SOUTHERN CONNECTICUT BANCORP INC
Form 10-Q
May 14, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 113 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________________________ to ___________________________

Commission File Number: 0-49784

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

Connecticut	06-1609692
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
215 Church Street, New Haven, Connecticut	06510
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
(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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]		Accelerated filer [ ]
Non-accelerated filer [ ]	(Do not check if a smaller reporting company)	Smaller reporting company [X]

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

Yes [ ] No [X]

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 May 13, 2009
Common Stock, $.01 par value per share	2,688,152 shares

Table of Contents

Part I – Financial Information

	Page
Item 1. Financial Statements	
Consolidated Balance Sheets as of March 31, 2009 and December 31, 2008(unaudited)	2
Consolidated Statements of Operations for the three months end March 31, 2009 and 2008 (unaudited)	3
Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2009 and 2008 (unaudited)	4
Consolidated Statements of Cash Flows for the three months ended March 31, 2009 and 2008 (unaudited)	5
Notes to Consolidated Financial Statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures about Market Risk	28
Item 4T. Controls and Procedures	28

Part II - Other Information

Item 1. Legal Proceedings	29
Item 1A. Risk Factors	29
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 3. Defaults Upon Senior Securities	29
Item 4. Submission of Matters to a Vote of Security Holders	29
Item 5. Other Information	29
Item 6. Exhibits	30
Signatures	31

Item 1. Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
March 31, 2009 and December 31, 2008

ASSETS	2009	2008
Cash and due from banks	$ 3,951,899	$ 5,267,439
Short-term investments	12,664,896	8,637,450
Cash and cash equivalents	16,616,795	13,904,889
Interest bearing certificates of deposit	1,550,580	1,642,612
Available for sale securities (at fair value)	3,619,032	5,130,005
Federal Home Loan Bank stock	66,100	66,100
Loans receivable		
Loans receivable	89,943,793	90,424,801
Allowance for loan losses	(3,329,681)	(1,183,369)
Loans receivable, net	86,614,112	89,241,432
Accrued interest receivable	453,924	411,729
Premises and equipment	2,682,047	2,754,153
Other assets held for sale	368,730	374,920
Other assets	1,393,953	1,390,722
Total assets	$ 113,365,273	$ 114,916,562

LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities	2009	2008
Deposits		
Noninterest bearing deposits	$ 20,930,787	$ 28,214,381
Interest bearing deposits	73,540,969	65,755,643
Total deposits	94,471,756	93,970,024
Repurchase agreements	414,732	214,391
Capital lease obligations	1,179,575	1,180,938
Accrued expenses and other liabilities	1,081,126	1,010,255
Total liabilities	97,147,189	96,375,608
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: 2009 2,688,152; 2008 2,688,152	26,882	26,882
Additional paid-in capital	22,523,848	22,521,164
Accumulated deficit	(6,342,978)	(4,035,302)
Accumulated other comprehensive income - net unrealized gain on available for sale securities	10,332	28,210
Total shareholders' equity	16,218,084	18,540,954
Total liabilities and shareholders' equity	$ 113,365,273	$ 114,916,562

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2009 and 2008

	2009	2008
Interest Income:		
Interest and fees on loans	$ 1,457,690	$ 1,754,490
Interest on securities	59,394	39,367
Interest on Federal funds sold and short-term and other investments	47,684	199,662
Total interest income	1,564,768	1,993,519
Interest Expense:		
Interest expense on deposits	448,372	644,572
Interest expense on capital lease obligations	43,985	44,036
Interest expense on repurchase agreements and other borrowings	1,664	2,059
Total interest expense	494,021	690,667
Net interest income	1,070,747	1,302,852
Provision for Loan Losses	2,146,130	9,760
Net interest (loss) income after provision for loan losses	(1,075,383)	1,293,092
Noninterest Income:		
Service charges and fees	144,695	175,738
Gain from sale of branch	-	777,813
Other noninterest income	18,730	29,558
Total noninterest income	163,425	983,109
Noninterest Expenses:		
Salaries and benefits	775,488	1,271,826
Occupancy and equipment	182,378	191,293
Professional services	135,886	110,944
Data processing and other outside services	101,055	106,124
Advertising and promotional expenses	10,651	13,262
FDIC Insurance	46,323	29,989
Other operating expenses	143,937	216,373
Total noninterest expenses	1,395,718	1,939,811
Net (loss) income	$ (2,307,676)	$ 336,390
Basic (Loss) Income per Share	$ (0.86)	$ 0.11
Diluted (Loss) Income per Share	$ (0.86)	$ 0.11

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2009 and 2008

	Number of Common Shares		Common Stock	Additional Paid-In Capital		Accumulated Deficit		Accumulated Other Comprehensive (Loss) Income	Total
Balance, December 31, 2007	2,969,714	$	29,697	$ 24,263,531	$	(4,169,051)	$	(39,694)	$ 20,084,483
Comprehensive income:									
Net income	-		-	-		336,390		-	336,390
Unrealized holding gain on available for sale securities	-		-	-		-		41,122	41,122
Total comprehensive income									377,512
Restricted stock compensation				18,053		-		-	18,053
Stock option compensation				10,554		-		-	10,554
Stock repurchase	(21,600)		(216)	(153,492)		-		-	(153,708)
Balance, March 31, 2008	2,948,114	$	29,481	$ 24,138,646	$	(3,832,661)	$	1,428	$ 20,336,894
Balance, December 31, 2008	2,688,152	$	26,882	$ 22,521,164	$	(4,035,302)	$	28,210	$ 18,540,954
Comprehensive income:									
Net loss	-		-	-		(2,307,676)		-	(2,307,676)
Unrealized holding loss on available for sale securities, net of income taxes	-		-	-		-		(17,878)	(17,878)
Total comprehensive loss									(2,325,554)
Restricted stock compensation	-		-	14,340		-		-	14,340
Stock option compensation	-		-	(11,656)		-		-	(11,656)
Balance, March 31, 2009	2,688,152	$	26,882	$ 22,523,848	$	(6,342,978)	$	10,332	$ 16,218,084

