SOUTHERN CONNECTICUT BANCORP INC
Form 10-K
March 27, 2009

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

F O R M 10 – K

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

For the Fiscal Year Ended December 31, 2008.

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

For the transition period from ____________________ to ____________________

Commission file number 333-59824

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 Number)
215 Church Street New Haven, Connecticut (Address of Principal Executive Offices)	06510 (Zip Code)
Registrant's telephone number, including area code	(203) 782-1100

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share (Title of each class)	American Stock Exchange (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [ ] No [x]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes [ ] No [x]

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 [ ]

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates (assumes all directors, executive officers and 10% or greater holders are affiliates) of the registrant, computed by reference to the price at which the common equity was last sold as of June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter: $19,749,652.

The number of shares outstanding of each of the registrant's classes of common equity: Common Stock, par value $.01 per share, outstanding as of March 10, 2009: 2,688,152

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2009 Annual Meeting of Shareholders which is expected to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III of this report on Form 10-K.

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PART I

Item 1. Business.

Background

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., a mortage broker 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 Greater New Haven 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 one of its branches that was located 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 realized a gain in connection with the sale of $875,000.

On August 1, 2008 the Company's wholly owned subsidiary, SCB Capital, Inc., purchased the 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 December 31, 2008, the Company has recorded goodwill of $238,440 relating to this transaction (see Note 12 of the consolidated financial statements). SCB Capital, Inc., operating under the name "Evergreen Financial" ("Evergreen"), 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.

The Greater New Haven Market

The Company serves the Greater New Haven Market, which is comprised of the communities located in and around New Haven County in Southern Central Connecticut. The Greater New Haven Market is located in the center of, and is a critical component of, the commercial activity of the northeast corridor in New England. The market focus resides in the busy transportation and commercial area between New York City to the south, Hartford to the north, Providence to the east, and Boston to the northeast. The diversified economic base of this market region includes pharmaceutical, advanced manufacturing, healthcare, defense, technology, service and energy companies. The region is also one of New England's most popular tourist destinations, featuring popular shoreline and heritage sites. In addition, the Company's headquarters is located in downtown New Haven, in the area of Yale University's campus.

Bank Growth and Operating Strategy

The Bank seeks to differentiate itself by offering prompt, personal "high touch" service and quality banking products. The Bank's target customers are small to medium-sized businesses, professionals and professional corporations, and their owners and employees. The Bank emphasizes personal relationships with customers, community involvement by employees and the board of directors, and responsive lending decisions by an accessible and experienced local management team.

The key elements of the Bank's business strategy include:

- Provision of individualized attention with local underwriting and credit decision-making authority. As the only commercial bank based in and wholly focused on the greater New Haven area, the Bank is better able to provide the individualized customer service, combined with prompt local underwriting and credit decision-making authority that management believes small to medium-sized businesses desire.

- Employing qualified and experienced banking professionals. The Company and the Bank seek to continue to hire and retain highly experienced and qualified local commercial lenders and other banking professionals with successful track records and established relationships with small to medium-sized businesses in targeted market areas. The experience and expertise of these individuals serves to enhance the Bank's image within the communities it serves, thereby increasing the Bank's business.

- Leveraging personal relationships and community involvement. The directors, officers and senior employees of the Company and the Bank have extensive personal contacts, business relationships and involvement in communities in which they live and work and which the Bank serves. By building on and leveraging these relationships and community involvement, management believes that the Bank has generated and will continue to generate enthusiasm and interest from small to medium-sized businesses and professionals in the targeted market areas.

- Offering a suite of products attractive to our core customer base. The Bank seeks to offer competitive basic, popular products to its commercial and consumer customer base. The Bank offers internet-banking services to its customers through a partnership with Digital Insight, a subsidiary of Intel. The Bank offers remote deposit capture, a system that allows our customers to deposit checks from their places of business, rather than having to make a trip to the Bank. The Bank offers a full complement of banking services utilized by small business customers.

- Maintaining high credit quality. The success of the Bank's business plan depends to a significant extent on the quality of the Bank's assets, particularly loans. The Bank has built a strong internal emphasis on credit quality and has established stringent underwriting standards and loan approval processes. The Bank actively manages past due and non-performing loans in an effort to minimize credit loss and related expenses and to ensure that the allowance for loan losses is adequate.

- Taking market share from large, non-local competitors. The Greater New Haven Market is dominated by large, non-locally owned financial institutions with headquarters typically located outside of Connecticut. Management believes that the Bank has attracted and can continue to attract small to medium-sized businesses and professionals that prefer local decision-making authority and interaction with banking professionals who can provide prompt personalized and knowledgeable service.

- Optimizing net interest margin. The Bank's focus on commercial customers helps to support a strong net interest margin. The high percentage of assets concentrated in loans to commercial entities that typically provide higher yield than consumer loans, particularly residential mortgages and home equity related loans. The Bank maintains a high percentage of commercial transaction accounts and money market deposit accounts to fund its operations. These deposits typically have a lower interest rate expense than certificates of deposits. The combination of the higher yielding assets and lower expense deposits produces a strong margin for the Company.

Lending, Depository and Other Products

Lending Products. The Bank offers a broad range of loans to businesses and individuals in its service area, including commercial and business loans, industrial loans, personal loans, commercial and home mortgage loans, home equity loans and automobile loans. The Bank has received lending approval status from the Small Business Administration ("SBA") to enable it to make SBA loans in communities located throughout the State of Connecticut. The Bank holds certified lending status ("CLP") from the SBA.

Loans are made on a variable or fixed rate basis, with fixed rate loans typically limited to three to five year terms. All loans are approved pursuant to lending policies and procedures authorized by the Bank's board of directors. The Bank, at times, participates in multi-bank loans to companies in its market area. Commercial loans and commercial real estate loans may be written for maturities of up to twenty years. Loans to purchase or refinance commercial real estate are typically supported by personal guarantees of the principal owners and related parties, and are collateralized by the subject real estate, which may in certain cases be supplemented by additional collateral in the form of liquid assets. Loans to local businesses are generally supported by the personal guarantees of the principal owners and are carefully underwritten to determine appropriate collateral and covenant requirements.

