70,732,106 | 79,624,004 |
| Total deposits | \$ 95,535,636 | \$ 107,422,392 |

(1) Included in time certificates of deposit under \$100,000 at September 30, 2008 and December 31, 2007 were brokered deposits totaling \$4,453,837 and \$0, respectively.

Brokered deposits at September 30, 2008 represented:

| | | |
|--|----|-----------|
| Bank customer time certificates of deposits placed through CDARS to ensure FDIC coverage | \$ | 1,457,136 |
| Time certificates of deposits purchased by the Bank through CDARS | | 2,996,701 |
| Total brokered deposits | \$ | 4,453,837 |

Note 6. Available Borrowings

The Bank is a member of the Federal Home Loan Bank of Boston ("FHLB"). At September 30, 2008, the Bank had the ability to borrow from the FHLB based on a certain percentage of the value of the Bank's qualified collateral, as defined in the FHLB Statement of Products Policy, at the time of the borrowing. In accordance with an agreement with the FHLB, the qualified collateral must be free and clear of liens, pledges and encumbrances. There were no borrowings outstanding with the FHLB at September 30, 2008.

The Bank is required to maintain an investment in capital stock of the FHLB in an amount equal to a percentage of its outstanding mortgage loans and contracts secured by residential properties, including mortgage-backed securities. No ready market exists for FHLB stock and it has no quoted market value. For disclosure purposes, such stock is assumed to have a market value which is equal to cost since the Bank can redeem the stock with FHLB at cost.

Note 7. Employment Agreement

The Company entered into an employment agreement with the President of SCB Capital, Inc. effective August 1, 2008. Under the agreement, he will serve as the President of SCB Capital, Inc. through July 31, 2010, unless the Company terminates the agreement earlier under the terms of the agreement. The President will receive a base salary that increases over the term of the agreement and is eligible for salary increases and other merit bonuses at the discretion of the Company's board of directors. The President is provided with health insurance and life insurance, is reimbursed for certain business expenses, and is eligible to participate in the profit sharing or 401(k) plan of the Company (or its subsidiary).

Note 8. Income (Loss) Per Share

The Company is required to present basic income (loss) per share and diluted income (loss) per share in its statements of operations. Basic per share amounts are computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted per share amounts assume exercise of all potential common stock equivalents in weighted average shares outstanding, unless the effect is antidilutive. The Company is also required to provide a reconciliation of the numerator and denominator used in the computation of both basic and diluted income (loss) per share. The following is information about the computation of income (loss) per share for the three month and nine month periods ended September 30, 2008 and 2007:

Three Months Ended
September 30,

| | Net Loss | 2008 Weighted Average Shares | Amount Per Share | Net Loss | 2007 Weighted Average Shares | Amount Per Share |
|---|-------------|---------------------------------------|---------------------|--------------|---------------------------------------|---------------------|
| Basic Loss Per Share | | | | | | |
| Loss available to common shareholders | \$ (41,622) | 2,795,903 | \$ (0.01) | \$ (142,745) | 2,944,370 | \$ (0.05) |
| Effect of Dilutive Securities | | | | | | |
| Warrants/Stock Options outstanding/Restricted Stock | - | - | - | - | - | - |
| Diluted Loss Per Share | | | | | | |
| Loss available to common shareholders plus assumed conversions | \$ (41,622) | 2,795,903 | \$ (0.01) | \$ (142,745) | 2,944,370 | \$ (0.05) |

Nine Months Ended
September 30,

| | Net Income | 2008 Weighted Average Shares | Amount Per Share | Net Loss | 2007 Weighted Average Shares | Amount Per Share |
|---|---------------|---------------------------------------|---------------------|--------------|---------------------------------------|---------------------|
| Basic Income (Loss) Per Share | | | | | | |
| Income (loss) available to common shareholders | \$ 368,049 | 2,893,087 | \$ 0.13 | \$ (133,839) | 2,943,403 | \$ (0.05) |

Effect of Dilutive
Securities

Warrants/Stock Options
outstanding Restricted
Stock

| | | | | | |
|---|--------|---|---|---|---|
| - | 16,506 | - | - | - | - |
|---|--------|---|---|---|---|

Diluted Income (Loss) Per
Share

Income (loss) available
to common

shareholders plus

| | | | | | | |
|---------------------|------------|-----------|---------|--------------|-----------|-----------|
| assumed conversions | \$ 368,049 | 2,909,593 | \$ 0.13 | \$ (133,839) | 2,943,403 | \$ (0.05) |
|---------------------|------------|-----------|---------|--------------|-----------|-----------|

Note 9. Other Comprehensive Income

Other comprehensive income, which is comprised solely of the change in unrealized gains (losses) on available for sale securities, is as follows:

| | Nine Months Ended September 30, 2008 | | |
|---|---|-------|----------------------|
| | Before-Tax Amount | Taxes | Net-of-Tax Amount |
| Unrealized holding losses arising during the period | \$ (3,833) | \$ - | \$ (3,833) |
| Reclassification adjustment for amounts recognized in net income | - | - | - |
| Unrealized holding losses on available for sale securities | \$ (3,833) | \$ - | \$ (3,833) |

| | Nine Months Ended September 30, 2007 | | |
|---|---|-------|----------------------|
| | Before-Tax Amount | Taxes | Net-of-Tax Amount |
| Unrealized holding gains arising during the period | \$ 140,586 | \$ - | \$ 140,586 |
| Reclassification adjustment for amounts recognized in net loss | - | - | - |
| Unrealized holding gains on available for sale securities | \$ 140,586 | \$ - | \$ 140,586 |

There is no tax effect relating to other comprehensive income because there is a full valuation allowance recorded against the deferred tax asset.

Note 10. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis. The Company controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

Financial instruments whose contract amounts represent credit risk are as follows at September 30, 2008 and December 31, 2007:

| | September 30, 2008 | December 31, 2007 |
|-------------------------------------|--------------------------|-------------------------|
| Commitments to extend credit | | |
| Future loan commitments | \$ 17,026,000 | \$ 4,348,250 |
| Unused lines of credit | 21,506,607 | 27,961,313 |
| Undisbursed construction loans | 387,000 | 663,931 |
| Financial standby letters of credit | 3,570,308 | 4,225,778 |
| | \$ 42,489,915 | \$ 37,199,272 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based upon management's credit evaluation of the counterparty. Collateral held varies, but may include residential and commercial property, deposits and securities.

Standby letters of credit are written commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The liability related to guarantees recorded at September 30, 2008 and December 31, 2007 was not significant.

Note 11. Fair Value

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis such as loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

Under SFAS 157, the Company groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets recorded at fair value.

Investment Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent loans are recorded to reflect partial write-downs based on the observable market price or current appraised value of collateral.