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2009 and 2008

	2009	2008
Cash Flows From Operations		
Net (loss) income	$ (2,307,676)	$ 336,390
Adjustments to reconcile net (loss) income to net cash(used in) provided by operating activities:		
Amortization and accretion of premiums and discounts on investments, net	(314)	5,152
Provision for loan losses	2,146,130	9,760
Gain on sale of branch	-	(777,813)
Share based compensation	2,684	28,607
Loans originated for sale, net of principal payments received	-	(74,825)
Depreciation and amortization	73,334	86,438
Increase in cash surrender of life insurance	(10,860)	(11,046)
Write-down of other assets held for sale	6,190	-
Changes in assets and liabilities:		
(Decrease) increase in deferred loan fees	(23,177)	15,649
(Increase) decrease in accrued interest receivable	(42,195)	99,043
Decrease (increase) in other assets	7,629	(71,967)
Increase in accrued expenses and other liabilities	64,279	482,887
Net cash (used in) provided by operating activities	(83,976)	128,275
Cash Flows From Investing Activities		
Proceeds from matured interest bearing certificates of deposit	92,032	-
Purchases of available for sale securities	-	(2,000,000)
Principal repayments on available for sale securities	1	-
Proceeds from maturities / calls of available for sale securities	1,500,000	2,200,000
Net payments on sale of branch	-	(592,620)
Net decrease in loans receivable	504,367	1,208,669
Purchases of premises and equipment	(1,228)	(13,666)
Net cash provided by investing activities	2,095,172	802,383
Cash Flows From Financing Activities		
Net decrease in demand, savings and money market deposits	(7,845,756)	(3,950,954)
Net increase (decrease) in certificates of deposit	8,347,488	(4,101,290)
Net increase (decrease) in repurchase agreements	200,341	(367,169)
Principal repayments on capital lease obligations	(1,363)	(1,226)
Stock repurchased	-	(153,708)
Net cash provided by (used in) financing activities	700,710	(8,574,347)
Net increase (decrease) in cash and cash equivalents	2,711,906	(7,643,689)
Cash and cash equivalents		
Beginning	13,904,889	33,346,944
Ending	$ 16,616,795	$ 25,703,255

(Continued)

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
For the Three Months Ended March 31, 2009 and 2008

	2009	2008
Supplemental Disclosures of Cash Flow Information:		
Cash paid for:		
Interest	$ 475,997	$ 711,484
Income taxes	$ 750	$ -
Supplemental Disclosures of Non-Cash 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
Unrealized holding (losses) gains on available for sale securities arising during the period	$ (11,286)	$ 41,122

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 "Greater New Haven 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, and 100% of the capital stock of SCB Capital Inc., operating under the name "Evergreen Financial Services ("Evergreen")", which is licensed by the State of Connecticut Department of Banking to operate a mortage brokerage business and also operates from the Company's headquarters in New Haven, Connecticut. The Company and its subsidiaries focus on meeting the financial services needs of consumers and small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Greater New Haven market.

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'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.

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 three months ended March 31, 2009 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, 2008, filed with the Securities and Exchange Commission on Form 10-K on March 27, 2009.

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 March 31, 2009 and December 31, 2008 are as follows:

2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Sponsored Agency Obligations	$ 3,496,745	$ 14,885	$ -	$ 3,511,630
Mortgage Backed Securities	105,363	2,039	-	107,402
	$ 3,602,108	$ 16,924	$ -	$ 3,619,032

2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Sponsored Agency Obligations	$ 4,996,409	$ 28,552	$ -	$ 5,024,961
Mortgage Backed Securities	105,386	-	(342)	105,044
	$ 5,101,795	$ 28,552	$ (342)	$ 5,130,005

Note 4. Loans Receivable

A summary of the Company's loan portfolio at March 31, 2009 and December 31, 2008 is as follows:

	2009	2008
Commercial loans secured by real estate	$ 48,634,208	$ 45,462,172
Commercial loans	36,483,688	37,625,274
Construction and land loans	4,071,493	6,500,111
Consumer home equity loans	391,535	383,682
Consumer installment loans	438,286	552,156
Total loans	90,019,210	90,523,395
Net deferred loan fees	(75,417)	(98,594)
Allowance for loan losses	(3,329,681)	(1,183,369)
Loans receivable, net	$ 86,614,112	$ 89,241,432

The following represents the activity in the allowance for loan losses for the three months ended March 31, 2009 and 2008:

	2009	2008
Balance at beginning of year	$ 1,183,369	$ 1,256,965
Provision for loan losses	2,146,130	9,760
Recoveries of loans previously charged-off	182	264
Loans charged-off	-	(2,371)
Balance at end of period	$ 3,329,681	$ 1,264,618

At March 31, 2009 and December 31, 2008, the unpaid principal balances of loans placed on nonaccrual status were $3,014,527 and $881,948, respectively. There were no loans considered “troubled debt restructurings” at March 31, 2009 or December 31, 2008. Accruing loans contractually past due 90 days or more were $348,219 and $388,443 at March 31, 2009 and December 31, 2008, respectively.

