SOUTHERN CONNECTICUT BANCORP INC
Form 10QSB
August 13, 2004

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

F O R M 10 - QSB

[X] Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2004

Commission file number 0-49784

SOUTHERN CONNECTICUT BANCORP, INC.
(Name of Small Business Issuer as Specified in Its Charter)

Connecticut	06-1609692
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

215 Church Street
New Haven, Connecticut 06510
(Address of Principal Executive Offices)

(203) 782-1100
(Issuer's Telephone Number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days. YES [X] No [ ]

The number of shares of the issuer's Common Stock, par value $.01 per share, outstanding as of
July 23, 2004: 2,791,864

Transitional Small Business Disclosure Format

Yes __ No X

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PART I
Financial Information

Item 1. Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
June 30, 2004 (unaudited) and December 31, 2003

	2004	2003
Assets		
Cash and due from banks	$ 812,222	$ 1,147,883
Federal funds sold	7,346,000	966,000
Short-term investments	3,124,989	454,115
Cash and cash equivalents	11,283,211	2,567,998
Available for sale securities	15,450,607	8,478,068
Federal Home Loan Bank Stock	47,100	21,500
Loans receivable (net of allowance for loan losses of $455,033 in 2004 and $421,144 in 2003)	44,785,570	40,818,718
Accrued interest receivable	249,075	196,545
Premises and equipment, net	3,398,132	3,459,915
Other assets	962,010	843,296
Total assets	$ 76,175,705	$ 56,386,040
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing deposits	$ 15,986,600	$ 13,781,286
Interest bearing deposits	36,940,879	33,492,589
Total deposits	52,927,479	47,273,875
Repurchase agreements	913,984	339,752
Accrued expenses and other liabilities	511,551	267,232
Capital lease obligations	1,190,452	1,190,879
Total liabilities	55,543,466	49,071,738
Commitments and Contingencies	--	--
Stockholders' Equity		
Preferred stock, no par value; 500,000 shares authorized; none issued		
Common stock, par value $.01; 5,000,000, shares authorized; shares issued and outstanding: 2004 2,791,864; 2003 1,063,320	27,919	10,633
Additional paid-in capital	24,066,354	10,704,269
Accumulated deficit	(3,044,968)	(3,100,842)
Accumulated other comprehensive loss - net unrealized loss on available for sale securities	(417,066)	(299,758)
Total stockholders' equity	20,632,239	7,314,302
Total liabilities and stockholders' equity	$ 76,175,705	$ 56,386,040

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP,INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months and Six Months Ended June 30, 2004 and 2003 (unaudited)

	Three Months Ended June 30		S
	2004	2003	2004
Interest Income			
Interest and fees on loans	$ 861,867	$ 505,272	$ 1,677,
Interest on securities	55,594	49,872	103,
Interest on federal funds sold and short-term investments	23,348	16,493	33,
Total interest income	940,809	571,637	1,813,
Interest Expense			
Interest on deposits	155,235	92,762	307,
Interest on capital lease obligations	42,719	42,124	85,
Interest on repurchase agreements	1,607	619	3,
Total interest expense	199,561	135,505	396,
Net interest income	741,248	436,132	1,417,
Provision for Loan Losses	29,245	23,500	60,
Net interest income after			
provision for loan losses	712,003	412,632	1,356,
Noninterest Income:			
Service charges and fees	87,406	26,782	145,
Gains and fees from sales and referrals of SBA loans	84,881	--	216,
Gains (losses) on sales of available for sale securities	--	5,000	(
Other noninterest income	87,154	19,143	111,
Total noninterest income	259,441	50,925	472,
Noninterest Expense			
Salaries and benefits	473,784	385,239	933,
Occupancy and equipment	135,667	93,453	261,
Professional services	118,059	49,810	179,
Data processing and other outside services	69,340	47,799	138,
Advertising and promotional expense	23,113	18,317	34,
Forms, printing and supplies	18,317	17,726	34,
Other operating expenses	113,002	79,679	190,

Total noninterest expenses	951,282	692,023	1,772,
Net income (loss)	$ 20,162	$ (228,466)	$ 55,
Basic Income (Loss) per Share	$ 0.02	$ (0.21)	$ 0
Diluted Income (Loss) per Share	$ 0.01	$ (0.21)	$ 0
Dividends per Share	$ --	$ --	$ -

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Six Months ended June 30, 2004 and 2003 (unaudited)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumul Defic
Balance December 31, 2002	966,667	$ 9,667	$ 10,705,382	$ (2,502,9
Comprehensive Loss:				
Net Loss	--	--	--	(412,6
Unrealized holding loss on available for sale securities	--	--	--	--
Total comprehensive loss				
Balance June 30, 2003	966,667	$ 9,667	$ 10,705,382	$ (2,915,5
Balance December 31, 2003	1,063,320	$ 10,633	$ 10,704,269	$ (3,100,8
Comprehensive Loss:				
Net Income	--	--	--	55,8
Unrealized holding loss on available for sale securities	--	--	--	--
Total comprehensive loss	(61,434)			
Exercise of stock warrants	5,544	56	60,424	--

Issuance of common stock	1,723,000	17,230	13,301,661	--
Balance June 30, 2004	2,791,864	$ 27,919	$ 24,066,354	$ (3,044,9

See Notes to Consolidated Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2004 and 2003 (unaudited)

	Six Months End June 30,	
Cash Flows From Operations	2004	20
Net income (loss)	$ 55,874	$ (4
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization and accretion of premiums and discounts on investments, net	18,073	
Provision for loan losses	60,995	
Loss (Gain) on sales of available for sale securities	944	(
Gains on sales of SBA loans	(202,196)	
Depreciation and amortization	138,962	
Increase in cash surrender value of life insurance	(6,155)	
Changes in assets and liabilities:		
(Decrease) increase in deferred loan fees	(5,419)	
(Increase) decrease in accrued interest receivable	(52,530)	
(Increase) decrease in other assets	(112,559)	
Increase in accrued expenses and other liabilities	244,418	4
Net cash provided by operating activities	140,407	2
Cash Flows From Investing Activities		
Purchases of available for sale securities	(8,967,504)	(9,6
Principal repayments on available for sale securities	859,265	2
Proceeds from maturities of available for sale securities	-	5,1
Proceeds from sales of available for sale securities	999,375	3,5
Purchases of Federal Home Loan Bank Stock	(25,600)	(
Proceeds from sales of SBA loans	1,986,863	
Net increase in loans receivable	(5,923,608)	(8,9
Purchases of premises and equipment	(77,179)	(5
Proceeds from sale of OREO	116,414	
Net cash used in investing activities	(11,031,974)	(10,2
Cash Flows From Financing Activities		
Net increase in demand, savings and money market deposits	6,036,014	12,0
Net decrease in certificates of deposit	(382,410)	(
Net increase (decrease) in repurchase agreements	574,232	(6

Principal payments on capital lease obligations	(427)	
Net proceeds from common stock offering	13,318,891	
Exercise of stock warrants	60,480	
Net cash provided by financing activities	19,606,780	11,3
Net increase in cash and cash equivalents	8,715,213	1,3
Cash and cash equivalents		
Beginning	2,567,998	3,0
Ending	$ 11,283,211	$ 4,4

See Notes to Consolidated Financial Statements.

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SOUTHERN CONNECTICUT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the Six Months Ended June 30, 2004 and 2003 (unaudited)

	Six Months Ende June 30,	
	2004	20
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 388,875	$ 2
Income taxes	$ -	$ -
Supplemental disclosures of noncash investing activities		
Liability incurred for investment security purchase	$ -	$1,3
Transfer of Loans to OREO	$ 116,513	$

See Notes to Consolidated Financial Statements.