Other Assets Held for Sale

Other assets are adjusted to fair value upon transfer of the assets from other assets in use to other assets held for sale. Subsequently, these assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management

determines the fair

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value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

The balances of assets measured at fair value on a recurring basis as of September 30, 2008 were as follows:

| | Total | Significant Observable Inputs (Level 2) |
|-------------------------------|--------------|--|
| Securities available for sale | \$ 5,057,919 | \$ 5,057,919 |

The balances of assets measured at fair value on a nonrecurring basis as of September 30, 2008 were as follows:

| | Total | Significant Unobservable Inputs (Level 3) | Total Gains |
|--------------------|------------|--|-------------|
| Impaired Loans (1) | \$ 683,618 | \$ 683,618 | \$ 76,562 |

(1) Represents carrying value and related write-downs for which adjustments are based on the appraised value of the collateral.

| | Total | Significant Unobservable Inputs (Level 3) |
|--------------------------------|------------|--|
| Other Assets Held for Sale (2) | \$ 414,920 | \$ 414,920 |

(2) Represents carrying value for which adjustments are based on an offer to purchase the property.

The Company will apply the fair value measurement and disclosure provisions of SFAS No. 157 effective January 1, 2009 to nonfinancial assets and liabilities measured on a nonrecurring basis. The Company measures the fair value of the following on a nonrecurring basis: (1) long-lived assets, (2) foreclosed assets and (3) indefinite lived assets.

Note 12. Business Combination

On August 1, 2008, the Company's wholly owned subsidiary, SCB Capital, Inc. purchased assets of Evergreen Financial LLC for \$180,000. Based upon terms of the asset sale, a cash payment of \$80,000 was made on August 1, 2008 and the balance of \$100,000 was recorded as a liability by SCB Capital, Inc. The remaining balance due for the assets purchased by SCB Capital, Inc. will be satisfied with payments of \$50,000 on August 1, 2009 and \$50,000 on August 1, 2010. The Company incurred legal fees and assumed the liability for certain employee benefits totaling \$65,790 relating to the transaction.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of completing its valuations of certain intangible assets, thus, the allocation of the purchase price is subject to adjustment.

| | |
|---------------------------|-------------------|
| Assets: | August 1, 2008 |
| Furniture and equipment | \$ 7,350 |
| Intangible assets | 5,000 |
| Goodwill | 233,440 |
| Total assets acquired | 245,790 |
| Liabilities: | |
| Liabilities assumed | 15,696 |
| Total liabilities assumed | 15,696 |
| Net assets acquired | \$ 230,094 |

Note 13. Segment Reporting

The Company has three reporting segments for purposes of reporting business line results, Community Banking, Mortgage Brokerage and the Holding Company. The Community Banking segment is defined as all operating results of the Bank. The Mortgage Brokerage segment is defined as the results of SCB Capital, Inc. and the Holding Company segment is defined as the results of Southern Connecticut Bancorp. on an unconsolidated or standalone basis. Prior to August 1, 2008, the Company did not have mortgage brokerage operations, and the Holding Company's activities were solely related to the Bank's operations. Therefore, prior to the period ended September 30, 2008, the Company had only one operating segment, Community Banking. Because SCB Capital, Inc. is a subsidiary new to Mortgage Brokerage operations, methodologies and organizational hierarchies are newly developed and will be subject to periodic review and revision. The following represents the operating results and total assets for the segments of the Company as of and for the three months and nine months ended September 30, 2008. The Company uses an internal reporting system to generate information by operating segment. Estimates and allocations are used for noninterest expenses.

| | Three Months Ended September 30, 2008 | | | | |
|---------------------------------------|---------------------------------------|-----------------------|--------------------|-------------------------|-----------------------|
| | Community Banking | Mortgage Brokerage | Holding Company | Eliminations Entries | Consolidated Total |
| Net interest income | \$ 1,119,825 | \$ - | \$ 9,863 | \$ - | \$ 1,129,688 |
| Provision for loan losses | 39,661 | - | - | - | 39,661 |
| Net interest income after provision | 1,080,164 | - | 9,863 | - | 1,090,027 |
| Noninterest Income | 193,045 | - | 445 | - | 193,490 |
| Noninterest expense | 1,289,628 | 45,922 | (10,411) | - | 1,325,139 |
| Net income (loss) | \$ (16,419) | \$ (45,922) | \$ 20,719 | \$ - | \$ (41,622) |
| Total assets as of September 30, 2008 | \$ 115,996,608 | \$ 266,996 | \$ 19,143,624 | \$ (17,550,155) | \$ 117,857,073 |
| | Nine Months Ended September 30, 2008 | | | | |
| | Community Banking | Mortgage Brokerage | Holding Company | Eliminations Entries | Consolidated Total |
| Net interest income | \$ 3,523,220 | \$ - | \$ 49,377 | \$ - | \$ 3,572,597 |
| Provision for loan losses | (64,082) | - | - | - | (64,082) |
| Net interest income after provision | 3,587,302 | - | 49,377 | - | 3,636,679 |
| Noninterest Income | 1,450,626 | - | 2,974 | - | 1,453,600 |
| Noninterest expense | 4,561,141 | 47,740 | 113,349 | - | 4,722,230 |
| Net income (loss) | \$ 476,787 | \$ (47,740) | \$ (60,998) | \$ - | \$ 368,049 |
| Total assets as of September 30, 2008 | \$ 115,996,608 | \$ 266,996 | \$ 19,143,624 | \$ (17,550,155) | \$ 117,857,073 |

Note 14. Commitments and Contingencies

The Company and the Bank of Southern Connecticut (“Bank”), are being sued by former Senior Vice President and Chief Marketing Officer, Robert Mantilia for age discrimination and breach of contract in connection with Mr. Mantilia’s layoff as part of a reduction in staff announced by the Bank in July 2008. Mr. Mantilia notified the Bank of his claim, filed with the United States District Court, District of Connecticut in New Haven, Connecticut, on September 29, 2008. The only parties to the dispute are Company, the Bank and Mr. Mantilia. Mr. Mantilia is seeking unspecified damages. The matter is currently pending. We believe that Mr. Mantilia’s claims are without merit and intend to defend this case vigorously.

Note 15. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, Fair Value Measurements (Statement 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement 157 also establishes fair value hierarchy about the assumptions used to measure fair value and clarifies the assumptions about risk and the effect of a restriction on the sale or use of an asset. On February 12, 2008, the FASB issued Staff Position 157-2 which defers the effective date of Statement 157 for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. All other provisions of Statement 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

The Company adopted the provisions of Statement 157 for the quarter ended March 31, 2008 except for those nonfinancial assets and liabilities subject to deferral as a result of Staff Position 157-2. There was no impact on the consolidated financial statements of the Company as a result of the adoption of Statement 157.

In October 2008 the FASB issued Staff Position No. FAS 157-3, Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active (“FSP 157-3”) which was effective upon issuance including prior periods for which financial statements have not been issued.