The following information relates to impaired loans as of March 31, 2009 and December 31, 2008:

	2009	2008
Impaired loans for which there is a specific allowance	$ 5,274,036	$ 538,727
Impaired loans for which there is no specific allowance	$ 2,264,267	$ 1,957,926
Allowance for loan losses related to impaired loans	$ 2,237,741	$ 162,571
Average recorded investment in impaired loans	$ 3,753,536	$ 1,978,734

Note 5. Deposits

At March 31, 2009 and December 31, 2008, deposits consisted of the following:

	2009	2008
Noninterest bearing	$ 20,930,787	$ 28,214,381
Interest bearing:		
Checking	4,022,234	5,685,490
Money Market	27,525,334	26,578,024
Savings	1,646,162	1,492,378
Time certificates, less than $100,000 (1)	22,589,915	18,066,157
Time certificates, $100,000 or more (2)	17,757,324	13,933,594
Total interest bearing	73,540,969	65,755,643
Total deposits	$ 94,471,756	$ 93,970,024

(1) Included in time certificates of deposit, less than $100,000 at March 31, 2009 and December 31, 2008 were brokered deposits totaling $3,789,826 and $2,252,167 respectively.

(2) Included in time certificates of deposit, $100,000 or more at March 31, 2009 and December 31, 2008 were brokered deposits totaling $4,426,971 and $1,948,969 respectively.

Brokered deposits at March 31, 2009 and December 31, 2008 represented:

	2009	2008
Bank customer time certificates of deposit placed through CDARS to ensure FDIC coverage	$ 1,710,084	$ 2,201,901
Time certificates of deposit purchased by the Bank through CDARS	6,506,713	1,999,235
Total brokered deposits	$ 8,216,797	$ 4,201,136

Note 6. Available Borrowings

The Bank is a member of the Federal Home Loan Bank of Boston ("FHLB"). At March 31, 2009, 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 March 31, 2009.

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 fair value. For disclosure purposes, such stock is assumed to have a fair value which is equal to cost based upon the redemption provisions of the FHLB.

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 months ended March 31, 2009 and 2008:

	2009 Net Loss	Weighted Average Shares	Amount Per Share
Basic Loss Per Share			
Loss available to common shareholders	$ (2,307,676)	2,688,152	$ (0.86)
Effect of Dilutive Securities			
Warrants/Stock Options outstanding/Restricted Stock	-	-	-
Diluted Loss Per Share			
Loss available to common shareholders plus assumed conversions	$ (2,307,676)	2,688,152	$ (0.86)

For the period ended March 31, 2009, no common stock equivalents have been included in the computation of net loss per share because the inclusion of such equivalents is anti-dilutive.

	2008 Net Income	Weighted Average Shares	Amount Per Share
Basic Income Per Share			
Income available to common shareholders	$ 336,390	2,966,493	$ 0.11
Effect of Dilutive Securities			
Warrants/Stock Options outstanding/Restricted Stock	-	1,024	-
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	$ 336,390	2,967,517	$ 0.11

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:

	Three Months Ended March 31, 2009		
	Before-Tax Amount	Taxes	Net-of-Tax Amount
Unrealized holding losses arising during period	$ (11,286)	$ (6,592)	$ (17,878)
Reclassification adjustment for amounts recognized in net income	-	-	-
Unrealized holding losses on available for sale securities, net of taxes	$ (11,286)	$ (6,592)	$ (17,878)

Three Months Ended March 31, 2008

	Before-Tax Amount	Taxes	Net-of-Tax Amount
Unrealized holding gains arising during period	$ 41,122	$ -	$ 41,122
Reclassification adjustment for amounts recognized in net income	-	-	-
Unrealized holding gains on available for sale securities, net of taxes	$ 41,122	$ -	$ 41,122

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.

	March 31, 2009	December 31, 2008
Commitments to extend credit		
Future loan commitments	$ 21,077,500	$ 16,398,484
Unused lines of credit	21,736,551	23,157,442
Financial standby letters of credit	3,438,338	3,570,308
Undisbursed construction loans	237,000	237,000
	$ 46,489,389	$ 43,363,234

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 March 31, 2009 and December 31, 2008 was not significant.

Note 11. Fair Value

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157"). The Company adopted the provisions of Statement 157 for the quarter ended March 31, 2008 except for the provisions relating to nonfinancial assets and liabilities, which were subject to deferral as a result of Staff Position 157-2, which the Company adopted effective January 1, 2009. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally

unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the

observability of the inputs used in the valuation techniques the Company is required to provide the following information according to the fair value hierarchy described as follows:

Level 1	Quoted prices in active markets for identical assets and liabilities.
Level 2	Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active; and model-based valuation techniques for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

Available-for-Sale Securities

These financial instruments are recorded at fair value in the financial statements on a recurring basis. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted prices are not available, then fair values are estimated by using pricing models (i.e., matrix pricing) or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. Examples of such instruments include government agency and sponsored agency bonds and mortgage-backed securities. Level 3 securities are securities for which significant unobservable inputs are utilized.