Depository Products. The Bank has attracted a base of core deposits, including interest bearing and non-interest bearing checking accounts, money market accounts, savings accounts, sweep accounts, NOW accounts, repurchase agreements, and a variety of certificates of deposits and IRA accounts. To continue to attract deposits, the Bank employs an aggressive marketing plan in its service area and features a broad product line and rates and services competitive with those offered in the Greater New Haven Market. The primary sources of deposits have been and are expected to continue to be small to medium-sized businesses, professionals (lawyers, doctors, accountants, etc.) and professional corporations, and their owners and employees. The Bank obtains these deposits through personal solicitation by its officers and directors, outside programs and advertisements published and/or broadcasted in the local media. The Bank offers internet-banking services to its customers, including commercial cash management services and personal banking services. The Bank offers remote deposit capture, which offers check deposit capabilities for customers from their place of business. The Bank also offers drive-in teller services, automated teller services, wire transfer, lock box and safe deposit services.

Other Services. The Bank provides a broad range of other services and products, including cashier's checks, money orders, travelers' checks, bank-by-mail, direct deposit and U.S. Savings Bonds. The Bank is associated with a shared network of automated teller machines that its customers are able to use throughout Connecticut and other regions. The Bank does not expect to offer trust services directly in the near future, but may offer trust services in the future independently or possibly through a joint venture with a larger institution. To directly offer trust services, the Bank would need the approval of the Connecticut Banking Commissioner and the FDIC.

Mortgage Brokerage Services

Evergreen 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.

Investment Services

The Company does not engage in investment services.

Investment Securities

Investment securities are held by the Company and the Bank with the objective of maximizing the long-term rate of return for shareholders. Investments are overseen by the Board of Directors and a committee of officers who take into account returns, liquidity needs, and the overall asset/liability management of the Company and the Bank. Permissible investments include debt securities such as U.S. Government securities, government-sponsored agency securities, municipal bonds, domestic certificates of deposit that are insured by the FDIC, mortgage-backed securities and collateralized mortgage obligations. The Bank's current investment portfolio is limited to U.S. Government sponsored agency obligations and sponsored agency issued collateralized mortgage obligations, which have been classified as available for sale. Accordingly, the principal risk associated with the Bank's current investing activities is market risk (variations in value resulting from general changes in interest rates) rather than credit risk. The Bank does not take credit risk for the purposes of increasing interest income. Management continually reviews its portfolio and prevailing market conditions, and under certain market conditions, the Company's strategy may be reviewed and revised by management and the board of directors.

Asset and Liability Management

Interest rate risk measures the impact that changing interest rates have on current and future earnings. The Company's goal is to optimize long-term profitability while minimizing exposure to interest rate fluctuations. Interest rate risk exposure, including, among other things, the Company's exposure to changes in interest income and equity value based on fluctuations in interest rates, is monitored by senior management and reported to the Bank's Asset Liability Committee (ALCO) and the board of directors on a quarterly basis. The Bank employs the services of a national service provider for monitoring, analyzing and managing interest rate risk.

Regulatory Compliance

The Company operates in a heavily regulated industry and is subject to increasing regulatory review and scrutiny from the Federal Reserve Board, the Connecticut Banking Commissioner, and the FDIC. The Company and the Bank have invested and continue to invest significant time and resources to ensure compliance and conformity with applicable regulations (see "REGULATION AND SUPERVISION" below). The Bank is committed to meeting its obligations under the Bank Secrecy Act, the Gramm-Leach-Bliley Act and the USA PATRIOT Act, as well as various other regulations. Management meets and reports to the board of directors on a regular basis regarding new developments in compliance and the Bank's efforts to comply therewith.

Competition

There are numerous banks and other financial institutions serving the Greater New Haven Market posing significant competition to attract deposits and loans. The Bank competes for loans and deposits with other commercial banks, savings and loan associations, finance companies, money market funds, insurance companies, credit unions and other financial institutions, a number of which are much larger and have substantially greater resources. To increase its business, the Bank will have to win existing customers away from existing banks and financial institutions as well as successfully compete for new customers from growth in the target markets.

The greater New Haven market is currently served by approximately 278 offices of 26 commercial and savings banks. The majority of these banks are substantially larger than the Bank expects to be in the near future, and are able to offer products and services which may be impractical for the Bank to provide at this time. There are numerous banks and other financial institutions serving the communities surrounding New Haven, which also draw customers from New Haven, posing significant competition for the Bank to attract deposits and loans. The Bank also experiences competition from out-of-state financial institutions with little or no traditional bank branches in New Haven. Many of these banks and financial institutions are well established and better capitalized than the Bank, allowing them to provide a greater range of services.

Intense market demands, economic pressures, and significant legislative and regulatory actions have eroded traditional banking industry classifications and have increased competition among banks and other financial institutions. Market dynamics as well as legislative and regulatory changes have resulted in a number of new competitors offering services historically offered only by commercial banks. Increased customer awareness of product and service differences among competitors has also increased competition among banks.

Employees

As of December 31, 2008, the Bank and Evergreen had 34 and 2 full-time equivalent employees, respectively. Relationships with all employees are believed to be excellent.

REGULATION AND SUPERVISION

Banks and bank holding companies are extensively regulated under both federal and state law. The Company and the Bank have set forth below brief summaries of various aspects of supervision and regulation to which they are subject. These summaries do not purport to be complete and are qualified in their entirety by reference to applicable laws, rules and regulations.