FSP 157-3 applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with Statement 157 and clarifies the application of Statement 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The Company adopted FSP 157-3 for its September 30, 2008 financial statements, and the adoption had no impact on the financial statements.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 155 (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159 was effective for the Company in the 2008 first quarter. The Company did not elect to report any additional assets or liabilities at fair value other than those that were already being reported at fair value.

Item 2. Management's Discussion and Analysis of Financial Condition
And Results of Operations

The following discussion and analysis is intended to assist you in understanding the financial condition and results of operations of the Company. This discussion should be read in conjunction with the accompanying unaudited financial statements as of and for the three months and nine months ended September 30, 2008 and 2007, along with the audited financial statements as of and for the year ended December 31, 2007, included in the Company's Form 10-KSB filed with the Securities and Exchange Commission on March 27, 2008.

Summary

As of September 30, 2008, the Company had \$117.9 million of total assets, \$88.2 million of gross loans receivable, and \$95.5 million of total deposits. Total equity capital at September 30, 2008 was \$19.1 million, and the Company's Tier I Leverage Capital Ratio was 17.29%. The decrease in premises and equipment and deposits from December 31, 2007 is primarily attributable to the sale of the Bank's branch in New London, Connecticut. This transaction was completed on February 29, 2008. Gross loans receivable grew \$1.2 million from year-end 2007, offsetting a decrease of \$7.2 million in gross loans transferred with the sale of the Bank's branch in New London, Connecticut. This transaction was completed on February 29, 2008. Net interest margin for the three months and nine months ended September 30, 2008 was 4.42% and 4.50%, as compared to 4.98% and 4.90% for the three months and nine months ended September 30, 2007. During the nine months ended September 30, 2008, the Federal Open Market Committee ("FOMC") reduced short term interest rates by 2.25%, from 7.25% to 5.00%. The Company maintains a large investment in short term investments, including Federal Funds sold and money market investments. The return on these investments decreased significantly during the nine months ended September 30, 2008, further reducing the Company's Interest Rate Spread and Net Interest Margin.

The Company had a net loss of \$41,622 (or basic and diluted loss per share of \$0.01) for the three months ended September 30, 2008, compared to a net loss of \$142,745 (or basic and diluted loss per share of \$0.05) for the three months ended September 30, 2007. The Company had net income of \$368,049 (or basic and diluted income per share of \$.13) for the nine months ended September 30, 2008, compared to net loss of \$133,839 (or basic and diluted loss per share of \$0.05) for the nine months ended September 30, 2007. The provision (credit) for loan losses for the three months and nine months ended September 30, 2008 was \$39,661 and \$(64,082), respectively, as compared to \$319,218 and \$446,462 for the same periods in 2007. The Company's operating results for the nine months ended September 30, 2008 were significantly impacted by the recognition of the gain on sale of the Bank's branch office located in New London, Connecticut, and by expenses related to the severance payment made to the former Chief Executive Officer and President of the Company and the Bank.

On August 1, 2008, the Company's wholly owned subsidiary, SCB Capital, Inc., operating under the name "Evergreen Financial," began offering mortgage brokerage services. As of September 30, 2008, the Company had a net loss of \$47,740 relating to start up expenses for its mortgage brokerage operations. Management anticipates that SCB Capital, Inc. will begin contributing to the overall profitability of the Company during the first quarter of 2009.

Evergreen will focus on meeting the mortgage brokerage needs of residential and small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Southern Connecticut market.

On July 18, 2008, the Company announced an initiative aimed at reducing the expense structure of the Company through realignment of responsibilities, the elimination of several positions, and the consolidation of its operating division, The Bank of North Haven, into The Bank of Southern Connecticut.

In November of 2007, the Company's Board of Directors approved the adoption of a Stock Repurchase Program of up to 147,186 shares of its common stock representing 5% of its outstanding common stock. The Company completed this stock repurchase program by the middle of July 2008.

On July 15, 2008, the Company's Board of Directors approved the adoption of an additional Stock Repurchase Program of up to 141,126 shares representing 5% of the outstanding shares of the Company's common stock. As of September 30, 2008 the Company had purchased 105,000 shares of its common stock relating to its Stock Repurchase Program. The remaining shares available under this Stock Repurchase Program will be repurchased on the open market from time to time as, in the opinion of management, market conditions warrant and subject to applicable laws, rules and regulations.

Critical Accounting Policy

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to reporting results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes the following discussion addresses the Company's only critical accounting policy, which is the policy that is most important to the portrayal of the Company's financial condition and results, and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company has reviewed this critical accounting policy and estimate with its audit committee. Refer to the discussion below under "Allowance for Loan Losses" and Note 1 to the audited financial statements as of and for the year ended December 31, 2007, included in the Company's Form 10-KSB filed with the Securities and Exchange Commission on March 27, 2008.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loans are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of general and specific components. The general component of the allowance for loan losses is accounted for under Statement of Financial Accounting Standards No. 5, Accounting for Contingencies. The specific component relates to loans that are considered impaired pursuant to Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan – an amendment of FASB Statements No. 5 and 15.

Based upon this evaluation, management believes the allowance for loan losses of \$1,049,226 or 1.19% of gross loans receivable at September 30, 2008 is adequate, under prevailing economic conditions, to absorb

losses on existing loans. At December 31, 2007, the allowance for loan losses was \$1,256,965 or 1.44% of gross loans receivable.

The Bank's provision (credit) for loan losses was \$39,661 and \$(64,082) for the three months and nine months ended September 30, 2008, respectively, as compared to a provision for loan losses of \$319,218 and \$446,462 for the same periods in 2007. The change is primarily attributable to the write-off of several loans, the favorable reclassification of an impaired loan and a net increase in loans receivable.

The accrual of interest income on loans is discontinued whenever reasonable doubt exists as to collectibility and generally is discontinued when loans are past due 90 days as to either principal or interest, or are otherwise considered impaired. When the accrual of interest income is discontinued, all previously accrued and uncollected interest is reversed against interest income. The accrual of interest on loans past due 90 days or more may be continued if the loan is well secured, it is believed all principal and accrued interest income due on the loan will be realized, and the loan is in the process of collection. A non-accrual loan is restored to an accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt.

Management considers all non-accrual loans, other loans past due 90 days or more based on contractual terms, and restructured loans to be impaired. Loans for which payments are past due, but not more than 90 days past due, are not considered to be impaired unless management determines that full collection of principal and interest is doubtful.

Recent Accounting Changes

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity operates. This statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value.

The Company adopted the provisions of Statement 157 for the quarter ended March 31, 2008 except for those nonfinancial assets and liabilities subject to deferral as a result of Staff Position 157-2. The impact on the consolidated financial statements of the Company as a result of the adoption of this Statement was not material.