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Southern Connecticut Bancorp, Inc.

Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Nature of Operations

Southern Connecticut Bancorp, Inc. ("Bancorp"), a Connecticut corporation, is a bank holding company incorporated on November 8, 2000 for the purpose of forming, and becoming the sole shareholder of, The Bank of Southern Connecticut (the "Bank"). The Bank provides a full range of banking services to commercial and consumer customers, primarily concentrated in the New Haven County area of Connecticut, through its main office in New Haven, Connecticut and two branch offices in New Haven and Branford, Connecticut. In 2003, SCB Capital Inc. was formed as a Connecticut Corporation, and in April 2004 Bancorp capitalized SCB Capital, Inc., which became a subsidary of the Company. SCB Capital, Inc. will engage in a limited range of investment banking, advisory, and brokerage services, primarily with small to medium size business clients. In April 2004, Bancorp received a temporary certificate of incorporation from the Banking Department of the State of Connecticut to open a new bank, to be named The Bank of Southeastern Connecticut, to be located in New London, Connecticut.

Note 2. Basis of Financial Statement Presentation

The consolidated balance sheet at December 31, 2003 has been derived from the audited consolidated financial statements of Bancorp at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The accompanying consolidated unaudited financial statements as of and for the three and six months ended June 30, 2004 and 2003 and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements of Bancorp and notes thereto as of December 31, 2003.

Certain 2003 amounts have been reclassified to conform with the 2004 presentation. Such reclassifications had no effect on the 2003 net loss.

The accompanying unaudited consolidated financial information reflects, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the interim periods presented. The results of operations for the three and six months ended June 30, 2004 are not necessarily indicative of the results of operations that may be expected for all of 2004.

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 June 30, 2004, and December 31, 2003 are as follows:

June 30,2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fa Val
U.S. Treasury Obligations	$ 5,978,984	$ -	$ (1,424)	$ 5,9
U.S. Government Agency Obligations	9,188,809	-	(369,795)	8,8
Mortgage Backed Securities	699,880	-	(45,847)	6
	$15,867,673	$ -	$(417,066)	$15,4

December 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agency Obligations	$7,200,948	$ -	$(269,550)	$6,9
Mortgage Backed Securities	1,576,878	-	(30,208)	1,5
	$8,777,826	$ -	$(299,758)	$8,4

At June 30, 2004, gross unrealized holding losses on available for sale securities totaled $417,066. Of the securities with unrealized losses, there is one mortgage backed and six U.S. Government agency securities that had unrealized losses for a period in excess of twelve months with a current unrealized loss of $263,387. Management does not believe that any of the unrealized losses are other than temporary as they relate to debt and mortgage-backed securities issued by U. S. Government and U.S. Government sponsored agencies resulting from changes in the interest rate environment. Bancorp has the ability to hold these securities to maturity if necessary and expects to receive all contractual principal and interest related to these investments. As a result, management believes that these unrealized losses will not have a negative impact on future earnings or a permanent effect on capital.

At December 31, 2003, gross unrealized holding losses on available for sale securities totaled $299,758. Of the securities with unrealized losses, there are no securities that had unrealized losses for a period in excess of twelve months.

Note 4. Loans Receivable

A summary of Bancorp's loan portfolio at June 30, 2004 and December 31, 2003 is as follows:

	June 30, 2004	December 31,
Commercial loans secured by real estate	$21,118,714	$18,043,
Commercial loans	21,457,240	18,584,
Construction and land loans, net of undisbursed portion of $986,476 in 2004 and $729,220 in 2003	846,297	1,500,
Residential mortgages	56,204	948,
Consumer home equity loans	947,768	1,042,
Consumer installment loans	893,765	1,204,
Total loans	45,319,988	41,324,
Net deferred loan fees	(79,385)	(84,
Allowance for loan losses	(455,033)	(421,
Loans receivable, net	$44,785,570	$40,818,

Note 5. Deposits

At June 30, 2004 and December 31, 2003, deposits consisted of the following:

	June 30, 2004	December 31, 2003
Noninterest bearing deposits	$15,986,600	$13,781,286
Interest bearing deposits		
Checking	3,968,357	3,499,378
Money Market	20,338,669	17,251,327
Savings	2,907,720	2,633,341
Checking, money market & savings	27,214,746	23,384,046
Time Certificates under $100,000	3,163,561	3,057,294
Time Certificates of $100,000 or more	6,562,572	7,051,249
Time deposits	9,726,133	10,108,543
	36,940,879	33,492,589
Total deposits	$52,927,479	$47,273,875

Note 6. Available Borrowings

During 2003 Bancorp obtained secured and unsecured lines of credit with other financial institutions with total available borrowings of $4,400,000. There are no borrowings against these lines of credit as of June 30, 2004.

Note 7. Income (Loss) Per Share

Bancorp 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 in weighted average shares outstanding, unless the effect is antidilutive. Bancorp is also required to provide a reconciliation of the numerator and denominator used in the computation of both basic and diluted income per share. The following is information about the computation of income per share for the three and six months ended June 30, 2004 and 2003.

Income (Loss) per Share

Three Months Ended June 30,

	2004			
	Net Income	Weighted Average Shares	Amount Per Share	Net Income
Basic Income (Loss) Per Share				
Income available to common shareholders	$ 20,162	1,333,941	$ 0.02	$ (228
Effect of Dilutive Securities				
Warrants/Stock Options outstanding	-	30,353	-	
Diluted Income (Loss) Per Share				
Income available to common shareholders plus assumed conversions	$ 20,162	1,364,294	$ 0.01	$ (228

Six Months Ended June 30,

	2004			
	Net Income	Weighted Average Shares	Amount Per Share	Net Income
Basic Income (Loss) Per Share				
Income available to common shareholders	$ 55,874	1,199,270	$ 0.05	$ (412

Effect of Dilutive Securities				
Warrants/Stock Options outstanding	-	46,145	-	
Diluted Income (Loss) Per Share				
Income available to common shareholders plus assumed conversions	$ 55,874	1,245,415	$ 0.04	$ (412

For the three months and six months ended June 30, 2003, common stock equivalents have been excluded from the computation of the net loss per share because the inclusion of such equivalents is antidilutive.

Note 8. Other Comprehensive Loss

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

	Six Months Ended June 30, 2004		
	Before-Tax Amount	Taxes	N
Unrealized holding losses arising during the period	$ (118,252)	$ -	
Add: Reclassification adjustment for losses recognized in net income	944	-	
Unrealized holding losses on available for sale securities, net of taxes	$ (117,308)	$ -	

	Six Months Ended June 30, 2003		
	Before-Tax Amount	Taxes	N
Unrealized holding losses arising during the period	$ (99,784)	$ 27,597	
Less: Reclassification adjustment for gains recognized in net income	(44,505)	12,308	

Unrealized holding loss on available for sale securities, net of taxes	$ (144,289)	$ 39,905

Note 9. Stock Based Compensation

During the six months ended June 30, 2004, Bancorp granted 18,050 stock options to employees and directors at exercise prices ranging from $8.77 to $9.75 per share.

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Stock options issued to employees and directors under Bancorp's stock option and warrant plans have no intrinsic value at the grant date, and under Opinion No. 25 no compensation cost is recognized for them. Bancorp has elected to continue with the accounting methodology in Opinion No. 25 and, as a result, has provided pro forma disclosures of net loss and earnings per share and other disclosures, as if the fair value based method of accounting had been applied.

