

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, 2008	2007	September 30, 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%
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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	-	-	-	-
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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)
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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.