Impaired 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 held for sale represents real estate that is not intended for use in operations, and is carried at 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 asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the asset as nonrecurring Level 3.

The following table details the financial instruments carried at fair value and measured at fair value on a recurring basis as of March 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 3,619,032	$ -	$ 3,619,032	$ -

The following table details the financial instruments carried at fair value and measured at fair value on a nonrecurring basis as of March 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Losses During the Period (2)
Impaired loans (1)	$ 5,165,459	$ -	$ -	$ 5,165,459	$ 2,076,671

(1) Represents carrying value and related write-downs for which adjustments are based on appraised value. Management makes adjustments to the appraised values as necessary to consider declines in real estate values since the time of the appraisal. Such adjustments are based on management's knowledge of the local real estate markets.

(2) Losses represent changes in specific reserves on collateral-dependent impaired loans for the quarter ended March 31, 2009.

The following table details the nonfinancial assets carried at fair value and measured at fair value on a nonrecurring basis as of March 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets held for sale	$ 368,730	$ -	$ 368,730	$ -

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 Evergreen 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. The following represents the operating results and total assets for the segments of the Company as of and for the three months March 31, 2009. The Company uses an internal reporting system to generate information by operating segment. Estimates and allocations are used for noninterest expenses.

	Three Months Ended March 31, 2009				
	Community Banking	Mortgage Brokerage	Holding Company	Eliminations Entries	Consolidated Total
Net interest income	$ 1,059,771	$ 7,557	$ 3,419	$ -	$ 1,070,747
Provision for loan losses	2,146,130	-	-	-	2,146,130
Net interest income (loss) after provision for loan losses	(1,086,359)	7,557	3,419	-	(1,075,383)
Noninterest income (loss)	166,977	(3,552)	-	-	163,425
Noninterest expense	1,284,821	48,960	61,937	-	1,395,718
Net (loss)	(2,204,203)	(44,955)	(58,518)	-	(2,307,676)
Goodwill	-	238,440	-	-	238,440
Total assets as of March 31, 2009	111,726,050	355,751	16,280,866	(14,997,394)	113,365,273

Note 14. Commitments and Contingencies

The Company and the Bank are being sued by a former officer for age discrimination and breach of contract in connection with the officer's layoff as part of a reduction in staff announced by the Bank in July 2008. The officer notified the Company of his claim on September 29, 2008. The only parties to the dispute are the Company, the Bank and the officer. The officer is seeking unspecified damages. The matter is currently pending. The Company believes that the officer's claims are without merit and intends 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 hierarachy 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 deferred the effective date of Statement 157 for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. The Company adopted the provisions of Statement 157 for the quarter ended March 31, 2008 except for the provisions relating to nonfinancial assets and liabilities, which were subject

15

to deferral as a result of Staff Position 157-2, which the Company adopted effective January 1, 2009. See Note 11 for additional information regarding fair value.

In April 2009, the FASB issued Staff Position No. FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” (FSP 157-4). This FSP addresses concerns that FASB Statement No. 157, Fair Value Measurements, emphasized the use of an observable market transaction even when that transaction may not have been orderly or the market for that transaction may not have been active. FSP 157-4 provides additional guidance on: (a) determining when the volume and level of activity for the asset or liability has significantly decreased; (b) identifying circumstances in which a transaction is not orderly; and (c) understanding the fair value measurement implications of both (a) and (b). The effective date of disclosures for this new standard is for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, only if this FSP is adopted at the same time as FSP No. FAS 115-2 and FAS 124-2, and FSP No. FAS 107-1 and APB 28-1.

In April 2009, the FASB issued Staff Position No. FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments,” (FSP 115-2 and 124-2). This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments in the financial statements. The most significant change the FSP brings is a revision to the amount of other-than-temporary loss of a debt security recorded in earnings. The effective date of this new standard is for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, only if this FSP is adopted at the same time as FSP No. FAS 157-4 and FSP No. FAS 107-1 and APB 28-1.

In April 2009, the FASB issued Staff Position No. 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments,” (FSP 107-1 and APB 28-1). This FSP amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. The effective date of disclosures for this new standard is for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, only if this FSP is adopted at the same time as FSP No. FAS 115-2 and FAS 124-2 and FSP No. FAS 157-4.

FSP 157-4, FSP 115-2 and 124-2, and FSP 107-1 and APB 28-1 will be adopted by the Company effective for interim reporting and annual reporting for the quarter ending June 30, 2009. The adoption of the provisions listed above will not have an impact on the Company’s financial statements.

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 March 31, 2009 and 2008, along with the audited financial statements as of and for the year ended December 31, 2008, included in the Company’s Form 10-K filed with the Securities and Exchange Commission on March 27, 2009.

Summary

As of March 31, 2009, the Company had $113.4 million of total assets, $89.9 million of gross loans receivable, and $94.5 million of total deposits. Total equity capital at March 31, 2009 was $16.2 million, and the Company’s Tier I Leverage Capital Ratio was 14.01%.

The Company had a net loss for the quarter ended March 31, 2009 of $2,308,000 (or basic and diluted loss per share of $0.86), compared to net income of $336,000 (or basic and diluted income per share of $0.11) for the first quarter of 2008. The loss sustained by the Company was largely attributable to a provision for loan losses of $2,146,000 for the three months ended March 31, 2009 compared to $10,000 for the three months ended March 31, 2008. The significant increase in the provision for loan losses during the first quarter of 2009 is related to a group of ten impaired loans that have been severely impacted by prevailing economic conditions, discussed in more detail under Allowance for Loan Losses.