Comparison of Financial Condition as of September 30, 2008 versus December 31, 2007

General

The Company's total assets were \$117.9 million at September 30, 2008, a decrease of \$12.7 million (9.7%) from \$130.6 million in assets as of December 31, 2007. Net loans receivable increased to \$87.2 million from \$86.0 million, and total deposits decreased to \$95.5 million from \$107.4 million during the same period.

Investments

Available for sale securities totaled \$5.1 million as of September 30, 2008, a decrease of \$.2 million from a balance of \$5.3 million as of December 31, 2007. The available for sale securities portfolio is invested in U.S. government sponsored agency obligations and sponsored agency issued mortgage backed securities.

As of September 30, 2008, gross unrealized losses on the available for sale securities portfolio totaled \$43,527. Management believes that none of the unrealized losses on available for sale securities are other than temporary because all of the unrealized losses in the Company's investment portfolio are due to market interest rate changes related to obligations and mortgage-backed securities issued by U.S. Government sponsored agencies, which the Company has the ability to hold until maturity or until the fair value fully recovers. In

addition, management considers the issuers of the securities to be financially sound and further believes that the Company will receive all contractual principal and interest related to these investments. Management regularly reviews the investment portfolio with respect to the appropriateness of the investments. This includes the consideration of profitability, quality of the investment, interest rate risk and liquidity, as well as other considerations. While management feels the current portfolio is appropriate, in the future, as the Company's needs change, the Company may make changes to its investment portfolio.

Loans

Net loans receivable increased \$1.2 million (1.4%) from \$86.0 million at December 31, 2007 to \$87.2 million at September 30, 2008. During the nine months ended September 30, 2008, the Bank sold \$7.2 million of loans in connection with the sale of its New London branch. Also during the first quarter of 2008, the Bank realigned the management of its lending department and appointed a new Chief Lending Officer. In addition, further changes were made to improve the Bank's credit underwriting process and credit review process. These changes are expected to improve the Bank's loan production capability. The Bank currently has a large number of loans pending closing; if these loans are closed, the ratio of loans receivable to deposits is expected to continue to increase.

Allowance for Loan Losses and Non-Accrual, Past Due and Restructured Loans

Allowance for Loan Losses

The following represents the activity in the allowance for loan losses for the nine months ended September 30, 2008 and 2007:

| | For the Nine Months Ended September 30, | |
|--|--|--------------|
| | 2008 | 2007 |
| Balance at beginning of period | \$ 1,256,965 | \$ 1,062,661 |
| Charge-offs | (180,413) | (356,149) |
| Recoveries | 36,756 | 11,897 |
| (Credit) provision charged to operations | (64,082) | 446,462 |
| Balance at end of period | \$ 1,049,226 | \$ 1,164,871 |

Non-Accrual, Past Due and Restructured Loans

| | September 30, 2008 | December 31, 2007 |
|---|-----------------------|----------------------|
| Non-accrual loans | \$ 879,073 | \$ 530,246 |
| Accruing loans contractually past due 90 days or more | | |
| Loans past due 90 days or more and still accruing | \$ 738,541 | \$ 726,036 |
| Matured loans pending renewal and still accruing (1) | 3,353,915 | - |
| Total | \$ 4,092,456 | \$ 726,036 |

(1) In November 2007, the Company significantly revamped its underwriting procedures, including, among other items,

a revised process for renewing matured loans. The Bank is in the process of completing negotiations of terms for the

matured loans. Each of these loans is making timely payments as to interest since the date of maturity.

Potential Problem Loans

At September 30, 2008, the Bank had a loan totaling \$1.1 million, which was not disclosed in the table above, and was not on non-accrual status, but was deemed to be impaired pursuant to Statement of Financial

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Accounting Standards No. 114. This loan is current with respect to principal and interest. Management of the Company has reviewed the collateral for this loan and considers the current reserves on this loan to be adequate to cover potential losses, if any, related to this relationship.

Deposits

Total deposits were \$95.5 million at September 30, 2008, a decrease of \$11.9 million (11.1%) from \$107.4 million at December 31, 2007. Non-interest bearing deposits were \$24.8 million at September 30, 2008, a decrease of \$3.0 million (10.8%) from \$27.8 million at December 31, 2007. The balance of interest bearing checking accounts can fluctuate as much as 5% to 10% on a daily basis. Total interest bearing checking, money market and savings decreased \$10.4 million, or 21.6%, to \$37.8 million at September 30, 2008, from \$48.2 million at December 31, 2007.

Certificates of deposit increased to \$33.0 million at September 30, 2008 from \$31.5 million at December 31, 2007, a 4.8% increase. The increase in deposits is attributable to the Company's placement of \$1.5 million in customer deposits and purchase of \$3.0 million in brokered certificates of deposit through the CDARS program, offset by a decline in deposits resulting from the sale of the New London branch and seasonal fluctuations in deposit levels of small business customers.

The Bank maintains relationships with several deposit brokers and could continue to utilize the services of one or more of such brokers if management determines that issuing brokered certificates of deposits would be in the best interest of the Bank and the Company.

Other

Repurchase agreement balances totaled \$764,828 at September 30, 2008 as compared to \$544,341 at December 31, 2007. The increase is due to normal customer activity.

Results of Operations – Comparison of Results for the three months and nine months ended September 30, 2008 and September 30, 2007

General

The Company had a net loss of \$41,622 for the three months ended September 30, 2008, compared to a net loss of \$142,745 for the three months ended September 30, 2007. The Company had net income of \$368,049 for the nine months ended September 30, 2008, compared to a net loss of \$133,839 for the nine months ended September 30, 2007. The increase in net income for the nine months ended September 30, 2008 is largely attributable to the gain on sale recognized by the Company in connection with the sale of the Bank's New London branch, offset by expenses related to severance payments made to the former Chief Executive Officer and President of the Company and the Bank.

Net Interest Income

The principal source of revenue for the Company and the Bank is net interest income. The Company's net interest income is dependent primarily upon the difference or spread between the average yield earned on loans receivable and investment securities and the average rate paid on deposits and borrowings, as well as the relative average balances of such assets and liabilities. The Company, like other banking institutions, is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different times, or on a different basis, than its interest-earning assets.

The FOMC reduced short-term interest rates (which resulted in a corresponding reduction in the prime lending rate) from 7.25% at December 31, 2007 to 5.00% at September 30, 2008. Decreases in short-term rates tend to compress the Company's net interest spread and net interest margin. During periods of declining interest rates, the interest expense related to sources of funds is not reduced commensurate with reduction in interest earned on interest earning assets (which are most typically tied to the prime lending rate or other market indices). This situation inherently compresses the spread during periods of declining interest rates.