Laws and Regulations to which The Company is Subject

General. As a bank holding company registered in accordance with the Bank Holding Company Act of 1956 (the "BHC Act"), the Company is regulated by and subject to the supervision of the Federal Reserve Board and is required to file with the Federal Reserve Board an annual report and such other information as may be required. The Federal Reserve Board has the authority to conduct examinations of the Company as well. The Federal Reserve Board has the authority to issue orders to bank holding companies to cease and desist from unsound banking practices and violations of conditions imposed by, or violations of agreements with, the Federal Reserve Board. The Federal Reserve Board is also empowered to assess civil money penalties against companies or individuals who violate the BHC Act or orders or regulations thereunder, to order termination of non-banking activities of non-banking subsidiaries of bank holding companies, and to order termination of ownership and control of a non-banking subsidiary by a bank holding company.

The BHC Act—Acquisitions and Permissible Activities. The BHC Act requires the prior approval of the Federal Reserve Board for a bank holding company to acquire substantially all the assets of a bank or acquire direct or indirect ownership or control of more than 5% of any class of the voting shares of any bank, bank holding company or savings association, or increase any such non-majority ownership or control of any bank, bank holding company or savings association, or merge or consolidate with any bank holding company. Federal law generally authorizes bank holding companies to acquire banks located in any state, subject to certain state-imposed age and deposit concentration limits, and also generally authorizes interstate bank holding company and bank mergers and to a lesser extent, interstate branching.

Unless a bank holding company becomes a financial holding company under the Gramm-Leach-Bliley Act of 1999 ("GLBA") (as discussed below), the BHC Act prohibits a bank holding company from acquiring a direct or indirect interest in or control of more than 5% of any class of the voting shares of a company that is not a bank or a bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks, except that it may engage in and may own shares of companies engaged in certain activities the Federal Reserve Board has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

The GLBA permits a qualifying bank holding company to become a "financial holding company" and thereby engage in a broader range of activities than is permissible for a traditional bank holding company. In order to qualify for this election, all of the depository institution subsidiaries of the bank holding company must be well capitalized and well managed, as defined under Federal Reserve Board regulations, and all such subsidiaries must have achieved a rating of "satisfactory" or better with respect to meeting community credit needs. Pursuant to the GLBA, financial holding companies are permitted to engage in activities that are "financial in nature" or incidental or complementary thereto, as determined by the Federal Reserve Board. The GLBA identifies several activities as "financial in nature," including, among others, insurance underwriting and agency activities, investment advisory services, merchant banking and underwriting, and dealing in or making a market in securities. At this time, the Company has not elected to become a financial holding company and has no immediate plans to do so.

Capital Requirements. The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications submitted to it under the BHC Act. These capital adequacy guidelines generally require bank holding companies to maintain total capital equal to at least 8% of total risk-adjusted assets and off-balance sheet items (the "Total Risk-Based Capital Ratio"), with at least one-half of that amount consisting of Tier I or core capital and the remaining amount consisting of Tier II or supplementary capital. Tier I capital for bank holding companies generally consists of the sum of common shareholders' equity and perpetual preferred stock (subject in the case of the latter to limitations on the kind and amount of such stocks which may be included as Tier I capital), less goodwill and other non-qualifying intangible assets. Tier II capital generally consists of: hybrid capital instruments; perpetual preferred stock, which is not eligible to be included as Tier I capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics.

In addition to the risk-based capital requirements, the Federal Reserve Board requires bank holding companies to maintain a minimum leverage capital ratio of Tier I capital (defined by reference to the risk-based capital guidelines) to total average assets (the "Leverage Ratio") of 3.0%. Total average assets for this purpose do not include goodwill and any other intangible assets and investments that the Federal Reserve Board determines should be deducted from Tier I capital. The Federal Reserve Board has announced that the 3.0% Leverage Ratio requirement is the minimum for the top-rated bank holding companies without any supervisory, financial or operational weaknesses, deficiencies, or those that are not experiencing or anticipating significant growth. For all other bank holding companies, the minimum leverage ratio is 4%, and bank holding companies with supervisory, financial, managerial or operational weaknesses or organizations expecting significant growth are expected to maintain capital ratios well above minimum levels.

The Company is currently in compliance with the Total Risk-Based Capital Ratio, Tier I Capital and the Leverage Ratio requirements. As of December 31, 2008, the Company had a Tier I Risk-Based Capital Ratio and a Total Risk-Based Capital Ratio equal to 17.13% and 18.46%, respectively, and a Leverage Ratio equal to 15.64%. U.S. bank regulatory authorities and international bank supervisory organizations, principally the Basel Committee on Banking Supervision, currently are considering changes to the risk-based capital adequacy framework, including emphasis on credit, market and operational risk components, which ultimately could affect the appropriate capital guidelines.

Limitations on Acquisitions of Common Stock. The federal Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a depository institution or a depository institution holding company unless the appropriate federal banking agency has been given at least 60 days to review the proposal and public notice has been provided. "Control" is generally defined under this act as ownership of 25% or more of any class of voting stock. In addition, under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a depository institution or a depository institution holding company with a class of securities registered under Section 12 of the Exchange Act would, under the circumstances set forth in the presumption, constitute the acquisition of control. Furthermore, any company, as that term is broadly defined in the BHC Act, would be required to obtain the approval of the Federal Reserve Board under BHC Act before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of any class of voting securities of a depository institution or a depository institution holding company, or such lesser percentage as the Federal Reserve Board deems to constitute a "controlling influence."

Bank Holding Company Dividends. The Federal Reserve Board has authority to prohibit bank holding companies from paying cash dividends if such payment is deemed to be an unsafe or unsound practice. The Federal Reserve Board has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless the bank holding company's net income over the preceding year is sufficient to fund the dividends and the expected rate of earnings retention is consistent with the organization's capital needs, asset quality, and overall financial condition. The Company's ability to pay dividends is also subject to laws and regulations of the Connecticut Department of Banking.

Bank Holding Company Support of Subsidiary Banks. Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to their support. This support may be required at times when the bank holding company may not have the resources to provide it. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act ("FDIA"), the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (1) the "default" of a commonly controlled FDIC-insured depository institution; or (2) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution "in danger of default."