Had compensation cost for issuance of such options and warrants been recognized based on the fair values of awards on the grant dates, in accordance with the method described in SFAS No. 123, reported net income (loss) and per share amounts for the six and three months ended June 30, 2004 and 2003 would have differed from the pro forma amounts as shown below:

For the six months ended June 30, 2004 and June 30, 2003

	Six Months Ended June 30, 2004
Net income (loss) as reported	$ 55,874
Deduct: total stock based employee compensation expense determined under fair value based method for all awards	(159,709)

Pro forma net loss	$ (103,835)
Basic income (loss) per share:	
As reported	$ 0.05
Pro forma	$ (0.09)
Diluted income (loss) per share:	
As reported	$ 0.04
Pro forma	$ (0.09)

For the three months ended June 30, 2004 and June 30, 2003

	Three Months Ended June 30, 2004
Net income (loss) as reported	$ 20,162
Deduct: total stock based employee compensation expense determined under fair value based method for all awards	(78,281)
Pro forma net loss	$(58,119)
Basic income (loss) per share:	
As reported	$ 0.02
Pro forma	$ (0.04)
Diluted income (loss) per share:	
As reported	$ 0.01
Pro forma	$ (0.04)

For the three and six months ended June 30, 2003, common stock equivalents have been excluded from the computation of the pro forma net loss per share because the inclusion of such equivalents is antidilutive.

Note 10. Bank Application and Capital Raising

During 2003, Bancorp's Board of Directors approved the establishment of a new commercial bank in New London, Connecticut. In October 2003, Bancorp submitted its final application to the State of Connecticut Department of Banking related to the establishment of the new bank to be located in the city of New London. On April 28, 2004, the State of Connecticut Department of Banking issued a temporary certificate of authority in connection with this application. Subject to applicable State and Federal agency regulatory approval and the issuance of a final certificate of authority from the State of Conecticut Department of Banking, Bancorp plans to open the new bank in the fourth quarter of 2004 or the first quarter of 2005.

On June 17, 2004, Bancorp completed a public offering of its common stock with net proceeds of $13.3 million after deduction of underwriter's discount and offering expenses. Bancorp issued 1,723,000 shares of common stock in connection with this offering. On June 17, 2004, Bancorp invested $2,762,817 of the public offering proceeds in The Bank of Southern Connecticut. Bancorp has also committed to capitalize the new bank with $6 million of the proceeds raised from this public offering.

Note 11. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, Bancorp 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 Bancorp 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. Bancorp uses the came credit policies in making commitments and conditional obligations as it does for on-balance-sheet and evaluates each customer's creditworthiness on a case-by-case basis. Management believes that Bancorp 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 June 30,2004 and December 31, 2003:

	June 30, 2004	December 31, 2003
Commitments to extend credit		
Future loan commitments	$ 5,152,000	$ 3,752,000
Unused line of credit	7,789,306	9,065,661
Undisbursed construction loans	727,507	729,220
Financial standby letters of credit	933,055	933,055
	$14,601,868	$14,479,936

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 Bancorp upon extension of credit, is based upon management's credit evaluation of the counter party. Collateral held varies, but may include residential and commercial property, deposits and securities.

Standby letters of credit are written commitments issued by

Bancorp 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. Newly issued or modified guarantees that are not derivative contracts have been recorded on Bancorp's books at their fair value at inception. The liability related to guarantees recorded at June 30, 2004 and December 31, 2003 was not significant.

Item 2. Management's Discussion and Analysis or Plan of Operation

(a) Plan of Operation

Southern Connecticut Bancorp

Bancorp, a Connecticut corporation, was incorporated on November 8, 2000 to serve as a bank holding company for community based commercial banks. Bancorp is a bank holding company registered in accordance with the Bank Holding Company Act of 1956, as amended (the "BHC Act") and is regulated by and subject to the supervision of the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). Bancorp owns one hundred percent of the capital stock of The Bank of Southern Connecticut ("Bank"), a Connecticut chartered bank headquartered in New Haven, Connecticut. The Bank commenced operations on October 1, 2001.

Bancorp's holding company structure provides organizational flexibility for its growth plans. Bancorp may in the future decide to engage in additional businesses permitted to bank holding companies and would form a subsidiary to provide these services. For example, Bancorp could acquire additional banks, establish de novo banks and other businesses, including mortgage companies, leasing companies, insurance agencies and small business investment companies, without having to go through a corporate reorganization. Before Bancorp could acquire interests in other banks, establish de novo banks or expand into other businesses, it will need to obtain relevant regulatory approvals.

De novo banks in Connecticut have reached profitability on average within three to four years after the commencement of operations. Bancorp was marginally profitable in the fourth quarter of 2003, the ninth quarter of operations, as well as profitable in the first two quarters of 2004. The three recent profitable quarters are largely attributable to fee income and gains on sale derived from referrals and sales of SBA guaranteed loan participations.

Bancorp's plan of operation is to continue to operate the Bank and increase its market share within the City of New Haven and the surrounding areas, and possibly offer certain additional banking services, such as internet based cash management services. Bancorp has received a Temporary Certificate of Authority from the Banking Commissioner of the State of Connecticut for a second, wholly owned community based commercial bank subsidiary to serve the New London, Connecticut market, called The Bank of Southeastern Connecticut. Bancorp intends to develop both the Bank's and The Bank of Southeastern Connecticut's geographic franchises with branch offices throughout the 45 miles of coastal communities located between New Haven and New London Connecticut, and from New London to the Rhode Island border with Connecticut. Bancorp has applied to the Federal Deposit Insurance Corporation to insure the deposits of the new banking subsidiary. Bancorp also is required to apply to the Federal Reserve for approval. The Bank of Southeastern Connecticut is expected to open in the fourth quarter of 2004 or the first quarter of 2005 and be staffed, managed and operated in a manner consistent with the Bank.

Locations

Bancorp has leased a free-standing building located at 215 Church Street, New Haven, Connecticut, located in the central business and financial district of New Haven. It has assigned this lease to the Bank, and the Bank has assumed all rights and obligations under this lease. Both Bancorp and the Bank operate from this facility. On October 7, 2002 the Bank opened a branch office in Branford, Connecticut at West Main Street and Summit Place. On August 15, 2002 the Bank also purchased a building at 1475 Whalley Avenue in the Westville section of New Haven for a branch office site which was opened on March 24, 2003. The Bank is also evaluating locations for the establishment of additional branch banking offices.

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The following table sets forth the location of the Bank's branch offices and other related information:

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

Bancorp entered into a lease on January 14, 2004 with the City of New London for a former banking facility located at 15 Masonic Street, New London, Connecticut. This facility is intended to be the main office of The Bank of Southeastern Connecticut. The Bank of Southeastern Connecticut is expected to be staffed, managed and operated in a manner consistent with the Bank.

On June 23, 2004, Bancorp, through a nominee, entered into an agreement to purchase an approximately 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 is $495,000. The entity under which title to the property will be ultimately held is to be determined. The Bank is in the process of filing an application to its State and Federal Regulators to establish bank operations at the Clinton location for late in the fourth quarter of 2004 or in the first quarter of 2005. Bancorp intends that Bancorp or the Bank will improve the facility to accommodate banking services. The costs of such improvements have not been fully determined at this time.

The Bank focuses on serving the banking needs of small and mid sized businesses, professionals and their employees. The Bank's target customer has up to $30 million in revenues, up to 100 employees, and borrowing needs between $250,000 and $2 million. The Bank serves the greater New Haven marketplace and has a Board of Directors and management team drawn from the communities served, each of who is recognized and respected by the New Haven business community. The Bank's focus on the commercial market makes it uniquely qualified to move deftly in responding to the needs of its clients.