In addition to the impact of the provision for loan losses, the operating results for the first quarter of 2009, compared to the first quarter of 2008, were influenced by the following factors:

- Net interest income decreased due to lower average earning assets and lower interest rates;
- Noninterest income decreased because noninterest income for the first quarter of 2008 included the gain on the sale of the New London branch that was recorded in February 2008; and because of a decrease in service charges and fees, resulting from changes in the business practices of customers of the Bank;
- Noninterest expenses decreased due to lower salaries and benefits resulting from reductions in staff, both from the sale of the New London branch and other reductions, and the elimination of certain employee benefits and bonuses in 2009. In addition, salaries and benefits expense for the first quarter of 2008 included expenses related to separation payments made to the former Chief Executive Officer and President of the Bank; and
- Other operating expenses decreased due to expense reductions attributable to lower negotiated rates on certain insurance and telecommunications service contracts, as well as expense savings related to printing the Company's 2009 shareholders' letter and proxy statement.

Critical Accounting Policy

In the ordinary course of business, the Company makes 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, 2008, included in the Company's Form 10-K filed with the Securities and Exchange Commission on March 27, 2009.

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 $3,329,681 or 3.70% of gross loans receivable at March 31, 2009 is adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2008, the allowance for loan losses was $1,183,369 or 1.31% of gross loans receivable. The increase in the allowance is attributable to a $2,075,170 increase in the specific component of the allowance and a $71,142 increase in the general component of the allowance. The increase in the specific component is due to an increase in specific reserves totaling $2,043,823 for nine loans identified as impaired during the three months ended March 31, 2009, and $31,347 for loans that were impaired at both March 31, 2009 and December 31, 2008. The increase in the general component of the reserve is primarily due to an increase in the reserve factors for the general portion of the allowance, partially offset by the reclassification of ten loans to impaired loans. Based on prevailing nationwide economic conditions and forecasts, management and the Board of Directors also determined to increase the reserve factors for the Company's general reserve component of the allowance.

The accrual of interest income on loans is discontinued whenever reasonable doubt exists as to collectability 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 collectability 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 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 hierarachy 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 deferred the effective date of Statement 157 for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. The Company adopted the provisions of Statement 157 for the quarter ended March 31, 2008 except for the provisions relating to nonfinancial assets and liabilities, which were subject to deferral as a result of Staff Position 157-2, which the Company adopted effective January 1, 2009. See Note 11 for additional information regarding fair value.

In April 2009, the FASB issued Staff Position No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," (FSP 157-4). This FSP addresses concerns that FASB Statement No. 157, Fair Value Measurements, emphasized the use of an observable market transaction even when that transaction may not have been orderly or the market for that transaction may not have been active. FSP 157-4 provides additional guidance on: (a) determining when the volume and level of activity for the asset or liability has significantly decreased; (b) identifying circumstances in which a transaction is not orderly; and (c) understanding

18

the fair value measurement implications of both (a) and (b). The effective date of this new standard is for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, only if this FSP is adopted at the same time as FSP No. FAS 115-2 and FAS 124-2 and FSP No. FAS 107-1 and APB 28-1.

In April 2009, the FASB issued Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," (FSP 115-2 and 124-2). This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments in the financial statements. The most significant change the FSP brings is a revision to the amount of other-than-temporary loss of a debt security recorded in earnings. The effective date of this new standard is for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, only if this FSP is adopted at the same time as FSP No. FAS 157-4 and FSP No. FAS 107-1 and APB 28-1.

In April 2009, the FASB issued Staff Position No. 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," (FSP 107-1 and APB 28-1). This FSP amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. The effective date of disclosures for this new standard is for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, only if this FSP is adopted at the same time as FSP No. FAS 115-2 and FAS 124-2 and FSP No. FAS 157-4.

FSP 157-4, FSP 115-2 and 124-2, and FSP 107-1 and APB 28-1 will be adopted by the Company effective for interim reporting and annual reporting for the quarter ending June 30, 2009. The adoption of the provisions listed above will not have an impact on the Company's financial statements.

Comparison of Financial Condition as of March 31, 2009 versus December 31, 2008

General

The Company's total assets were $113.4 million at March 31, 2009, a decrease of $1.5 million from December 31, 2008. Net loans receivable decreased to $86.6 million from $89.2 million, and total deposits increased to $94.5 million from $94.0 million as of March 31, 2009 and December 31, 2008, respectively.

Investments

Available for sale securities totaled $3.6 million as of March 31, 2009, a decrease of $1.5 million from a balance of $5.1 million as of December 31, 2008. The decrease was attributable to two securities that were called during March 2009. The available for sale securities portfolio is invested in U.S. government sponsored agency obligations and sponsored agency issued mortgage backed securities.