The Sarbanes-Oxley Act. The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") implements a broad range of corporate governance and accounting measures for public companies (including publicly-held bank holding companies such as the Company) designed to promote honesty and transparency in corporate America. Sarbanes-Oxley's principal provisions, many of which have been interpreted through regulations of the Securities and Exchange Commission, provide for and include, among other things: (i) the creation of an independent accounting oversight board; (ii) auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients; (iii) additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements; (iv) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; (v) an increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with the company's independent auditors; (vi) requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer; (vii) requirements that companies disclose whether at least one member of the audit committee is a "financial expert" (as such term is defined by the SEC); (viii) expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods; (ix) a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions on non-preferential terms and in compliance with other bank regulatory requirements; (x) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; and (xi) a range of enhanced penalties for fraud and other violations. On December 15, 2006, the Securities and Exchange Commission delayed the internal control reporting requirements under Section 404 of the Sarbanes-Oxley Act for non-accelerated filers to periods ending after December 15, 2007. In accordance with the requirements of Section 404(a), Management's report on internal controls is included herein at Item 9A(T). On January 31, 2008, the SEC proposed and on June 20, 2008 approved a further one-year delay from fiscal years ending after December 15, 2008 to fiscal years ending after December 15, 2009 for the auditors attestation report on internal controls over financial reporting. On June 20, 2008, the SEC also announced that it received Office of Management and Budget (OMB) approval to proceed with data collection for a study of the costs and benefits of Section 404 implementation, focusing on the consequences for smaller companies and the effects of the Section 404 auditor attestation requirements. The results of the study are expected to become available during the extension period.

USA PATRIOT ACT. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Patriot Act"), designed to deny terrorists and others the ability to obtain access to the United States financial system, has significant implications for depository institutions, broker-dealers and other businesses involved in the transfer of money. The Patriot Act, as implemented by various federal regulatory agencies, requires financial institutions, including the Company and the Bank, to implement new policies and procedures or amend existing policies and procedures with respect to, among other matters, anti-money laundering, compliance, suspicious activity and currency transaction reporting, and due diligence on customers. The Patriot Act and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the Federal Reserve Board (and other federal banking agencies) to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under the BHC Act or the Bank Merger Act.

Significant Laws and Regulations to which the Bank is Subject

General. The Bank is organized under the Banking Law of the State of Connecticut. Its operations are subject to federal and state laws applicable to commercial banks and to extensive regulation, supervision and examination by the Connecticut Banking Commissioner, as well as by the FDIC, as its primary federal regulator and insurer of deposits. While the Bank is not a member of the Federal Reserve System, it is subject to certain regulations of the Federal Reserve Board. In addition to banking laws, regulations and regulatory agencies, the Bank is subject to various other laws, regulations and regulatory agencies, all of which directly or indirectly affect the Bank's operations. The Connecticut Banking Commissioner and the FDIC examine the affairs of the Bank for the purpose of determining its financial condition and compliance with laws and regulations. The Connecticut Banking Commissioner and the FDIC have the authority to limit the Bank's payment of cash dividends based on such factors as the maintenance of adequate capital, which could reduce the amount of dividends otherwise payable.

The Connecticut Banking Commissioner and the FDIC have significant discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the FDIC, Congress, the Connecticut Banking Commissioner, or the Connecticut General Assembly, could have a material adverse impact on the Bank.

Activities and Investments of Insured State-Chartered Banks. Section 24 of the FDIA generally limits the activities of principal and equity investments of FDIC-insured, state-chartered banks to those that are permissible for national banks. The Company does not expect such provisions to have a material adverse effect on the Company or the Bank.

Capital Requirements. The FDIC has issued regulations and adopted a statement of policy regarding the capital adequacy of state-chartered banks, such as the Bank. Under the regulations, a bank generally is deemed to be (i) “well-capitalized” if it has a Total Risk-Based Capital Ratio of 10.0% or more, a Tier I Risk-Based Capital Ratio of 6.0% or more, a Leverage Ratio of 5.0% or more and is not subject to any written capital order or directive; or (ii) “adequately capitalized” if it has a Total Risk-Based Capital Ratio of 8.0% or more, a Tier I Risk-Based Capital Ratio of 4.0% or more, and a Leverage Ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of “well-capitalized;” or (iii) “undercapitalized” if it has a Total Risk-Based Capital Ratio that is less than 8.0%, a Tier I Risk-Based Capital Ratio that is less than 4.0% or a Leverage Ratio that is less than 4.0% (3.0% under certain circumstances); or (iv) “significantly undercapitalized” if it has a Total Risk-Based Capital Ratio that is less than 6.0%, a Tier I Risk-Based Capital Ratio that is less than 3.0% or a Leverage Ratio that is less than 3.0%, and (v) “critically undercapitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. If an institution becomes undercapitalized, it would become subject to significant additional oversight and regulation, as mandated by the FDIA.

The following table illustrates the Company's and the Bank's regulatory capital ratios at December 31:

	Company			Bank		
	2008	2007	Capital Adequacy Target Ratio	2008	2007	Capital Adequacy Target Ratio
Total Capital to Risk Weighted Assets	18.46%	19.97%	8.00%	17.09%	17.34%	8.00%
Tier 1 Capital to Risk Weighted Assets	17.13%	18.80%	4.00%	15.96%	16.13%	4.00%
Tier 1 (Leverage) Capital Ratio to Average Assets	15.64%	15.08%	4.00%	14.55%	12.88%	4.00%

As of December 31, 2008, the Bank and the Company were deemed to be well-capitalized institutions.

Prompt Corrective Action and Other Enforcement Mechanisms. Federal law requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. An institution that, based upon its capital levels, is classified as “well capitalized,” “adequately capitalized” or “undercapitalized” may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat an institution as “critically undercapitalized” unless its capital ratio actually warrants such treatment.

In addition to restrictions and sanctions imposed under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease and desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

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Premiums for Deposit Insurance. The FDIC has implemented a risk-based assessment system, under which an institution's deposit insurance premium assessment is based on the probability that the deposit insurance fund will incur a loss with respect to the institution, the likely amount of any such loss, and the revenue needs of the deposit insurance fund.