The Bank does not expect to compete with large institutions for the primary banking relationships of large corporations, but it competes for the small to medium-size businesses and for the consumer business of employees of such entities. The Bank's geographic market focus also provides a unique competitive advantage by clearly identifying the Bank as the independent local bank focused on commercial lending and other commercial banking services. The

Bank's focus clients operate retail, service, wholesale distribution, manufacturing and international businesses. Many of these customers use the services of the Bank because of relationships and contacts with the Bank's directors and management. We believe that the Bank is successfully winning new business because of these relationships and a combination of a fair price for our services, quick decision processes and a high-touch level of personalized customer service.

Lending, Depository and Other Products

The Bank currently has a wide range of "core" bank products and services offerings which are more completely described below. Additionally, through correspondent and other relationships, the Bank helps its customers meet all of their banking needs, including obtaining services which the Bank may not offer directly.

The Bank continues to attract core deposits, including checking accounts, money market accounts, savings accounts, sweep accounts, NOW accounts and a variety of certificates of deposit and IRA accounts. To attract deposits, the Bank is employing an aggressive marketing plan in its service area and features a broad product line and rates and services competitive with those offered in the New Haven market and the surrounding communities. The primary sources of deposits have been and are expected to be businesses and their employees located in, and residents of New Haven and the surrounding communities. The Bank is obtaining these deposits through personal solicitation by its officers and directors, outside programs and advertisements published and / or broadcasted in the local media.

Deposits and the Bank's equity capital are the sources of funds for lending and investment activities. Repayments on loans, investment income and proceeds from the sale and maturity of investment securities will also provide additional funds for these purposes. While scheduled principal repayments on loans and investment securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Bank expects to manage the pricing of deposits to maintain a desired deposit balance. The Bank offers drive-in teller services, wire transfers and safe deposit services.

The Bank's loan strategy is to offer a broad range of loans to businesses and individuals in its service area, including commercial and business loans, personal loans, 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 to both the greater New Haven business community and companies throughout the State of Connecticut. The marketing focus on small to medium-size businesses and professionals may result in an assumption of certain lending risks that are different from or greater than those which would apply to loans made to larger companies or consumers. Commercial loans generally entail certain additional risks because repayment is usually dependent on the success of the enterprise. The Bank seeks to manage the credit risk inherent in its loan portfolio through credit controls, loan diversification and personal guarantees of the principal owners of these small to medium-sized businesses. Prior to approving a loan the Bank evaluates: the credit histories of potential borrowers; the value and liquidity of available collateral; the purpose of the loan; the source and reliability of funds for repayment and other factors considered relevant in the circumstances.

Loans are made on a variable or fixed rate basis with fixed rate loans limited to five-year terms. All loans are approved by the Bank's management and the Loan Committee of the Bank's Board of Directors. At the present time, the Bank is not syndicating or securitizing loans. The Bank at times participates in multi-bank loans for companies in its service area. Commercial loans and commercial real estate loans may be written for terms of up to twenty years. Loans to purchase or refinance commercial real estate are collateralized by the subject real estate. 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.

Other services provided currently or to be provided include cashier's checks, money orders, travelers checks, bank by mail, lock box, 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 currently expect to offer trust services but may offer trust services through a joint venture with a larger institution. To offer trust services in the future, the Bank would need the approval of the Connecticut Banking Commissioner and the FDIC.

Investment Securities

Another significant activity for the Bank is maintaining an investment portfolio. Although granting a variety of loans to generate interest income and loan fees is an important aspect of the Bank's business plan, the aggregate amount of loans will be subject to maintaining a satisfactory loan-to-deposit ratio. The Bank's overall portfolio objective is to maximize the long-term total rate of return through active management of portfolio holdings taking into consideration estimated asset/liability and liquidity needs, tax equivalent yields and maturities. 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 expects that investments in equity securities will be very limited. The Bank's current investment portfolio is limited to U. S. government and agency obligations and agency issue collateralized mortgage obligations 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.

Market and Competition

There are numerous banks and other financial institutions serving the Southern Connecticut Market 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. To grow, we will have to win customers away from the customer base of existing banks and financial institutions as well as win new customers from growth in the Southern Connecticut Market. Many of such banks and financial institutions are well established and well capitalized, allowing them to provide a greater range of services than we will be able to offer in the near future.

The greater New Haven is currently served by approximately 70 offices of commercial banks, none of which is headquartered in New Haven. All 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 impracticable for the Bank to provide at this time. There are numerous banks and other financial institutions serving the communities surrounding New Haven, which also draws 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 such banks are 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; non-bank corporations offering services traditionally offered only by banks; increased customer awareness of product and service differences among competitors; and increased merger activity.

Over the past ten years, the Connecticut banking market has been characterized by significant consolidation among financial institutions. Since January 1994, there have been 60 completed acquisitions of Connecticut based banks and thrifts. Although our competitors are currently much larger than us, we believe that the corporate service culture and operational infrastructure at large banks often does not provide the type of personalized service that many of our small to medium business and professional clients desire ant that we strive to provide.

Additional legislative and regulatory changes may affect the Bank in the future; however, the nature of such changes and the effect of their implementation cannot be assessed. New rules and regulations may, among other things, revise limits on interest rates on various categories of deposits and may limit or influence interest rates on loans. Monetary and fiscal policies of the United States government and its instrumentalities, including the Federal Reserve, significantly influence the growth of loans, investments and deposits. The banking regulatory environment is undergoing significant change both as it affects the banking industry directly and as it affects competition between banks and non-bank financial institutions.

The Bank of Southeastern Connecticut

On July 2, 2003, Bancorp submitted an application to the State of Connecticut, Department of Banking ("Department"), for the establishment by Bancorp of a new commercial bank in New London, Connecticut. The application was subsequently temporarily withdrawn to complete additional information requested by the Department, including a three-year balance sheet and income statement forecast for the proposed new bank.

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On August 7, 2003, the application, including the completed additional information, was resubmitted to the Department, and on October 2, 2003, the final application, including additional information, was submitted.

On April 28, 2004, a temporary certificate of authority was issued by the State of Connecticut Department of Banking in connection with the new bank application. Additional applications to the Federal Insurance Deposit Corporation for deposit insurance, and to the Federal Reserve Bank of Boston for Bancorp to acquire the new bank, will be filed in the near future. Subject to the reciept of regulatory approvals, Bancorp expects the new bank to be operating by the end of the fourth quarter of 2004 or the first quarter of 2005.

SCB Capital, Inc.

On November 17, 2003, SCB Capital, Inc., a wholly-owned subsidiary of Bancorp, was incorporated. SCB Capital, Inc. will engage in a limited range of investment banking and advisory services primarily to small to medium size business clients of Bancorp located in Connecticut. It is not anticipated that SCB Capital, Inc. will directly provide financing or equity in the investment banking transactions it facilitates or in which it acts as principal. SCB Capital, Inc. is in the process of applying for approval as a broker-dealer and membership with the National Association of Security Dealers. SCB Capital, Inc. has been capitalized with $20,000 and has not commenced operations. Any additional amount to be invested in SCB Capital, Inc. will be determined by Bancorp's Board of Directors following completion of the application.

Recent Developments

Bancorp raised $13.3 million, net of underwriting discounts and offering expenses, in equity capital though a public offering of common stock on June 17, 2004. On June 17, 2004, Bancorp invested $2,762,817 of these proceeds in the equity capital of The Bank of Southern Connecticut. Also, Bancorp has committed to investing $6 million of the proceeds in the equity capital of The Bank of Southeastern Connecticut at the time it receives all final regulatory approvals and commences banking operations. The remaining balance of the public offering net proceeds will be utilized for future branch office expansion and general corporate purposes. Bancorp listed its common stock on the American Stock Exchange in connection with its offering. Bancorp's common stock symbol is "SSE".