Loans

The Company's net loan portfolio was $86.6 million at March 31, 2009 versus $89.2 million at December 31, 2008, a decrease of $2.6 million. The decrease in the loan portfolio for the quarter was due to a $2.1 million increase in the allowance for loan losses and a $500,000 decrease in outstanding loans, as payments on existing loans exceeded new loan volume. Management believes that loan growth will increase during 2009 as the Bank's branch system deposit base grows and additional lending capacity is developed. The Bank's loans have been made to borrowers primarily in the New Haven market area. The Bank currently has a large number of loans pending closing and if these loans are closed, the ratio of loans receivable to deposits is expected 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 three months ended March 31, 2009 and 2008:

	2009	2008
Balance at beginning of year	$ 1,183,369	$ 1,256,965
Provision for loan losses	2,146,130	9,760
Recoveries of loans previously charged-off	182	264
Loans charged-off	-	(2,371)
Balance at end of period	$ 3,329,681	$ 1,264,618

Non-Accrual, Past Due and Restructured Loans

	March 31, 2009	December 31, 2008
Non-accrual loans	$ 3,014,527	$ 881,948
Accruing loans contractually past due 90 days or more		
Loans past due 90 days or more and still accruing	$ -	$ 195,822
Matured loans pending renewal and still accruing	348,219	188,620
Total	$ 348,219	$ 384,442

Potential Problem Loans
At March 31, 2009, the Bank had loans totaling $4.4 million, which were not disclosed in the table above, and were not on non-accrual status, but were deemed to be impaired pursuant to Statement of Financial Accounting Standards No. 114. The loans were current with respect to principal and interest. Management of the Company has reviewed the collateral for the loans and considers the current specific reserves, if any, on the loans to be adequate to cover potential losses related to the relationships.

Deposits
Total deposits were $94.5 million at March 31, 2009, an increase of $0.5 million (0.5%) in comparison to total deposits at December 31, 2008 of $94.0 million. Non-interest bearing deposits were $20.9 million at March 31, 2009, a decrease of $7.3 million (26%) from $28.2 million at December 31, 2008. 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 deposits decreased $0.6 million, or 2%, to $33.2 million at March 31, 2009 from $33.8 million at December 31, 2008. Time deposits increased to $40.3 million at March 31, 2009 from $32.0 million at December 31, 2008, an $8.3 million (26%) increase. Included in time deposits is the Company's placement of $1.7 million in customer deposits and purchase of $6.5 million in brokered certificates of deposit through the CDARS program which offers the Bank both reciprocal and one way swap programs which allow customers to enjoy additional FDIC insurance for deposits that might not otherwise be eligible for FDIC insurance and gives the Bank additional access to funding. As of March 31, 2009, core deposits represented 57.3% of total deposits compared to 66% at December 31, 2008. The decrease in core deposits as a percentage of total deposits is due to seasonal fluctuations in deposit levels as well as the effect of reduced economic activity in general, on the Bank's customers businesses.

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.

The Greater New Haven Market is highly competitive. The Bank faces competition from a large number of banks (ranging from small community banks to large international banks), credit unions, and other providers of financial services. The level of rates offered by the Bank reflects the high level of competition in our market.

Other

Repurchase agreement balances totaled $414,732 at March 31, 2009 as compared to $214,391 at December 31, 2008. The increase is due to normal customer activity.

Results of Operations – Comparison of Results for the three months ended March 31, 2009 and 2008

General

The Company had a net loss for the quarter ended March 31, 2009 of $2,307,676 (or basic and diluted loss per share of $0.86), compared to net income of $336,390 (or basic and diluted income per share of $0.11) for the first quarter of 2008. The loss sustained by the Company was largely attributable to a provision for loan losses of $2,146,130 for the three months ended March 31, 2009 compared to $9,760 for the three months ended March 31, 2008. The significant increase in the provision for loan losses during the first quarter of 2009 is related to a group of ten impaired loans that have been severely impacted by prevailing economic conditions, previously discussed in more detail under Allowance for Loan Losses.

In addition to the impact of the provision for loan losses, the operating results for the first quarter 2009, compared to the three months ended March 31, 2008, were influenced by the following factors:

- Net interest income decreased due to lower average earning assets and lower interest rates;
- Noninterest income decreased because noninterest income for the first quarter of 2008 included the gain on the sale of the New London branch that was recorded in February 2008; and because of a decrease in service charges and fees, resulting from changes in the business practices of customers of the Bank;
- Noninterest expenses decreased due to lower salaries and benefits resulting from reductions in staff, both from the sale of the New London branch and other reductions, and the elimination of certain employee benefits and bonuses in 2009. In addition, salaries and benefits expense for the first quarter of 2008 included expenses related to separation payments made to the former Chief Executive Officer and President of the Bank; and
- Other operating expenses decreased due to expense reductions attributable to lower negotiated rates on certain insurance and telecommunications service contracts, as well as expense savings related to printing the Company's 2009 shareholders' letter and proxy statement.

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 Federal Open Market Committee ("FOMC") short-term interest rates (which result in a corresponding reduction in the prime lending rate) were 3.25% and 5.25% as of March 31, 2009 and 2008, respectively. 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 the 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 March 31, 2009, net interest income was $1,070,747 versus $1,302,852 for the same period in 2008, a decrease of $232,105 or 17.8%. This decrease was primarily the result of decreases in rates, partially offset by increases in volume, on both interest earning assets and interest bearing liabilities.

The Company's average total interest earning assets decreased 6% for the three months ended March 31, 2009 to $106.4 million (a decrease of $6.5 million) from the Company's average total interest earning assets of $112.9 million for the three months ended March 31, 2008. The net decrease in the average interest earning assets of $6.5 million was comprised of increases in average balance of loans of $4.1 million, increases in average balance of investments of $800,000, increases in average balance of short-term and other investments of $2.9 million, offset by decreases in average balance of federal funds sold of $14.3 million.