For the three months ended September 30, 2008, net interest income was \$1,129,688 versus \$1,525,474 for the three months ended September 30, 2007, a decrease of \$395,786 or 26.0%. The decrease is attributable to a decreased net interest spread and net interest margin and the sale of our New London branch. Primarily as a result of the sale of the New London branch, the Company's average total interest earning assets decreased 16.3% for the three months ended September 30, 2008 to \$101.7 million (a decrease of \$19.8 million) from the Company's average total interest earning assets of \$121.6 million for the three months ended September 30, 2007.

For the nine months ended September 30, 2008, net interest income was \$3,572,597 versus \$4,247,257 for the nine months ended September 30, 2007, a decrease of \$674,660 or 15.9%. The decrease is attributable to a decreased net interest spread and net interest margin and the sale of our New London branch. Primarily as a result of the sale of the New London branch, the Company's average total interest earning assets decreased 8.5% for the nine months ended September 30, 2008 to \$106.0 million (a decrease of \$9.8 million) from the Company's average total interest earning assets of \$115.8 million for the nine months ended September 30, 2007.

The yield on average earning assets for the three months ended September 30, 2008 was 6.40% versus 7.86% for the same period in 2007, a decrease of 146 basis points. The decrease in the yield on assets reflects the decreases in market interest rates that occurred throughout 2007 and 2008, particularly in the prime lending rate and the Bank's base lending rate.

The cost of average interest bearing liabilities was 3.08% for the three months ended September 30, 2008 versus 4.29% for the three months ended September 30, 2007, a decrease of 121 basis points. The decrease in the cost of average interest bearing liabilities during the third quarter, is primarily attributable to the general decreases in market interest rates and to a lesser extent, to a decrease in the volume of average interest bearing liabilities.

The yield on average earning assets for the nine months ended September 30, 2008 was 6.66% versus 7.83% for the same period in 2007, a decrease of 117 basis points. The decrease in the yield on assets reflects the decreases in market interest rates that occurred throughout 2007 and 2008, particularly in the prime lending rate and the Bank's base lending rate.

The cost of average interest bearing liabilities was 3.35% for the nine months ended September 30, 2008 versus 4.31% for the nine months ended September 30, 2007, a decrease of 96 basis points. The decrease in the cost of average interest bearing liabilities during the nine months ended September 30, 2008, is primarily attributable to the general decreases in market interest rates and to a lesser extent, to a decrease in the volume of average interest bearing liabilities.

Primarily because of the overall market reduction in interest rates, the Company's net interest margin and net interest spread have decreased for the three months and nine months ended September 30, 2008 versus the same periods in 2007. The decreases in interest earning assets and interest bearing liability volumes also impacted net interest margin, but to a lesser extent than the rate decreases.

The Company's net interest margin was 4.42% for the three months ended September 30, 2008, a decrease of 56 basis points versus 4.98% for the three months ended September 30, 2007. At the same time, the Company's interest spread decreased 25 basis points from 3.57% to 3.32%.

The Company's net interest margin was 4.50% for the nine months ended September 30, 2008, a decrease of 40 basis points versus 4.90% for the nine months ended September 30, 2007. At the same time, the Company's interest spread decreased 21 basis points from 3.52% to 3.31%.

Average Balances, Yields, and Rates

The following table presents average balance sheets (daily averages), interest income, interest expense, and the corresponding annualized rates on earning assets and rates paid on interest bearing liabilities for the three months ended September 30, 2008 and 2007.

Distribution of Assets, Liabilities and Shareholders' Equity;
Interest Rates and Interest Differential

| (Dollars in thousands) | Three months Ended September 30, 2008 | | | Three months Ended September 30, 2007 | | | Fluctuations in interest Income/Expense |
|---|--|--------------------------------|-----------------|--|--------------------------------|-----------------|--|
| | Average Balance | Interest Income/ Expense | Average Rate | Average Balance | Interest Income/ Expense | Average Rate | |
| Interest earning assets | | | | | | | |
| Loans (1) | \$ 82,457 | \$ 1,496 | 7.22% | \$ 88,500 | \$ 2,005 | 8.99% | \$ (509) |
| Short-term investments | 8,371 | 48 | 2.28% | 7,616 | 98 | 5.11% | (50) |
| Investments | 5,141 | 60 | 4.64% | 7,188 | 65 | 3.59% | (5) |
| Federal funds sold | 5,780 | 32 | 2.20% | 18,290 | 241 | 5.23% | (209) |
| Total interest earning assets | 101,749 | 1,636 | 6.40% | 121,594 | 2,409 | 7.86% | (773) |
| Cash and due from banks | 4,259 | | | 4,680 | | | |
| Premises and equipment, net | 2,854 | | | 4,228 | | | |
| Allowance for loan losses | (1,154) | | | (1,171) | | | |
| Other | 2,050 | | | 1,599 | | | |
| Total assets | \$ 109,758 | | | \$ 130,930 | | | |
| Interest bearing liabilities | | | | | | | |
| Time certificates | \$ 29,047 | 293 | 4.01% | \$ 31,492 | 402 | 5.06% | (109) |
| Savings deposits | 1,339 | 4 | 1.19% | 1,955 | 7 | 1.42% | (3) |
| Money market / checking deposits | 33,005 | 162 | 1.95% | 46,431 | 429 | 3.67% | (267) |
| Capital lease obligations | 1,183 | 44 | 14.80% | 1,188 | 44 | 14.69% | - |
| Repurchase agreements | 698 | 3 | 1.71% | 592 | 2 | 1.34% | 1 |
| Total interest bearing liabilities | 65,272 | 506 | 3.08% | 81,658 | 884 | 4.29% | (378) |
| Non-interest bearing deposits | 24,057 | | | 27,965 | | | |
| Accrued expenses and | | | | | | | |

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| | | | |
|------------------------------|------------|------------|----------|
| other liabilities | 1,149 | 748 | |
| Shareholder's equity | 19,280 | 20,559 | |
| Total liabilities and equity | \$ 109,758 | \$ 130,930 | |
| Net interest income | \$ 1,130 | \$ 1,525 | \$ (395) |
| Interest spread | | 3.32% | 3.57% |
| Interest margin | | 4.42% | 4.98% |

(1) Includes nonaccruing loans.