For a more detailed discussion of Bancorp's liquidity, see Liquidity on page 31 of this Form 10-QSB. Currently, other than the potential start up of a new bank in late 2004 or early 2005 and the establishment of new Bank branch offices (as previously discussed on page s 17 and 18 under the "Locations" heading), there are no plans involving the significant purchase or sale of property or equipment in the next twelve months. Outside of staffing the new bank located in New London and new offices of the Bank, Bancorp does not anticipate a significant change in the number of its employees.

The Board of Directors of the Bank has recently adopted resolutions designed to strengthen and enhance the Bank's Bank Secrecy Act compliance and the Bank's Information Technology controls. The Bank recently has promoted a new Bank Secrecy Act Officer and has amended its Bank Secrecy Act policies to strengthen compliance. Additionally, the Bank has retained an experienced outside consultant to assist it in developing and implementing Information Technology controls.

On August 11, 2004, Joseph V. Ciaburri, the Chairman and Chief Executive Officer of Bancorp, and Michael M. Ciaburri, the President and Chief Operating Officer of Bancorp, each entered into a settlement agreement with the Banking Commissioner of the State of Connecticut and paid a civil penalty of $2,500 in connection with three loans made by the Bank in November 2003 that resulted in a concentration of unsecured credit by the Bank exceeding 15% of the equity capital and reserves for loan and lease losses of the Bank. In particular, the Commissioner found that the two officers voted to approve the loans at a meeting of the loan committee of the

Bank without conditioning their approval to ensure that no commitment would be issued prior to obtaining a participation commitment from another financial institution to cover the excess loans over the applicable limitations. The settlement agreement acknowledged the officers' claim that they were not aware that their vote to approve the loans violated the applicable Connecticut statutes. No violation was found on behalf of the Bank or Bancorp, and the Commissioner acknowledged that the officers, in conjunction with the Bank's board of directors, have implemented policies and procedures to prevent future occurrences of such actions. In January 2004, the Bank sold a participation in the loans bringing the loans within the Bank's lending limit. The loans have fully performed at all times.

As of June 30, 2004, the Bank has 29 full-time employees. Its employees perform most routine day-to-day banking transactions for the Bank. However, the Bank has entered into a number of arrangements for banking services such as correspondent banking, data processing and armored carriers.

Overall, the Bank's plan of operation is focused on responsible growth and pricing of deposits and loans, and investment in high quality U. S. government securities to achieve a net interest margin sufficient to cover operating expenses, achieve profitable operations and maintain liquidity.

(b) Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary

Bancorp had net income of $20,162 (or basic earnings per share of $0.02 and diluted earnings per share of $0.01) for the quarter ended June 30, 2004, compared to a net loss of $228,466 (or basic and diluted loss per share of $0.21) for the quarter ended June 30, 2003. Bancorp had net income of $55,874 (or basic earnings per share of $0.05 and diluted earnings per share of $0.04) for the six months ended June 30, 2004, compared to a net loss of $412,649 (or basic and diluted loss per share of $0.39) for the six months ended June 30, 2003.

Financial Condition

Assets

Bancorp has reached total assets of $76.2 million at June 30, 2004, an increase of $19.8 million (35%) from $56.4 million in assets as of December 31, 2003. Earning assets reached $71.2 million, increasing $20.0 million (39%) during the first six months of 2004.

Bancorp has maintained liquidity by maintaining balances in overnight Federal funds sold and short-term investments including money market mutual funds to provide funding for higher yielding loans as they are approved and closed. As of June 30, 2004, Federal funds sold were $7.3 million and short-term investments balances were $3.1 million. Federal funds sold and short-term investments increased by $6.4 million and $2.7 million, respectively, during the first six months of 2004. The increases were due to receipt of the net proceeds of the public offering of equity securities by Bancorp which were not invested in available for sale securities and the excess of deposit volume over net new loan volume during the six month period. In addition, Bancorp has invested $15.5

million in U.S. Treasury, government agency and mortgage backed securities classified as available for sale.

Investments

Available for sale securities increased $7.0 million from December 31, 2003, reflecting in part the investment of approximately $8.0 million of net proceeds received from the June 2004 public offering in U.S. Treasury and Agency securities, less amortization and sales of securities.

During the six months ended June 30, 2004, gross unrealized losses on the available for sale securities portfolio totaled $417,066. These losses were the result of volatility in market rates and yield curve changes and impacted the market prices in government agency bonds and mortgage-backed securities. Management does not believe these losses are other than temporary, and Bancorp has the ability to hold these securities to maturity if necessary, and has both the intent and ability to retain its investments for a period of time sufficient to allow for any anticipated recovery in fair value. As a result, management believes that these unrealized losses will not have a negative impact on future earnings and capital.

Loans

The net loan portfolio increased $4.0 million (10%) from $40.8 million at December 31, 2003 to $44.8 million at June 30, 2004. The increase in loans is due to the addition of a branch office in 2003 and continued robust demand in the greater New Haven and Connecticut markets. The increase in the loan portfolio was funded primarily by increases in deposits and the decrease in investments. The loan to deposit ratio as of June 30, 2004 was 85%. Bancorp continues to target a loan to deposit ratio in the 80% to 85% range.

Critical Accounting Policy

In the ordinary course of business, Bancorp 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 principals generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. Bancorp believes the following discussion addresses Bancorp's only critical accounting policy, which is the policy that is most important to the portrayal of Bancorp'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.

Allowance for Loan Losses

The allowance for loan losses, a material estimate susceptible to significant change in the near-term, is established as losses are estimated to have occurred through a provision for losses charged against operations, and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Management's judgment in determining the adequacy of the allowance is inherently subjective and is based on the evaluation of individual loans, pools of homogeneous loans, the known and inherent risk characteristics and size of the loan portfolios, the assessment of current economic and real estate market conditions, estimates of the current value of underlying collateral, past loan loss experience, review of regulatory authority examination reports and evaluations of specific loans and other relevant factors. Loans, including impaired loans, are charged against the allowance for loan losses when management believes that the uncollectibility of principal is confirmed. Any subsequent recoveries are credited to the allowance for loan losses when received. In connection with the determination of the allowance for loan losses, management obtains appraisals for significant properties, when considered necessary.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Based on its evaluation, management believes the allowance for loan losses of $455,033 at June 30, 2004, which represents 1.00% of gross loans outstanding, is adequate, under prevailing economic conditions, to absorb probable losses on existing loans. At December 31, 2003, the allowance for loan losses was $421,144 or 1.02% of gross loans outstanding.

Analysis of Allowance for Loan Losses

The following represents the activity in the allowance for loan losses for the six months ended June 30:

Allowance for Loan Losses as of June 30, 2004 and 2003

	2004	2003
Balance at beginning of period	$421,144	$232,000
Charge-offs	(27,323)	(4,698)
Recoveries	217	-
Provision charged to operations	60,995	86,400
Balance at end of period	$455,033	$313,702

Non-Accrual, Past Due and Restructured Loans

The following table represents non-accruing and past due loans:

June 30, 2004	December 31, 2003

(Thousands of dollars)		
Loans delinquent over 90 days and still accruing	$ 30,075	$ 0
Non-accruing loans	37,024	94,063
Total	$ 67,099	$94,063
% of Total Loans	0.15%	0.23%
% of Total Assets	0.09%	0.17%

Potential Problem Loans

At June 30, 2004, the Bank had no other loans, other than those disclosed in the table above, as to which management has significant doubts as to the ability of the borrower to comply with the present repayment terms.