Under this risk-based assessment system, banks are categorized into one of three capital categories (well capitalized, adequately capitalized, and undercapitalized) and one of three categories based on supervisory evaluations by its primary federal regulator. The three supervisory categories are: financially sound with only a few minor weaknesses (Group A); demonstrates weaknesses that could result in significant deterioration (Group B); and poses a substantial probability of loss (Group C). The capital ratios used by the FDIC to define well capitalized, adequately capitalized and undercapitalized are the same in the FDIC's prompt corrective action regulations.

FDIC insurance of deposits may be terminated by the FDIC, after notice and hearing, upon finding by the FDIC that the insured institution has engaged in unsafe or unsound practices, or is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule or order of, or conditions imposed by, the FDIC.

Safety and Soundness Standards. Federal law requires each federal banking agency to prescribe for depository institutions under its jurisdiction standards relating to, among other things: internal controls; information systems and audit systems; loan documentation; credit underwriting; interest rate risk; asset growth; compensation; fees and benefits; and such other operational and managerial standards as the agency deems appropriate. The federal banking agencies have promulgated regulations and Interagency Guidelines Establishing Standards for Safety and Soundness (the "Guidelines") to implement these safety and soundness standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The Guidelines address internal controls and information systems; internal audit system; credit underwriting; loan documentation; interest rate risk exposure; asset quality; earnings and compensation; and fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standards prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard set by the FDIC.

The federal banking agencies also have adopted regulations for real estate lending prescribing uniform guidelines for real estate lending. The regulations require insured depository institutions to adopt written policies establishing standards, consistent with such guidelines, for extensions of credit secured by real estate. The policies must address loan portfolio management, underwriting standards and loan-to-value limits that do not exceed the supervisory limits prescribed by the regulations.

Community Reinvestment Act. Under the Community Reinvestment Act ("CRA"), as implemented by FDIC regulations, the Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not prescribe specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of a depository institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The FDIC is required to provide a written evaluation and make public disclosure of an institution's CRA performance utilizing a four-tiered descriptive rating system. Institutions are evaluated and rated by the FDIC as "Outstanding," "Satisfactory," "Needs to Improve," or "Substantial Non Compliance." Failure to receive at least a "Satisfactory" rating may inhibit an institution from undertaking certain activities, including acquisitions of other financial institutions, which require regulatory approval based, in part, on CRA compliance considerations. In its most recent CRA evaluation, dated July 31, 2003, the Bank was rated as "Satisfactory."

Transactions with Affiliates. Sections 23A and 23B of the Federal Reserve Act restrict transactions between a bank and an affiliated company, including a parent bank holding company. The Bank is subject to certain restrictions on loans to affiliated companies, on investments in the stock or securities thereof, on the taking of such stock or securities as collateral for loans to any borrower, and on the issuance of a guarantee or letter of credit on their behalf. Among other things, these restrictions limit the amount of such transactions, require collateral in prescribed amounts for extensions of credit, prohibit the purchase of low quality assets and require that the terms of such transactions be substantially equivalent to terms of similar transactions with nonaffiliates. Generally, the Bank is limited in its extensions of credit to any affiliate to 10% of the Bank's capital and in its extensions of credit to all affiliates to 20% of the Bank's capital.

Customer Information Security. The FDIC and other bank regulatory agencies have adopted guidelines (the "Security Guidelines") for safeguarding confidential, personal customer information. The Security Guidelines require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information, and protect against unauthorized access to or use of such information, and ensure the proper disposal of information that could result in substantial harm or inconvenience to any customer.

Privacy. Financial institutions are required to implement policies and procedures regarding their information collection practices and the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the statute requires explanations to consumers on policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required by law, prohibits disclosing such information except as provided in the financial institution's policies and procedures.

Item 1A. Risk Factors.

Not required.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The table below sets forth information about properties the Bank uses for its branch offices. The Company also owns property located in Clinton, Connecticut.

Office	Location	Square Feet	Status
Main Office	215 Church Street, New Haven, Connecticut	11,306	Leased
Branford Office	445 West Main Street, Branford, Connecticut	3,714	Leased
Amity Office	1475 Whalley Avenue, New Haven, Connecticut	2,822	Owned
North Haven Office	24 Washington Avenue, North Haven, Connecticut	2,430	Leased

Property at 215 Church Street, New Haven, Connecticut. The Bank leases a free-standing building located at 215 Church Street, New Haven, Connecticut, in the central business and financial district of New Haven. The headquarters of the Bank and the Company, and Evergreen, are located within this building. The building has a drive-up teller, an automated teller machine, two vaults and a night deposit drop.

The lease term ended in 2006, however, the Bank exercised its option to extend the lease for an additional five years. The Bank has a right of first refusal to purchase the building. The Bank's annual rent, which is fixed in the terms of the lease, including during the option periods, is currently $137,933. The Bank is responsible for all costs to maintain the interior of the building, other than structural repairs, and for all real estate taxes.

When practical, the Bank seeks to sublease space within the building that is not needed for operations. The Bank of Southern Connecticut had two tenants during 2008, including the rental of approximately 1,045 square feet to Laydon and Company, LLC, an entity owned by Elmer A. Laydon, the son of Elmer F. Laydon, the Chairman of the board of directors of the Company through August 2, 2008. At December 31, 2008 the Bank had no tenants.

Property at 445 West Main Street, Branford, Connecticut. The Bank of Southern Connecticut leases space at 445 West Main Street, Branford, Connecticut, the site of the Branford branch, which opened for business on October 7, 2002.

The current term of the Branford branch lease expires in 2012. The Bank of Southern Connecticut has an option to extend the lease for two additional terms. The base rent payable for the current term is $40,631 until September 30, 2012. The base rent for the option periods increases and is fixed in the lease. The Bank is responsible for all costs to maintain the building, other than structural repairs, and for all real estate taxes.

Property at 1475 Whalley Avenue, New Haven, Connecticut. The Bank owns a one-acre site with a single story, stucco facility of approximately 2,822 square feet that is located at 1475 Whalley Avenue, New Haven, Connecticut. The Bank operates its Amity branch from this location.