Changes in Assets and Liabilities and Fluctuations in Interest Rates

The following table summarizes the variance in interest income and interest expense for the three months ended September 30, 2008 and 2007 resulting from changes in assets and liabilities and fluctuations in interest rates earned and paid. The changes in interest attributable to both rate and volume have been allocated to both rate and volume on a pro rata basis.

| (Dollars in thousands) | Three months Ended September 30, 2008 vs 2007 | | |
|------------------------------------|--|---------------------------------------|----------|
| | Increase Or (Decrease) | Due to Change in Average Volume | Rate |
| Interest earning assets | | | |
| Loans | \$ (509) | \$ (135) | \$ (374) |
| Short-term investments | (50) | 10 | (60) |
| Investments | (5) | (18) | 13 |
| Federal funds sold | (209) | (114) | (95) |
| Total interest earning assets | (773) | (257) | (516) |
| Interest bearing liabilities | | | |
| Time certificates | (109) | (31) | (78) |
| Savings deposits | (3) | (2) | (1) |
| Money market / checking deposits | (267) | (102) | (165) |
| Capital lease obligations | - | - | - |
| Repurchase agreements | 1 | - | 1 |
| Total interest bearing liabilities | (378) | (135) | (243) |
| Net interest income | \$ (395) | \$ (122) | \$ (273) |

Average Balances, Yields, and Rates

The following table presents average balance sheets (daily averages), interest income, interest expense, and the corresponding annualized rates on earning assets and rates paid on interest bearing liabilities for the nine months ended September 30, 2008 and 2007.

Distribution of Assets, Liabilities and Shareholders' Equity;
Interest Rates and Interest differential

| (Dollars in thousands) | Nine Months Ended September 30, 2008 | | | Nine Months Ended September 30, 2007 | | | Fluctuations in interest Income/Expense |
|--------------------------------------|---|--------------------------------|-----------------|---|--------------------------------|-----------------|---|
| | Average Balance | Interest Income/ Expense | Average Rate | Average Balance | Interest Income/ Expense | Average Rate | |
| Interest earning assets | | | | | | | |
| Loans (1) | \$ 82,651 | \$ 4,770 | 7.71% | \$ 82,485 | \$ 5,575 | 9.04% | \$ (805) |
| Short-term investments | 8,358 | 179 | 2.86% | 7,221 | 279 | 5.17% | (100) |
| Investments | 5,024 | 136 | 3.62% | 7,410 | 196 | 3.54% | (60) |
| Federal funds sold | 10,009 | 204 | 2.72% | 18,715 | 732 | 5.23% | (528) |
| Total interest earning assets | 106,042 | 5,289 | 6.66% | 115,831 | 6,782 | 7.83% | (1,493) |
| Cash and due from banks | | | | | | | |
| | 4,452 | | | 5,570 | | | |
| Premises and equipment, net | | | | | | | |
| | 3,032 | | | 4,316 | | | |
| Allowance for loan losses | | | | | | | |
| | (1,237) | | | (1,123) | | | |
| Other | | | | | | | |
| | 1,908 | | | 1,536 | | | |
| Total assets | \$ 114,197 | | | \$ 126,130 | | | |
| Interest bearing liabilities | | | | | | | |
| Time certificates | \$ 28,934 | 951 | 4.39% | \$ 30,809 | 1,160 | 5.03% | (209) |
| Savings deposits | 1,595 | 17 | 1.42% | 1,949 | 19 | 1.30% | (2) |
| Money market / checking deposits | 36,202 | 609 | 2.25% | 44,167 | 1,217 | 3.68% | (608) |
| Capital lease obligations | 1,184 | 132 | 14.89% | 1,188 | 132 | 14.86% | - |
| Repurchase agreements | 603 | 7 | 1.55% | 606 | 7 | 1.54% | - |
| Total interest bearing liabilities | 68,518 | 1,716 | 3.35% | 78,719 | 2,535 | 4.31% | (819) |
| Non-interest bearing deposits | | | | | | | |
| | 24,528 | | | 26,256 | | | |

| | | | |
|--|------------|------------|----------|
| Accrued expenses and other liabilities | 1,309 | 681 | |
| Shareholder's equity | 19,842 | 20,474 | |
| Total liabilities and equity | \$ 114,197 | \$ 126,130 | |
| Net interest income | \$ 3,573 | \$ 4,247 | \$ (674) |
| Interest spread | 3.31% | 3.52% | |
| Interest margin | 4.50% | 4.90% | |

(1) Includes nonaccruing loans.

Changes in Assets and Liabilities and Fluctuations in Interest Rates

The following table summarizes the variance in interest income and interest expense for the nine months ended September 30, 2008 and 2007 resulting from changes in assets and liabilities and fluctuations in interest rates earned and paid. The changes in interest attributable to both rate and volume have been allocated to both rate and volume on a pro rata basis.

| (Dollars in thousands) | Nine months Ended September 30, 2008 v. 2007 | | |
|-------------------------------------|---|--------|-------------------------------------|
| | Increase Or (Decrease) | Volume | Due to Change in Average Rate |
| Interest earning assets | | | |
| Loans | \$ (805) | \$ 11 | \$ (816) |
| Short-term investments | (100) | 39 | (139) |
| Investments | (60) | (62) | 2 |
| Federal funds sold | (528) | (259) | (269) |
| Total interest earning assets | (1,493) | (271) | (1,222) |
| Interest bearing liabilities | | | |
| Time certificates | (209) | (67) | (142) |
| Savings deposits | (2) | (4) | 2 |
| Money market / checking deposits | (608) | (192) | (416) |
| Capital lease obligations | - | (1) | 1 |
| Repurchase agreements | - | - | - |
| Total interest bearing liabilities | (819) | (264) | (555) |
| Net interest income | \$ (674) | \$ (7) | \$ (667) |

Provision (Credit) for Loan Losses

The Company's provision (credit) for loan losses was \$39,661 and \$(64,082) for the three months and nine months ended September 30, 2008, respectively, as compared to a provision to loan losses of \$319,218 and \$446,462 for the same periods in 2007. The change is primarily attributable to the write-off of several loans, the favorable reclassification of an impaired loan and a net increase in loans receivable

Noninterest Income

Noninterest income was \$193,490 for the three months ended September 30, 2008 versus \$225,882 for the three months ended September 30, 2007. The \$32,292 decrease is due to gains of \$50,669 on the sale of the New London branch (the second and final additional premium due on certain deposits identified in the sales agreement), a decrease in other income of \$48,464, and a decrease in service charges and fees of \$34,597.

Total noninterest income was \$1,453,600 for the nine months ended September 30, 2008 versus \$746,560 for the same period in 2007. Noninterest income in 2008 included \$874,912 from a gain on sale of the Bank's New London branch. Service charges and fees decreased \$49,490 due to changes in business practices of customers of the Bank. Gains on sales of SBA loans decreased \$45,286 during 2008. Other non-interest income decreased from \$248,824 in 2007 to \$175,728 in 2008 principally due to decreases in rental income (\$17,399) and SBA loan servicing income (\$54,688).

Noninterest Expense

Total noninterest expense was \$1,325,139 for the three months ended September 30, 2008 versus \$1,574,883 for the same period in 2007, a decrease of \$249,774 or 15.9%.