Deposits

Deposits were $52.9 million at June 30, 2004, an increase of $5.6 million (12%) from $47.3 million as of December 31, 2003. The increase in deposits was primarily in non-interest bearing deposits, and interest bearing money market and savings deposits, offset by a $382,410 decline in certificates of deposit balances. The increase in the total deposit portfolio reflects the continued vigorous marketing effort of the Bank. Bancorp does not have any brokered deposits.

Other

Repurchase agreements increased $574,232 from December 31, 2003 to $913,984 as of June 30, 2004 due to increased activity in these customer accounts.

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Results of Operations

De Novo banks in Connecticut have reached profitability on average within three to four years after commencement of operations. Bancorp was initially profitable in the fourth quarter of 2003, the ninth quarter of operation. Bancorp was also profitable in both the first and second quarters of 2004.

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 six and three months ended June 30, 2004 compared to the six and three months ended June 30, 2003. Interest income on loans includes loan fee income which is not significant. In addition, Bancorp does not have any tax-exempt securities or loans.

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

(Dollars in thousands)	Three months Ended June 30, 2004 Average Balance	Interest Income/ Expense	Average Rate	Three months Ended June 30, 2003 Average Balance	Interest Income/ Expense	Average Rate	Fl
Interest earning assets							
Loans	$ 45,759	$ 862	7.56%	$ 26,307	$ 505	7.70%	
Federal funds sold	6,383	14	0.88%	4,733	13	1.10%	
Short-term investments	2,837	9	1.27%	1,879	4	0.85%	
Investments	8,294	56	2.71%	8,103	50	2.48%	
Total interest earning assets	63,273	941	5.97%	41,022	572	5.59%	
Cash and due from banks	1,039			1,462			
Premises and equipment, net	3,412			3,433			
Allowance for loan losses	(447)			(301)			
Other	1,257			824			
Total assets	$ 68,534			$ 46,440			
Interest bearing liabilities							
Time certificates	$ 12,083	64	2.12%	$ 6,197	40	2.59%	
Savings deposits	2,713	8	1.18%	2,045	5	0.98%	
Money market / checking deposits	26,479	83	1.26%	19,277	48	1.00%	
Capital lease obligations	1,191	43	14.48%	1,192	42	14.13%	
Repurchase agreements	1,293	2	0.62%	497	1	0.81%	
Total interest bearing liabilities	43,759	200	1.83%	29,208	136	1.86%	
Non-interest bearing deposits	15,841			8,303			
Accrued expenses and other liabilities	207			946			
Shareholder's equity	8,727			7,983			
Total liabilities and equity	$ 68,534			$ 46,440			
Net interest income		$ 741			$ 436		
Interest spread			4.14%			3.73%	
Interest margin			4.70%			4.26%	

(1) Includes nonaccruing loans.

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

(Dollars in thousands)	Six months Ended June 30, 2004 Average Balance	Interest Income/ Expense	Average Rate	Six months Ended June 30, 2003 Average Balance	Interest Income/ Expense	Average Rate	Fl
Interest earning assets							
Loans	$ 45,050	$ 1,677	7.47%	$ 24,068	$ 920	7.71%	
Federal funds sold	4,137	18	0.87%	3,262	18	1.11%	
Short-term investments	2,710	16	1.18%	1,412	4	0.57%	
Investments	8,103	103	2.55%	8,268	132	3.22%	
Total interest earning assets	60,000	1,814	6.06%	37,010	1,074	5.85%	
Cash and due from banks	1,216			1,501			
Premises and equipment, net	3,431			3,250			
Allowance for loan losses	(441)			(269)			
Other	1,211			838			
Total assets	$ 65,417			$ 42,330			
Interest bearing liabilities							
Time certificates	$ 13,087	138	2.11%	$ 6,270	82	2.64%	
Savings deposits	2,598	15	1.16%	1,558	8	1.04%	
Money market / checking deposits	24,457	155	1.27%	16,635	95	1.15%	
Capital lease obligations	1,191	85	14.31%	1,192	84	14.21%	
Repurchase agreements	1,126	4	0.71%	513	1	0.39%	
Total interest bearing liabilities	42,459	397	1.88%	26,168	270	2.08%	
Non-interest bearing deposits	14,655			7,525			
Accrued expenses and other liabilities	210			549			
Shareholder's equity	8,093			8,088			
Total liabilities and equity	$ 65,417			$ 42,330			
Net interest income		$ 1,417			$ 804		

Interest spread	4.18%	3.77%
Interest margin	4.74%	4.38%

(1) Includes nonaccruing loans.

Changes in Assets and Liabilities and Fluctuations in Interest Rates

The following table summarizes the variance in interest income and expense for the six and three months ended June 30, 2004 and 2003 resulting in changes in assets and liabilities and fluctuations in interest rates earned and paid. The changes in interest attributable to both rate and volume have been allocated to both rate and volume on a pro rata basis.

	Three months Ended June 30, 2004 v. 2003		
	Increase Or	Due to Change in Average	
(Dollars in thousands)	(Decrease)	Volume	Rate
	(Dollars in thousands)		
Interest earning assets			
Loans	$ 357	$ 421	$ (64)
Federal funds sold	1	13	(12)
Short-term investments	5	2	3
Investments	6	1	5
Total interest earning assets	369	437	(68)
Interest bearing liabilities			
Time certificates	$ 24	$ 69	$ (45)
Savings deposits	3	2	1
Money market / checking deposits	35	21	14
Capital lease obligations	1	-	1
Repurchase agreements	1	3	(2)
Total interest bearing liabilities	64	95	(31)
Net interest income	$ 305	$ 342	$ (37)

(Dollars in thousands)	Six months Ended June 30, 2004 v. 2003 Increase Or (Decrease)	Due to Change in Average Volume	Rate
	(Dollars in thousands)		
Interest earning assets			
Loans	$ 757	$ 843	$ (86)
Federal funds sold	-	9	(9)
Short-term investments	12	5	7
Investments	(29)	(2)	(27)
Total interest earning assets	740	855	(115)
Interest bearing liabilities			
Time certificates	$ 56	$ 103	$ (47)
Savings deposits	7	6	1
Money market / checking deposits	60	49	11
Capital lease obligations	1	-	1
Repurchase agreements	3	1	2
Total interest bearing liabilities	127	159	(32)
Net interest income	$ 613	$ 696	$ (83)

Net Interest Income

For the quarter ended June 30, 2004, net interest income was $741,248 versus $436,132 for the same period in 2003, a $305,116 or 70% increase. This was the result of a $22.3 million increase in average earning assets in the quarter ended June 30, 2004 in comparison to the same period a year ago, including increases in average loans of $19.5 million and short term investments and federal funds of $2.6 million. Also, average interest bearing liabilities increased $14.6 million during the quarter ended June 30, 2004 in comparison to the same period a year ago, also partially offsetting the favorable net interest income effects of the increase in average earning assets balance (volume) and the favorable change in the average earning assets mix.

The yield on average interest earning assets for the three months ended June 30, 2004 was 5.97% versus 5.59% for same period in 2003. The cost of average interest bearing liabilities was 1.83% for the three months ended June 30, 2004 versus 1.86% for the same period in 2003. The decrease in the cost of average interest bearing liabilities was the primarily the result of lower rates paid on daily rate money market and interest bearing checking accounts and lower roll-over rates offered to renewing and new time deposits in the first quarter of 2004, in comparison to those paid and offered in the first quarter of 2003.