Property at 24 Washington Avenue, North Haven, Connecticut. On February 16, 2006, the Company entered into a lease agreement to lease the facility at 24 Washington Avenue, North Haven, Connecticut, the site of The Bank of North Haven, a division of The Bank of Southern Connecticut. The facility was improved to accommodate the new branch, and $295,000 was expended for improvements, furnishings and equipment. The Bank of North Haven, a division of The Bank of Southern Connecticut, opened for operations on July 10, 2006. The lease is for an initial term of five years, with three successive five-year option periods. Base rent is $38,880 annually until April 30, 2011. The base rent for the option periods increases and is fixed in the lease. The Bank is responsible for the pro rata share of operating expenses.

Property in Clinton, Connecticut. In June 2005, the Company purchased a one-acre improved site with two buildings in Clinton, Connecticut for the primary purpose of establishing a branch office of the Bank. The net purchase price of the property was $495,000. During 2007, the Bank determined that it would not establish a branch at this location and subsequently retained a commercial real estate broker to represent the Company in the sale of the property, and the property is classified as held for sale at December 31, 2008.

Item 3. Legal Proceedings.

The Company and the Bank are being sued by its former Senior Vice President and Chief Marketing Officer for age discrimination and breach of contract in connection with his layoff as part of a reduction in staff announced by the Bank in July 2008. The former Senior Vice President and Chief Marketing Officer notified the Company 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 the Company, the Bank and the former Senior Vice President and Chief Marketing Officer. He is seeking unspecified damages. The matter is currently pending. The Company believes the former Senior Vice President and Chief Marketing Officer's claims are without merit and intend to defend this case vigorously.

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

No matter was submitted to a vote of shareholders of the Company during the fourth quarter of the fiscal year covered by this Form 10-K.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

The Company's Common Stock is quoted on the NYSE Amex under the symbol "SSE."

The following table sets forth the high and low sales price per share of the Company's Common Stock for the last two years:

Quarter Ended	High	Low
March 31,2008	$ 7.50	$ 6.73
June 30, 2008	$ 7.45	$ 6.95
September 30, 2008	$ 7.05	$ 5.48
December 31, 2008	$ 6.25	$ 1.40
March 31,2007	$ 8.12	$ 7.10
June 30, 2007	$ 7.66	$ 7.10
September 30, 2007	$ 7.65	$ 7.00
December 31, 2007	$ 7.62	$ 6.85

Holders

There were approximately 103 registered shareholders of record of the Company's Common Stock as of March 10, 2009.

Dividends

No cash dividends have been declared to date by the Company. Management expects that earnings, if any, will be retained and that no cash dividends will be paid in the near future. The Company may, however, declare stock dividends at the discretion of its Board of Directors. No stock dividends were declared in 2008 and 2007.

The Company's only significant operating subsidiary during 2008 is the Bank. The Company is dependent upon the ability of the Bank to declare and pay dividends to the Company. The Bank's ability to declare cash dividends is dependent upon the Bank's ability to earn profits and to maintain acceptable capital ratios, as well as meet regulatory requirements and remain compliant with banking law.

The policy of the Connecticut Banking Commissioner is to prohibit payment of any cash dividends prior to recapture of organization and pre-operating expenses from operating profits. In addition, the Bank is prohibited by Connecticut law from declaring a cash dividend on its Common Stock without prior approval of the Connecticut Banking Commissioner except from its net profits for that year and any retained net profits of the preceding two years. "Net profits" is defined as the remainder of all earnings from current operations. In some instances, the FDIC may impose further restrictions on dividends. At December 31, 2008 and 2007, no cash dividends may be declared by the Bank without regulatory approval.

The payment of cash dividends by the Bank may also be affected by other factors, such as the requirement to maintain capital in accordance with regulatory guidelines. If, in the opinion of the Connecticut Banking Commissioner, the Bank were engaged in or was about to engage in an unsafe or unsound practice, the Commissioner could require, after notice and a hearing, the Bank to cease and desist from the practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvements Act of 1991, a depository institution may not pay any cash dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal banking agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

Recent Sales of Unregistered Securities

The Company has not sold unregistered securities during the period covered by this report on Form 10-K.

Repurchase of Securities

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. The Company completed this stock repurchase program in the beginning of December 2008.

The following table provides common stock repurchases made by and on behalf of the Company during the three months ended December 31, 2008:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or programs
October 1 - October 31	30,000	$ 5.31	232,186	56,126
November 1 - November 30	15,000	$ 5.00	247,186	41,126
December 1 - December 31	41,126	$ 5.10	288,312	-
Total	86,126	$ 5.16		

Item 6. Selected Financial Data.

Not required.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion is intended to assist you in understanding the financial condition and results of operations of the Company and the Bank, and should be read in conjunction with the consolidated financial statements and related notes beginning on page F-3.

Overview

Southern Connecticut Bancorp, Inc. 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 The Bank of Southern Connecticut, a commercial bank serving New Haven, Connecticut and the surrounding communities. The Bank of Southern Connecticut commenced operations on October 1, 2001. 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., a mortage broker with its headquarters in New Haven, Connecticut.

The Company's net income for fiscal year 2008 was $134,000, an improvement of $708,000 from the net loss of $574,000 in fiscal year 2007. In comparison to 2007, the 2008 operating results reflect decreased net interest income due to lower average earning assets and lower interest rates. Noninterest income increased during 2008 due to the gain on the sale of the New London office offset by a decrease in service charges and fees, resulting from decreases in deposit account balances, deposit account activity and deposit account charges. The decreases in noninterest expenses in 2008 in comparison to 2007 were partially due to sale of the New London office during 2008 offset by expenses related to severance payments made to the former Chief Executive Officer and President of the Bank. In addition, the decrease in other operating expense is attributable to charges to expense in 2007 for post-retirement benefits for the Bank's former Chief Executive Officer.