Salaries and benefits expense for the three months ended September 30, 2008 was \$835,386 versus \$774,720 for the same period in 2007. The increase in salaries and benefits expense is primarily due to the addition of SCB Capital Inc. employees and increased accruals for employee related benefits and bonuses. Occupancy and equipment expense for the third quarter of 2008 decreased by \$30,479 or 15.1%. The decrease in occupancy and equipment expense is attributable to the elimination of expenses related to the operation of the New London branch. Professional services expense decreased to \$5,927 from \$267,845 for the quarter ended September 30, 2008 versus 2007, the result of lower professional services fees related to implementation of the Sarbanes Oxley Act in 2007 and lower legal costs and legal expenses associated with new business initiatives. FDIC insurance expense decreased from \$30,625 to \$16,115 due to a decline in deposit balances and a lower assessment rate due to an improved FDIC rating.

Total noninterest expense was \$4,722,230 for the nine months ended September 30, 2008 versus \$4,681,194 for the same period in 2007, an increase of \$41,036 or .9%.

Salaries and benefits expense for the nine months ended September 30, 2008 was \$2,957,384 versus \$2,600,138 for the same period in 2007. Salaries and benefits expense increased \$357,246 in 2008 primarily due to expenses related to the severance of the former Chief Executive Officer and President, addition of SCB Capital, Inc. employees and accrual and payment of employee related benefits and performance bonuses. Occupancy and equipment expense for the nine months ended September 30, 2008 decreased by \$106,062 or 16.7%. The decrease is primarily attributable to the elimination of expenses related to the operation of the New London branch. FDIC insurance expense decreased by \$34,619 from \$94,097 to \$59,478 due to a decline in deposit balances and a lower assessment rate due to an improved FDIC rating.

Off-Balance Sheet Arrangements

See Note 10 to the Financial Statements for information regarding the Company's off-balance sheet arrangements.

Liquidity

Management believes that the Company's short-term assets offer sufficient liquidity to cover potential fluctuations in deposit accounts and loan demand and to meet other anticipated operating cash requirements.

The Company's liquidity position as of September 30, 2008 and December 31, 2007 consisted of liquid assets totaling \$25.5 million and \$38.6 million, respectively. This represents 21.6% and 29.6% of total assets at September 30, 2008 and December 31, 2007, respectively. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying balance sheet are considered liquid assets: cash and due from banks, federal funds sold, short-term investments, and securities available for sale. Liquidity is a measure of the Company's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposits and increases in its loan portfolio.

In addition to the foregoing sources of liquidity, the Bank maintains a relationship with the Federal Home Loan Bank of Boston and has the ability to pledge certain of the Bank's assets as collateral for borrowings from that institution. In addition, the Bank maintains relationships with several brokers of

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certificates of deposits and could utilize the services of these brokers if the Bank needed additional liquidity to meet its needs.

Bancorp's actual capital amounts and ratios at September 30, 2008 and December 31, 2007 were (dollars in thousands):

| September 30, 2008 | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|-----------|--------|-------------------------------|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total Capital to Risk-Weighted Assets | \$ 19,984 | 17.96% | \$ 8,902 | 8.00% | N/A | N/A |
| Tier 1 Capital to Risk-Weighted Assets | 18,935 | 17.02% | 4,450 | 4.00% | N/A | N/A |
| Tier 1 (Leverage) Capital to Average Assets | 18,935 | 17.29% | 4,380 | 4.00% | N/A | N/A |

| December 31, 2007 | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|-----------|--------|-------------------------------|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total Capital to Risk-Weighted Assets | \$ 21,677 | 22.96% | \$ 7,554 | 8.00% | N/A | N/A |
| Tier 1 Capital to Risk-Weighted Assets | 20,582 | 21.80% | 3,776 | 4.00% | N/A | N/A |
| Tier 1 (Leverage) Capital to Average Assets | 20,582 | 17.56% | 4,689 | 4.00% | N/A | N/A |

The Bank's actual capital amounts and ratios at September 30, 2007 and December 31, 2007 were (dollars in thousands):

| September 30, 2008 | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|-----------|--------|-------------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total Capital to Risk-Weighted Assets | \$ 18,322 | 16.75% | \$ 8,752 | 8.00% | \$ 5,470 | 5.00% |
| Tier 1 Capital to Risk-Weighted Assets | 17,273 | 15.79% | 4,376 | 4.00% | 6,564 | 6.00% |
| Tier 1 (Leverage) Capital to Average Assets | 17,273 | 16.04% | 4,308 | 4.00% | 10,771 | 10.00% |

| December 31, 2007 | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|-------------------|--------|-------|-------------------------------|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |

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| | | | | | | | | | |
|---|----|--------|--------|----|-------|-------|----|-------|--------|
| Total Capital to Risk-Weighted Assets | \$ | 18,044 | 19.72% | \$ | 7,320 | 8.00% | \$ | 9,151 | 10.00% |
| Tier 1 Capital to Risk-Weighted Assets | | 16,949 | 18.52% | | 3,661 | 4.00% | | 5,490 | 6.00% |
| Tier 1 (Leverage) Capital to Average Assets | | 16,949 | 14.82% | | 4,574 | 4.00% | | 5,718 | 5.00% |

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. Based on the above ratios, the Company is considered to be “well capitalized” under applicable regulations specified by the Federal Reserve. The Bank also is considered to be “well capitalized” under applicable regulations. To be considered “well capitalized” an institution must generally have a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%.

Market Risk

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. Based upon the nature of the Company's business, market risk is primarily limited to interest rate risk, defined as the impact of changing interest rates on current and future earnings.

The Company's goal is to maximize long-term profitability, while minimizing its exposure to interest rate fluctuations. The first priority is to structure and price the Company's assets and liabilities to maintain an acceptable interest rate spread, while reducing the net effect of changes in interest rates. In order to reach an acceptable interest rate spread, the Company must generate loans and seek acceptable investments to replace the lower yielding balances in Federal Funds sold and short-term investments. The focus also must be on maintaining a proper balance between the timing and volume of assets and liabilities re-pricing within the balance sheet. One method of achieving this balance is to originate variable rate loans for the portfolio to offset the short-term re-pricing of the liabilities. In fact, a number of the interest bearing deposit products have no contractual maturity. Customers may withdraw funds from their accounts at any time and deposit balances may therefore run off unexpectedly due to changing market conditions.

The exposure to interest rate risk is monitored by senior management of the Bank and is reported quarterly to the Board of Directors of the Bank and the Company. Management reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk.

Impact of Inflation and Changing Prices

The Company's financial statements have been prepared in terms of historical dollars, without considering changes in relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effect of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. Notwithstanding this fact, inflation can directly affect the value of loan collateral, in particular, real estate. Inflation, or disinflation, could significantly affect the Company's earnings in future periods.