For the six months ended June 30, 2004, net interest income was $1,417,013 versus $803,583 for the same period in 2003, a $613,430 or 76% increase. This was the result of a $23.0 million increase in average earning assets in the six months ended June 30, 2004 in comparison to the same period a year ago, due primarily to increases in average loans of $21.0 million and short term investments and federal funds of $2.2 million. Also, average interest bearing liabilities increased $16.3 million during the six months ended June 30, 2004 in comparison to the same period a year ago, also partially offsetting the favorable net interest income effect of the increase in average earning assets.

The yield on average interest earning assets for the six months ended June 30, 2004 was 6.06% versus 5.85% for same period in 2003. The cost of average interest bearing liabilities was 1.88% for the six months ended June 30, 2004 versus 2.08% for the same period in 2003. The decrease in the cost of average interest bearing liabilities was the primarily the result of lower roll-over rates offered to renewing and new time deposits in the first six months of 2004, in comparison to those paid and offered in the same period during 2003.

Provision for Loan Losses

The $29,245 provision for loan losses for the three months ended June 30, 2004 reflects loan portfolio growth and seasoning. During the quarter, net charge-offs of $27,106 were recorded. The provision for loan losses for the three months ended June 30, 2003 was $23,500, and was primarily due to the increase in the Bank's loan volume during the period.

The $60,995 provision for loan losses for the six months ended June 30, 2004 primarily reflects loan portfolio growth and seasoning. The provision for loan losses for the six months ended June 30, 2003 was $86,400, and was primarily due to the increase in the Bank's loan volume during the period.

Noninterest Income

The $208,516 increase in total noninterest income for the second quarter of 2004 versus 2003 is primarily the result of an increase in the gains and fees from the sales and referrals of the guaranteed portion of Small Business Administration ("SBA") guaranteed loans of $84,881, prepayment penalties on loans of $35,050, and $93,585 in fees from increased deposit and loan related volume and fees from other services. Bancorp intends to continue to originate SBA guaranteed loans in the future and expects to continue to earn fee income from SBA loan participation sales and referrals.

The $342,114 increase in total noninterest income for the first six months of 2004 versus 2003 is primarily the result of an increase in the gains and fees from the sales and referrals of the guaranteed portion of SBA guaranteed loans of $216,715, increase in fees from deposit and loan related volume and activity and fees from other services of $170,848, offset by a decrease in realized gains on the sales of available for sale securities of $45,449.

Noninterest Expense

Total noninterest expense was $951,282 for the second quarter of 2004 versus $692,023 for the same period in 2003, an increase of $259,259 or 37%. The increase in expense is due to the growth in Bancorp's loan and deposit volume, as well as the acquisition of additional infrastructure relating to administration and compliance, requiring additional staffing and other operating expenses.

Total noninterest expense was $1,772,360 for the first six months of 2004 versus $1,259,934 for the same period in 2003, an increase of $512,426 or 41%. The increase in expense is due to the growth in the Bancorp's loan and deposit volume, the addition of the New Haven (Amity) office in March of 2003, the acquisition of the New London facility in January 2004, as well as the acquisition of additional infrastructure relating to administration and compliance, requiring additional staffing and other operating expenses.

Salaries and benefits for the second quarter of 2004 increased by $88,545 or 23% due to staff increases relating to new employees engaged due to loan and deposit volume and infrastructure development.

Salaries and benefits for the first six months of 2004 increased by $251,202 or 37% due to staff increases relating to the New Haven (Amity) office and other new employees engaged due to loan and deposit volume increases and infrastructure development.

Occupancy and equipment for the second quarter of 2004 increased by $42,214 or 45% due primarily to increases relating to depreciation of buildings, equipment and furniture of $18,664, rent and property taxes relating to the future New London bank subsidiary facility of $13,523, and maintenance of premises, furniture and equipment of $8,915

Occupancy and equipment for the first six months of 2004 increased by $93,558 or 56% due primarily to increases relating to depreciation of buildings, equipment and furniture of $41,426, rent and property taxes relating to the New London facility of $21,477, and maintenance of $13,898.

Professional fees for the second quarter of 2004 increased by $68,249 or by 137% due primarily to the engagement of consultants to assist the Bank in developing infrastructure and related policies and procedures, and legal and other professional costs relating to the chartering and operational planning of the proposed banking subsidiary to be located in New London and the investment banking subsidiary SCB Capital, Inc.

Professional fees for the first six months of 2004 increased by $64,373 or 56% due primarily to the engagement of consultants in the second quarter of 2004 to assist the Bank in developing infrastructure and related policies and procedures, and legal and other professional costs relating to the chartering of the proposed banking subsidiary to be located in New London and the investment banking subsidiary SCB Capital, Inc.

Data processing and other outside services for the second quarter increased by $21,541, or 45%, primarily due to increased loan and deposit volumes.

Data processing and other outside services for the first six months of 2004 increased by $51,760, or 60%, primarily due to increased loan and deposit volumes.

Other Operating Expense for the second quarter of 2004 increased by $33,323, or 42%, primarily due to insurance cost increases of $14,183, and Bancorp filing fees in connection with the new proposed banking subsidiary to be located in New London and SCB Capital, Inc. and other filings of $10,931.

Other Operating Expense for the first six months of 2004 increased by

$50,498, or 36%, primarily due to insurance cost increases of $22,215, Bancorp filing fees in connection with the new proposed banking subsidiary to be located in New London and SCB Capital, Inc. and other filings of $11,897, and increased communication costs of $8,780.

Off-Balance Sheet Arrangements

See Note 11 for information regarding the Bancorp's off-balance sheet arrangements.

Liquidity

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

Bancorp's liquidity position as of June 30, 2004 and December 31, 2003 consisted of liquid assets totaling $26.7 million and $11.0 million, respectively. This represents 35.0% and 19.6% of total assets at June 30, 2004 and December 31, 2003, respectively. The net increase in liquidity during the first six months of 2004 is due to increases in federal funds sold, short-term investments and available for sale securities principally due

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to receipt of the net proceeds from the public offering of equity securities by Bancorp and, to a lesser extent, deposit growth in excess of loan portfolio growth. The following categories of assets as described in the accompanying balance sheet are considered liquid assets: cash and due from banks, federal funds sold, short-term investments, and securities available for sale. Liquidity is a measure of Bancorp's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposits and increases in its loan portfolio.

Capital

The following table illustrates Bancorp's regulatory capital ratios at:

	June 30, 2004	D
Tier 1 (Leverage) Capital Ratio to Average assets	30.71%	
Tier 1 Capital to Risk Weighted Assets	37.57%	
Total Capital to Risk Weighted Assets	38.38%	

The following table illustrates the Bank's regulatory capital ratios at:

	June 30, 2004	D
Tier 1 (Leverage) Capital Ratio to Average assets	15.49%	
Tier 1 Capital to Risk Weighted Assets	19.31%	
Total Capital to Risk Weighted Assets	20.14%	

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

Market Risk

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

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

The exposure to interest rate risk is monitored by the Asset and Liability Management Committee ("ALCO") consisting of senior management personnel and selected members of the Board of Directors of the Bank. ALCO reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk. ALCO reports to the Board of Directors on a quarterly basis regarding the status of ALCO activities within the Company.