The Company offers a wide range of services to businesses, professionals, and individuals. The Company focuses on serving the banking needs of small to medium-sized businesses in its geographic areas. The Company makes commercial loans, industrial loans, real estate loans, construction loans and consumer loans, accepts demand, savings, and time deposits and provides a broad range of other services to its customers, either directly or through third parties. The Company derives revenues principally from interest earned on loans and fees from other banking-related services. The operations of the Company are influenced significantly by general economic conditions and by policies of financial institution regulatory agencies, primarily the Connecticut Banking Commissioner and the FDIC. The Company's cost of funds is influenced by interest rates on competing investments and general market interest rates. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rates at which such financings may be offered.

Selected Operating and Balance Sheet Data –
Years Ended December 31, 2008 and December 31, 2007

Operating Data	2008	2007
Interest income	$ 7,000,100	$ 9,143,381
Interest expense	2,240,045	3,377,776
Net interest income	4,760,055	5,765,605
Provision for loan losses	226,019	538,480
Noninterest income	1,666,625	960,495
Noninterest expenses	6,066,912	6,761,301
Net income (loss)	133,749	(573,681)
Basic and diluted income (loss) per share	0.05	(0.19)
Balance Sheet Data		
Cash and due from banks	$ 5,267,439	$ 3,891,258
Federal funds sold	-	21,100,000
Short-term investments	8,637,450	8,355,686
Interest bearing certificates of deposit	1,642,612	-
Investment securities	5,130,005	5,265,679
Loans, net	89,241,432	85,995,128
Total assets	114,916,562	130,564,261
Total deposits	93,970,024	107,422,392
Repurchase agreements	214,391	544,341
Total shareholders' equity	18,540,954	20,084,483
Book value per share	6.90	6.76

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. Because Evergreen 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 Company uses an internal reporting system to generate information by operating segment. Estimates and allocations are used for noninterest expenses.

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
Goodwill		238,440
Total assets acquired		245,790
Liabilities:		
Liabilities assumed		15,696
Total liabilities assumed		15,696
Net assets acquired	$	230,094
Cash Paid	$	130,094
Payable to seller		100,000
Total	$	230,094

Assets

The Company’s total assets were $114.9 million as of December 31, 2008, a decrease of $15.7 million over December 31, 2007 total assets of $130.6 million. $7.5 million of the decline in total assets is attributable to a decrease in premises and equipment and loans from December 31, 2007 attributable to the sale of the New London branch completed on February 29, 2008. Earning assets comprise $105.9 million of the total asset volume, and consist of Federal funds sold, short-term investments, interest-bearing certificates of deposit, securities and loans, which collectively decreased $16.5 million from 2007. The Company has maintained liquidity by maintaining balances in overnight Federal funds sold and in short-term investments, primarily money market mutual funds, to provide funding for higher yielding loans as they are approved. As of December 31, 2008 and 2007, Federal funds sold balances were $0.0 million and $21.1 million, respectively and short-term investments balances were $8.6 million and $8.4 million, respectively. During the latter part of 2008, due to historically low returns available on federal funds sold, the Company focused on money market funds as a short-term investment strategy. Investment securities classified as available for sale were $5.1 million and $5.3 million as of December 31, 2008 and 2007, respectively. The gross loan portfolio was $90.4 million and $87.3 million as of December 31, 2008 and 2007 respectively, an increase of $10.1 million, excluding the $6.8 million in gross loans held for sale at December 31, 2007 that were transferred with the sale of the Bank’s branch in New London, Connecticut. This transaction was completed on February 29, 2008.

Investments

The amortized cost of the Company's investments decreased $204,000 during 2008, representing the difference between securities that matured ($9 million) and were called ($2.7 million) and purchases of new securities ($11.5 million).

The following table presents the maturity distribution of the amortized cost of investment securities at December 31, 2008, and the weighted average yield of such securities. The weighted average yields were calculated based on the amortized cost and effective yields to maturity of each security.

Available for sale	One Year or Less	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	No Maturity	Total	Weighted Average Yield
U. S. Government sponsored agency obligations	$ -	$ 1,000,000	$ 2,496,409	$ 1,500,000	$ -	$ 4,996,409	4.78%
Mortgage-backed securities	-	-	-	-	105,386	105,386	4.29%
Total	$ -	$ 1,000,000	$ 2,496,409	$ 1,500,000	$ 105,386	$ 5,101,795	
Weighted Average Yield	0.00%	3.50%	4.89%	5.44%	4.29%	4.77%	

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2008:

	Amortized Cost	Fair Value
Federal National Mortgage Association	$3,500,000	$3,516,725

Please see also, "Notes to Consolidated Financial Statements."

Loans

The Bank's net loan portfolio was $89.2 million at December 31, 2008 versus $86.0 million at December 31, 2007, an increase of $10.0 million, excluding the $6.8 million in gross loans held for sale at December 31, 2007 that were transferred with the sale of the Bank's branch in New London, Connecticut. This transaction was completed on February 29, 2008. Loan demand has been steady throughout the year. The Company attributes the 2008 loan growth to the success of the Bank's loan business development program in generating loan demand to small to medium-sized businesses. Management believes that the loan growth will continue 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. There are no other significant loan concentrations in the loan portfolio.

The following table presents the maturities of loans in the Company's portfolio at December 31, 2008 by type of loan, and the sensitivities of loans to changes in interest rates:

	Due in one year or less	Due after one year through five years	Due after five years	Total	% of Total
Commercial loans secured by real estate	$ 17,130,386	$ 25,352,750	$ 2,979,036	$ 45,462,172	50.22%
Commercial loans	27,713,754	9,911,520	-	37,625,274	41.57%
Construction loans	4,410,384	2,089,727	-	6,500,111	7.18%
Consumer home equity loans	95,466	20,613	267,603	383,682	0.42%
Consumer installment loans	364,250	187,906	-	552,156	0.61%
Total	$ 49,714,240	$ 37,562,516	$ 3,246,639	$ 90,523,395	100.00%
Fixed rate loans	$ 7,052,144	$ 7,048,423	$ 141,686	$ 14,242,253	
Variable rate loans	42,662,096	30,514,093	3,104,953	76,281,142	
Total	$ 49,714,240	$ 37,562,516	$ 3,246,639	$ 90,523,395	

Please see also, "Notes to Consolidated Financial Statements."