"Safe Harbor" Statement Under Private Securities Litigation Reform Act of 1995

Some of the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this Report on Form 10-Q may include forward-looking statements which reflect our current views with respect to future events and financial performance. Statements which include the words "expect," "intend," "plan," "believe," "project," "anticipate" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements or that could adversely affect the holders of our common stock. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on the Company's interest earning assets and the interest paid on its interest bearing liabilities, (2) the timing of re-pricing of the Company's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the effect of changes in regulations applicable to the Company and the conduct of its business, (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks and the impact of recently enacted federal legislation, (6) the ability of competitors which are larger than the Company to provide products and services which are impractical for the Company to provide, (7) the volatility of quarterly earnings, due in

part to the variation in the number, dollar volume and profit realized from SBA guaranteed loan participation sales in different quarters, (8) the effect of a loss of any executive officer, key personnel, or directors, (9) the effect of the Company's opening of branches and the receipt of regulatory approval to complete such actions, (10) concentration of the Company's business in southern Connecticut, (11) the concentration of the Company's loan portfolio in commercial loans to small-to-medium sized businesses, which may be impacted more severely than larger businesses during periods of economic weakness, (12) lack of seasoning in the Company's loan portfolio, which may increase the risk of future credit defaults, and (13) the effect of any decision by the Company to engage in any business not historically permitted to it. Other such factors may be described in other filings made by the Company with the SEC.

Although the Company believes that it offers the loan and deposit products and has the resources needed for success, future revenues and interest spreads and yields cannot be reliably predicted. These trends may cause the Company to adjust its operations in the future. Because of the foregoing and other factors, recent trends should not be considered reliable indicators of future financial results or stock prices.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4T. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Based upon an evaluation of the effectiveness of the Company's disclosure controls and procedures performed by the Company's management, with participation of the Company's President and Chief Operating Officer and its Chief Financial Officer as of the end of the period covered by this report, the Company's President and Chief Operating Officer and its Chief Financial Officer concluded that the Company's disclosure controls and procedures have been effective in ensuring that material information relating to the Company, including its subsidiary, is made known to the certifying officers by others within the Company and the Bank during the period covered by this report.

As used herein, "disclosure controls and procedures" mean controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the Company's management, including its principal executive, and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls

There have not been any changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

PART II
Other Information

Item 1. Legal Proceedings

The Company and the Bank are being sued by former Senior Vice President and Chief Marketing Officer, Robert Mantilia for age discrimination and breach of contract in connection with Mr. Mantilia's layoff as part of a reduction in staff announced by the Bank in July 2008. Mr. Mantilia notified the Bank of his claim on September 29, 2008. The only parties to the dispute are the Company, the Bank and Mr. Mantilia. Mr. Mantilia is seeking unspecified damages. The matter is currently pending. We believe that Mr. Mantilia's claims are without merit and intend to defend this case vigorously.

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES

| 2008 Period | (a) Total number of shares purchased (1) | (b) Average price paid per share | (c) Total number of shares purchased as part of publicly announced plans or programs (2) | (d) Maximum number of shares that may yet be purchased under the plans or programs |
|----------------------------|---|---|--|--|
| July 1 - July 31 | 69,000 | 6.56 | 166,186 | 122,126 |
| August 1 - August 31 | 18,500 | 6.82 | 184,686 | 103,626 |
| September 1 - September 30 | 17,500 | 6.49 | 202,186 | 86,126 |
| Total | 105,000 | 6.59 | | |

(1) All shares were purchased in open-market transactions pursuant to previously announced repurchase program.

(2) The Company's Board of Directors approved the adoption of a Stock Repurchase Program in November of 2007 of up to 147,186 shares of the Company's common stock. This repurchase program ended in July 2008. On July 15, 2008, the Company's Board of Directors approved the adoption of an additional Stock Repurchase Program of up to 141,126 shares of the Company's common stock. As of September 30, 2008, the Company had purchased 105,000 shares of its common stock relating to its Stock Repurchase Program. The remaining shares available

under this Stock Repurchase Program will be repurchased on the open market from time to time, as in the opinion of management, market conditions warrant and subject to applicable laws, rules and regulations.

Item 3. Defaults Upon Senior Securities

None.

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Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

(a) Exhibits

| No. | Description |
|-------------|--|
| 3(i) | Amended and Restated Certificate of Incorporation of the Issuer (incorporated by reference to Exhibit 3(i) to the Issuer's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2002, as filed with the Securities and Exchange Commission on August 14, 2002) |
| 3(ii) | By-Laws (incorporated by reference to Exhibit 3(ii) to the Issuer's Registration Statement on Form SB-2, as filed with the Securities and Exchange Commission on April 30, 2001 (No. 333-59824)) |
| <u>31.1</u> | <u>Rule 13a-14(a)/15d-14(a) Certification by President and Chief Operating Officer</u> |
| <u>31.2</u> | <u>Rule 13a-14(a)/15d-14(a) Certification by Senior Vice President and Chief Financial Officer</u> |
| <u>32.1</u> | <u>Section 1350 Certification by President and Chief Operating Officer</u> |
| <u>32.2</u> | <u>Section 1350 Certification by Senior Vice President and Chief Financial Officer</u> |
| <u>32.3</u> | <u>Section 1350 Certification by Vice President and Chief Accounting Officer</u> |

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHERN CONNECTICUT BANCORP, INC.

Date: November 13, 2008
By: /s/ John H. Howland
Name: John H. Howland
Title: President & Chief Operating Officer

Date: November 13, 2008
By: /s/ Stephen V. Ciancarelli
Name: Stephen V. Ciancarelli
Title: Senior Vice President & Chief Financial Officer

Date: November 13, 2008
By: /s/ Anthony M. Avellani
Name: Anthony M. Avellani
Title: Vice President & Chief Accounting Officer

Exhibit Index

| No. | Description |
|-------------|--|
| 3(i) | Amended and Restated Certificate of Incorporation of the Issuer (incorporated by reference to Exhibit 3(i) to the Issuer's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2002, as filed with the Securities and Exchange Commission on August 14, 2002) |
| 3(ii) | By-Laws (incorporated by reference to Exhibit 3(ii) to Issuer's Registration Statement on Form SB-2, as filed with the Securities and Exchange Commission on April 30, 2001 (No. 333-59824)) |
| <u>31.1</u> | <u>Rule 13a-14(a)/15d-14(a) Certification by President and Chief Operating Officer.</u> |
| <u>31.2</u> | <u>Rule 13a-14(a)/15d-14(a) Certification by Senior Vice President and Chief Financial Officer.</u> |
| <u>31.3</u> | <u>Rule 13a-14(a)/15d-14(a) Certification by Vice President and Chief Accounting Officer.</u> |
| <u>32.1</u> | <u>Section 1350 Certification by President and Chief Operating Officer</u> |
| <u>32.2</u> | <u>Section 1350 Certification by Senior Vice President and Chief Financial Officer</u> |
| <u>32.3</u> | <u>Section 1350 Certification by Vice President and Chief Accounting Officer</u> |