The yield on average interest earning assets for the three months ended March 31, 2009 was 5.97% versus 7.11% during the first quarter of 2008, a decrease of 114 basis points. The decrease in the yield on average earning assets reflects the impact of reductions in the Federal Reserve rates, particularly in the prime lending rate, LIBOR and the Bank's base lending rate; as well as an increase in non-performing assets and an increasingly competitive market to attract new loans.

The cost of average interest bearing liabilities was 2.83% for the three months ended March 31, 2009 versus 3.73% for the same period in 2008, a decrease of 90 basis points, which was primarily due to a general decrease in market interest rates. Due to decreases in the average yields on earning assets, in excess of the decreases in rates on interest bearing liabilities, the interest spread decreased to 3.14% during the first quarter of 2009, a decrease of 24 basis points from the interest spread realized in the first quarter of 2008. The net interest margin decreased to 4.08% for the three months ended March 31, 2009 from 4.64% for the comparable period in 2008, a decrease of 56 basis points that largely reflects the decreasing short-term yields on interest earning assets during the first quarter of 2008.

The Company intends for the Bank to continue to emphasize lending to small to medium-sized businesses in its market area as its strategy to increase assets under management and to improve earnings. The Bank will seek opportunities through marketing to increase its deposit base, with a primary objective of attracting core non-interest checking and related money market deposit accounts, in order to support its earning assets and by considering additional branch locations and new product and service offerings.

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 March 31, 2009 and 2008.

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

	2009			2008			
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	(Decreases) Increases in interest Income/Expense
Interest earning assets							
Loans (1)	$ 89,799	$ 1,458	6.58%	$ 85,718	$ 1,755	8.23%	$ (297)
Short-term and other investments	11,433	48	1.69%	8,489	80	3.79%	(32)
Investments	5,151	59	4.68%	4,390	39	3.57%	20
Federal funds sold	-	-	-	14,275	120	3.38%	(120)
Total interest earning assets	106,383	1,565	5.97%	112,872	1,994	7.11%	(429)
Cash and due from banks	4,149			4,955			
Premises and equipment, net	2,727			3,354			
Allowance for loan losses	(1,232)			(1,291)			
Other	2,237			1,838			
Total assets	$ 114,264			$ 121,728			
Interest bearing liabilities							
Time certificates	$ 35,690	300	3.41%	$ 29,673	354	4.80%	(54)
Savings deposits	1,478	5	1.37%	1,793	6	1.35%	(1)
Money market / checking deposits	32,054	144	1.82%	41,245	285	2.78%	(141)
Capital lease obligations	1,180	44	15.12%	1,186	44	14.92%	-
Repurchase agreements	450	1	1.50%	552	2	1.46%	(1)
	70,852	494	2.83%	74,449	691	3.73%	(197)

Total interest bearing liabilities							
Non-interest bearing deposits	23,942			25,796			
Accrued expenses and other liabilities	1,016			1,151			
Shareholder's equity	18,454			20,332			
Total liabilities and equity	$ 114,264			$ 121,728			
Net interest income		$ 1,071			$ 1,303		$ (232)
Interest spread			3.14%			3.38%	
Interest margin			4.08%			4.64%	

(1) Includes nonaccruing loans.

23

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 March 31, 2009 and 2008 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.

	Three Months Ended March 31, 2009 vs 2008		
	Due to Change in Average		(Decrease)
(Dollars in thousands)	Volume	Rate	Increase
Interest earning assets			
Loans	$ 77	$ (374)	$ (297)
Short-term and other investments	22	(54)	(32)
Investments	5	15	20
Federal funds sold	(120)	-	(120)
Total interest earning assets	(16)	(413)	(429)
Interest bearing liabilities			
Time certificates	61	(115)	(54)
Savings deposits	(1)	-	(1)
Money market / checking deposits	(55)	(86)	(141)
Repurchase agreements	-	(1)	(1)
Total interest bearing liabilities	5	(202)	(197)
Net interest income	$ (21)	$ (211)	$ (232)

Provision for Loan Losses

The Company's provision for loan losses was $2,146,130 for the three months ended March 31, 2009 as compared to a provision for loan losses of $9,760 for the same period in 2008. The significant increase in the provision for loan losses during the first quarter of 2009 is related to specific reserves established for a group of ten impaired loans that have been severely impacted by prevailing economic conditions, discussed in more detail previously under Allowance for Loan Losses.

Noninterest Income

Total noninterest income was $163,425 for the three months ended March 31, 2009 versus $983,109 for the same period in 2008. Noninterest income in 2008 included a $777,813 gain on the sale of the Bank's New London branch. Service charges and fees decreased $31,043 due to changes in business practices of customers of the Bank during the first quarter of 2009. Other non-interest income decreased to $18,730 in 2009 from $29,558 in 2008, principally due to decreases in rental income ($6,478) and other loan and SBA servicing related fees ($4,350).

Noninterest Expense

Total noninterest expense was $1,395,718 for the three months ended March 31, 2009 versus $1,939,811 for the same period in 2008, a decrease of $544,093 or 28%.

Salaries and benefits expense for the three months ended March 31, 2009 was $775,488 versus $1,271,826 for the same period in 2008. Salaries and benefits expense decreased $496,338 or 39%, primarily because of expense savings related to reductions in staff, both from the sale of the New London branch and other reductions, and the elimination of certain employee benefits and bonuses in 2009; and the inclusion in the first quarter of 2008 of expenses related to seperation payments made to the former Chief Executive Officer and President of the Bank.