Critical Accounting Policy

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to reporting the 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 estimates with its audit committee. Refer to the discussion below under "Allowance for Loan Losses" and Note 1 to the consolidated financial statements for a detailed description of our estimation process and methodology related to the allowance for loan losses.

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 for loan losses consists of specific and general components. The specific component relates to allowances established for individual impaired loans. The general component relates to pools of loans segregated by loan type, and is based on historical loss experience adjusted by certain qualitative factors as determined by management and the board of directors. The allowance for loan losses does not contain an unallocated component.

Based upon this evaluation, management believes the allowance for loan losses of $1,183,000 or 1.31% of gross loans at December 31, 2008 is adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2007, the allowance for loan losses was $1,257,000 or 1.44% of gross loans outstanding. The decrease in the allowance is attributable to a $91,000 increase in the general component of the allowance due to loan growth as well as an increase in the reserve factors for the general portion of the allowance, offset by a $165,000 decline in the specific component of the allowance. The decrease in the specific component is due to lower specific reserves needed for new impaired loans at December 31, 2008 as compared to the reserves that were needed for loans that were impaired at December 31, 2007. Based on prevailing nationwide economic conditions and forecasts, management and the Board of Directors determined to increase the reserve factors for the Company's general reserve components of the allowance.

The accrual of interest income on loans is discontinued whenever reasonable doubt exists as to its 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, and 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 and restructured loans to be impaired. In most cases, loan payments that are past due less than 90 days and the related loans are not considered to be impaired.

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

	2008	2007
Balance, beginning of year	$ 1,256,965	$ 1,062,661
Provision for loan losses	226,019	538,480
Recoveries of loans previously charged-off:		
Commercial	37,109	11,223
Consumer	-	750
Total recoveries	37,109	11,973
Loans charged-off:		
Commercial loans secured by real estate	(90,215)	-
Commercial	(246,509)	(356,149)
Total charge-offs	(336,724)	(356,149)
Balance, end of year	$ 1,183,369	$ 1,256,965
Net (charge-offs) recoveries to average loans	(0.36%)	(0.41%)

Allocation of the Allowance for Loan Losses at December 31. 2008 and 2007:

	2008		2007	
	Balance	Percent of Loans in Each Category to Total Loans	Balance	Percent of Loans in Each Category to Total Loans
Commercial loans secured by real estate	$ 528,754	50.22%	$ 405,492	44.45%
Commercial loans	530,088	41.57%	$ 773,075	46.68%
Construction loans	114,340	7.18%	$ 61,907	7.16%
Residential mortgages	-	0.00%	$ 962	0.16%
Consumer home equity loans	6,890	0.42%	$ 3,756	0.64%
Consumer installment loans	3,297	0.61%	$ 11,773	0.91%
	$ 1,183,369	100.00%	$ 1,256,965	100.00%

Non-Accrual, Past Due and Restructured Loans

Non-accrual loans at December 31, 2008 and 2007 totaled $881,948 and $530,246 respectively. In 2008 and 2007, there were no loans considered "troubled debt restructurings". Accruing loans contractually past due 90 days or more were $384,442 and $726,036 at December 31, 2008 and 2007, respectively.

	December 31, 2008	December 31, 2007
Non-accrual loans	$ 881,948	$ 530,246
Accruing loans contractually past due 90 days or more		
Loans past due 90 days or more and still accruing	$ 195,822	$ 726,036
Matured loans pending renewal and still accruing (1)	188,620	-
Total	$ 384,442	$ 726,036

(1) In November 2007, the Company significantly revamped it's 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 December 31, 2008, the Bank had loans totaling $1.4 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 $94.0 million at December 31, 2008, a decrease of $13.4 million (12.5%) in comparison to total deposits as of December 31, 2007 of $107.4 million. $9.9 million of the decrease in deposits from December 31, 2007 is attributable to the sale of the New London branch completed on February 29, 2008. Following is a discussion of the $3.5 million (3%) decrease in total deposits in 2008 excluding the aforementioned $9.9 million in deposits held for sale at December 31, 2007. Non-interest bearing deposits were $28.2 million at December 31, 2008, an increase of $4.6 million (19%) from $23.6 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 $10.7 million, or 22%, to $33.8 million at December 31, 2008, from $44.5 million at December 31, 2007. Time deposits increased to $32.0 million at December 31, 2008 from $29.4 million at December 31, 2007, an 9% increase. Included in time deposits is the Company's placement of $2.2 million in customer deposits and purchase of $2.0 million in brokered certificates of deposit through the CDARS program. The Bank continues to emphasize growth in core non-interest checking accounts and related interest bearing checking, money market deposit, and savings accounts and is less aggressive in attracting higher cost time deposits. As of December 31, 2008, these core deposits represented 66.0% of total deposits.

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.

As of December 31, 2008 the Bank's maturities of time deposits were:

(Thousands of dollars)	$100,000 or greater	Less than $100,000	Totals
Three months or less	$ 5,239	$ 2,934	$ 8,173
Over three months to six months	3,518	2,324	5,842
Over six months to one year	4,054	9,547	13,601
Over one year to two years	208	934	1,142
Over two years to three years	815	2,126	2,941
Over three years	100	201	301
	$ 13,934	$ 18,066	$ 32,000

Other

The decrease in Premises and Equipment of $824,000 is due mainly to the sale of assets related to the New London branch of $656,000.

The decrease in Other Assets Held for Sale is due to the write down of the Clinton property. The property is recorded at fair market value, net of estimated costs to sell, of $374,900 as of December 31, 2008.

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 years ended December 31, 2008 and 2007.

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

	2008			2007			
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Decreases in interest Income/Expense
Interest earning assets							