Impact of Inflation and Changing Prices

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

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

Certain statements contained in Bancorp's public reports, including this report, and in particular in this "Management's Discussion and Analysis or Plan of Operation", may be forward looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on Bancorp's interest earning assets and the interest paid on its bearing liabilities, (2) the timing of re-pricing of Bancorp's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the effect of changes in regulations applicable to Bancorp and the conduct of its business, (5) the effect of a loss of any executive officer, key personnel, or directors, (6) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks and the impact of recently enacted federal legislation, (7) the ability of competitors which are larger than Bancorp to provide products and services which it is impracticable for Bancorp to provide, (8) the effect of Bancorp's opening of branches and organization of a new bank, (9) the effect of any decision by Bancorp to engage in any business not historically permitted to it, (10) concentration of our business in Southern Connecticut, (11) the concentration of our loan portfolio in commercial loans to small-to-medium sized businesses, which may be impacted more severely than larger businesses during periods of economic weakness and (12) lack of seasoning in our loan portfolio, which may increase the risk of future credit defaults. Other such factors may be described in other filings made by Bancorp with the SEC.

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

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Based upon an evaluation of the effectiveness of Bancorp's disclosure controls and procedures performed by Bancorp's management, with participation of Bancorp's Chief Executive Officer and its Chief Financial Officer as of the end of the period covered by this report, Bancorp's Chief Executive Officer and Chief Financial Officer concluded that Bancorp's disclosure controls have been effective.

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

(b) Changes in Internal Controls

There have not been any significant changes in Bancorp's internal controls or in other factors that occurred during Bancorp's quarter ended June 30, 2004 that could significantly affect these controls subsequent to the evaluation referenced in paragraph (a) above.

PART II
Other Information

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities and Small Business Issuer Purchases of Equity Securities

Not Applicable

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Bancorp held its annual meeting of shareholders for 2004 on May 18, 2004. Three items were voted on at that meeting- the re-election of two directors, Joseph V. Ciaburri and Elmer F. Laydon, each for a three (3) year term; the ratification of the selection of McGladrey & Pullen, LLP as independent accountants for Bancorp for the year ending December 31, 2004; and approval of an increase in the number of authorized shares for issuance under the 2002 Stock Option Plan from 275,000 shares to 365,000 shares. Each matter passed. Director nominee Ciaburri received 1,042,339 votes "FOR", 0 votes "WITHELD", and 4,757 votes "ABSTAIN". Director nominee Laydon received 1,045,639 votes "FOR", 0 votes "WITHELD", and 1,457 votes "ABSTAIN". With respect to the ratification of the selection of McGladrey & Pullen, LLP, 1,044,292 votes were cast "FOR" and 27 votes were cast "AGAINST" the proposition, and 2,777 votes "ABSTAIN". The proposal to increase the number of authorized shares under the 2002 Stock Option Plan received 433,085 votes "FOR", 13,412 "AGAINST", 4,922 "ABSTAIN" and there were 595,677 broker non-votes.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

No.	Description
3(i)	Amended and Restated Certificate of Incorporation of the Issuer (incorporated by reference to Exhibit 3(i) to Issuer's Quarterly Report on Form 10-QSB dated June 30, 2002)
3(ii)	By-Laws of the Issuer (incorporated by reference to Exhibit 3(ii) to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.1	Lease, dated as of August 17, 2000, between 215 Church Street, LLC and the Issuer (incorporated by reference to Exhibit 10.1 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.2	Letter agreement dated January 3, 2001 amending the Lease between 215 Church Street, LLC and the Issuer (incorporated by reference to Exhibit 10.2 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.3	First Amendment to Lease dated March 30, 2001 between 215 Church Street, LLC and the Issuer (incorporated by reference to Exhibit 10.3 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.4	Second Amendment to Lease dated March 31, 2001 between 215 Church Street, LLC and the Issuer (incorporated by reference to Exhibit 10.4 to the Issuer's Registration Statement Form SB-2 (No. 333-59824))
10.5	Assignment of Lease dated April 11, 2001 between the Issuer and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.5 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.6	Employment Agreement dated as of January 23, 2001, between The Bank of Southern Connecticut, the Issuer and Joseph V. Ciaburri (incorporated by reference to Exhibit 10.6 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.7	Employment Agreement dated as of March 29, 2001 between The Bank of Southern Connecticut, and Gary D. Mullin (incorporated by reference to Exhibit 10.7 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.8	Issuer's 2001 Stock Option Plan (incorporated by reference to Exhibit 10.8 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.9	Issuer's 2001 Warrant Plan (incorporated by reference to Exhibit 10.9 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.10	Sublease dated January 1, 2001 between Michael Ciaburri, d/b/a Ciaburri Bank Strategies and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.10 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.11	Sublease dated January 1, 2001 between Laydon and Company, LLC and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.11 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.12	Issuer's 2001 Supplemental Warrant Plan (incorporated by reference to

Exhibit 10.12 to Issuer's Annual Report on Form 10-KSB dated March 29, 2002)

10.13 Issuer's 2002 Stock Option Plan (incorporated by reference to Appendix B to Issuer's Definitive Proxy Statement dated April 18, 2002).

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10.14 Employment Agreement dated as of February 12, 2003, between The Bank of Southern Connecticut and Michael M. Ciaburri.(incorporated by reference to Exhibit 10.14 to Issuer's Form 10-QSB dated May 14, 2003).

10.15 Bancorp's Board of Directors approval of the establishment by Bancorp of a new commercial bank in New London, Connecticut and a capital raising by Bancorp.

10.16 Amendment to Employment Agreement dated as of October 20, 2003, between The Bank of Southern Connecticut and Southern Connecticut Bancorp, Inc. and Joseph V. Ciaburri. (incorporated by reference to Exhibit 10.16 to the Issuer's Form 10-KSB dated March xx, 2004 (No. 333-59824))

10.17 Lease dated January 14, 2004 between The City of New London and the Issuer (incorporated by reference to Exhibit 10.17 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))

10.18 Lease dated August 2, 2002, between 469 West Main Street LLC and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.18 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))

10.19 Underwriting Agreement between A.G. Edwards & Sons, Inc. and Keefe, Bruyette & Woods, and Southern Connecticut Bancorp dated June 16, 2004.

31.1 Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chairman and Chief Executive Officer.

31.2 Section Rule 13(a)-14(a)/15(d)-14(a) Certification by President and Chief Operating Officer.

31.3 Section Rule 13(a)-14(a)/15(d)-14(a) by Vice President and Chief Financial Officer.

32.1 Section 1350 Certification by Chairman and Chief Executive Officer.

32.2 Section 1350 Certification by President and Chief Operating Officer.

32.3 Section 1350 Certification by Vice President and Chief Financial Officer.

(b) Reports on Form 8-K

The issuer filed reports on Form 8-K during the quarter ended June 30, 2004.

Date of Filing Item Reported

April 29, 2004	
May 14, 2004	
June 8, 2004	
June 17, 2004	

SIGNATURES

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

SOUTHERN CONNECTICUT BANCORP, INC.

By: /S/ Joseph V. Ciaburri

Name: Joseph V. Ciaburri
Title: Chairman & Chief Executive Officer

Date: August 12, 2004

Exhibit Index

31.1	Rule 13(a)-14(a)/15(d)-14(a) Certification by Chairman and Chief Executive Officer.	(filed he
31.2	Rule 13(a)-14(a)/15(d)-14(a) Certification by President and Chief Operating Officer.	(filed he
31.3	Rule 13(a)-14(a)/15(d)-14(a) Certification by Vice President and Chief Financial Officer.	(filed he
32.1	Section 1350 Certification by Chairman and Chief Executive Officer.	(filed he
32.2	Section 1350 Certification by President and Chief Operating Officer.	(filed he
32.3	Section 1350 Certification by Vice President and Chief Financial Officer.	(filed he