Professional services for the three months ended March 31, 2009 increased by $24,942 or 22.5 %. The increase for the three months ended March 31, 2009 compared to the same period in 2008, is primarily attributable to increased accounting fees. FDIC insurance expense increased by $16,334 from $29,989 to $46,323 primarily due to increased assessment rates and deposit balances subject to assessment. The Temporary Liquidity Guarantee Program announcement by the FDIC on October 17, 2008 provided banks with the option to fully insure non-interest bearing transaction deposit accounts. The Bank elected to participate in the program, resulting in a 10 basis point annual rate surcharge applied to balances in such accounts over $250,000, beginning in 2009. The FDIC also announced plans to bolster FDIC funding, through a one time special assessment of 10 basis points based upon deposit balances on June 30, 2009. As a result, this expense will continue to increase.

In addition, other operating expenses decreased by $72,436 to $143,937 for the three months ended March 31, 2009, compared to the same period in 2008, due to expense reductions attributable to lower negotiated rates on certain insurance and telecommunications service contracts, as well as expense savings related to the printing of the Company's 2009 shareholders' letter and proxy statement.

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 March 31, 2009 and December 31, 2008 consisted of liquid assets totaling $21.8 million and $20.7 million, respectively. This represents 19.2% and 18.0% of total assets at March 31, 2009 and December 31, 2008, 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, short-term investments, interest bearing certificates of deposit 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 certificates of deposits and could utilize the services of these brokers if the Bank desires additional liquidity to meet its needs.

Capital

The Company's and Bank's actual amounts and ratios at March 31, 2009 and December 31, 2008 were as follows:

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
2009	Amount	Ratio	Amount	Ratio	Amount	Ratio
The Company:						
Total Capital to Risk Weighted Assets	$ 17,347	16.04%	$ 8,652	8.00%	N/A	N/A
Tier 1 Capital to Risk Weighted Assets	15,970	14.77%	4,325	4.00%	N/A	N/A
Tier 1 (Leverage) Capital to Average Assets	15,970	14.01%	4,560	4.00%	N/A	N/A

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
The Bank:						
Total Capital to Risk Weighted Assets	$ 15,908	14.93%	$ 8,525	8.00%	$ 10,657	10.00%
Tier 1 Capital to Risk Weighted Assets	14,551	13.65%	4,263	4.00%	6,394	6.00%
Tier 1 (Leverage) Capital to Average Assets	14,551	12.92%	4,503	4.00%	5,629	5.00%

2008	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
The Company:						
Total Capital to Risk Weighted Assets	$ 19,696	18.46%	$ 8,537	8.00%	N/A	N/A
Tier 1 Capital to Risk Weighted Assets	18,275	17.13%	4,268	4.00%	N/A	N/A
Tier 1 (Leverage) Capital to Average Assets	18,275	15.64%	4,673	4.00%	N/A	N/A

			For Capital		To Be Well Capitalized Under Prompt Corrective	

	Actual		Adequacy Purposes		Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
The Bank:						
Total Capital to Risk Weighted Assets	$ 17,938	17.09%	$ 8,396	8.00%	$ 10,495	10.00%
Tier 1 Capital to Risk Weighted Assets	16,755	15.96%	4,198	4.00%	6,297	6.00%
Tier 1 (Leverage) Capital to Average Assets	16,755	14.55%	4,607	4.00%	5,759	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 is also considered to be “well capitalized” under other 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 since 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.

Cautionary Statement Regarding Forward-Looking Statements

Some of the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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 ident 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) the 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) the 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 that was not historically permitted for the Company. Other such factors may be described in other filings made by the Company with the Securities and Exchange Commission (the "Commission").

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 required.

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 subsidiaries, 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 of 1934, as amended (the "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 Exchange Act is accumulated and communicated to the Company's management, including its principal executive and financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial reporting

There have not been any changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2009 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

None.

Item 1A. Risk Factors

Not required.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

Not applicable.

Item 5. Other Information

Not applicable.

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))
31.1	Rule 13a-14(a)/15d-14(a) Certification by President and Chief Operating Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification by Senior Vice President and Chief Financial Officer
31.3	Rule 13a-14(a)/15d-14(a) Certification by Vice President and Chief Accounting Officer
32.1	Section 1350 Certification by President and Chief Operating Officer
32.2	Section 1350 Certification by Senior Vice President and Chief Financial Officer
32.3	Section 1350 Certification by Vice President and Chief Accounting Officer

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.

	By: /s/ John H. Howland Name: John H. Howland
Date: May 14, 2009	Title: President & Chief Operating Officer
	By: /s/ Stephen V. Ciancarelli Name: Stephen V. Ciancarelli
Date: May 14, 2009	Title: Senior Vice President & Chief Financial Officer
	By: /s/ Anthony M. Avellani Name: Anthony M. Avellani
Date: May 14, 2009	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))
31.1	Rule 13a-14(a)/15d-14(a) Certification by President and Chief Operating Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification by Senior Vice President and Chief Financial Officer
31.3	Rule 13a-14(a)/15d-14(a) Certification by Vice President and Chief Accounting Officer
32.1	Section 1350 Certification by President and Chief Operating Officer
32.2	Section 1350 Certification by Senior Vice President and Chief Financial Officer
32.3	Section 1350 Certification by Vice President and Chief Accounting Officer