FOODARAMA SUPERMARKETS, INC.
Form SC 13E3/A
July 20, 2006

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

SCHEDULE 13E-3

RULE 13e-3 TRANSACTION STATEMENT
(Pursuant to Section 13(e) of the Securities Exchange Act of 1934
and Rule 13e-3 thereunder)

(Amendment No. 2)

FOODARAMA SUPERMARKETS, INC.
(Name of Issuer)

SAKER HOLDINGS CORP.
JOSEPH J. SAKER
RICHARD J. SAKER
JOSEPH J. SAKER, JR.
THOMAS A. SAKER
JOSEPH SAKER FAMILY PARTNERSHIP, L.P.
(Name of Person(s) Filing Statement)

Common Stock, par value $1.00 per share
(Title of Class of Securities)

344820105
(CUSIP Number of Class of Securities)

Michael Shapiro
Chief Financial Officer
922 Highway 33
Building 6, Suite 1
Freehold, New Jersey 07728
(732) 294-2270
(Name, Address and Telephone Numbers of Person Authorized to Receive Notices and Communications on Behalf of the Persons Filing Statement)

With a Copy to:
John A. Aiello, Esq.
Giordano, Halleran & Ciesla, P.C.
125 Half Mile Road
P.O. Box 190
Middletown, New Jersey 07748
(732) 741-3900

This statement is filed in connection with (check the appropriate box):

a. |_| The filing of solicitation materials or an information statement subject to Regulation 14A, Regulation 14C or Rule 13e-3(c) under the Securities Exchange Act of 1934.

b. |_| The filing of a registration statement under the Securities Act of 1933.

c. |X| A tender offer.

d. |_| None of the above.

Check the following box if the soliciting materials or information statement referred to in checking box (a) are preliminary copies: |_|

Check the following box if the filing is a final amendment reporting the results of the transaction: |_|

CALCULATION OF FILING FEE

Transaction Valuation (1)	Amount of Filing Fee (2)
$27,303,745	$2,922

(1) Estimated for purposes of calculating filing fee only. This calculation assumes the purchase of 511,165 shares of common stock of Foodarama Supermarkets, Inc. at the tender offer price of $53 per share of common stock. The transaction value also takes into account 4,000 stock options outstanding not held by the filing persons listed above.

(2) The amount of the filing fee, calculated in accordance with Rule 0-11 of the Securities Exchange Act of 1934, as amended, and Fee Rate Advisory No. 5 for fiscal year 2006 issued by the Securities and Exchange Commission, equals $107.00 per million of transaction value, or $2,922.

|X| Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: $2,922

Form or Registration No.: Schedule TO

Filing Party:		
	Saker Holdings Corp.	Gloria Saker
	Richard J. Saker	Nadine Saker Mockler
	Joseph J. Saker	Denise Saker Marder
	Joseph J. Saker, Jr.	Richard James Saker
	Thomas A. Saker	Joseph Saker Family Partnership, L.P.

Date Filed: May 9, 2006

INTRODUCTION

This Amendment No. 2 to Rule 13e-3 Transaction Statement on Schedule 13E-3 (this "Amendment") amends and supplements the Rule 13e-3 Transaction Statement on Schedule 13E-3 (the "Schedule 13E-3") filed with the Securities and Exchange Commission (the "SEC") on June 1, 2006, as amended by Amendment No. 1 to Schedule 13E-3 filed with the SEC on June 16, 2006. This Amendment is being filed by Saker Holdings Corp. (the "Purchaser"), a Delaware corporation formed by a purchaser group consisting of Richard J. Saker, President and Chief

Executive Officer of Foodarama Supermarkets, Inc. ("Foodarama"), Joseph J. Saker, Chairman of Foodarama, Joseph J. Saker, Jr., Senior Vice President - Marketing and Advertising and Secretary of Foodarama, Thomas A. Saker, Vice President of Store Operations of Foodarama, Joseph Saker Family Partnership, L.P. and four other members of the family of Joseph J. Saker (collectively, the "Purchaser Group"), and certain members of the Purchaser Group.

This Amendment relates to the offer by Purchaser to purchase all of the outstanding shares of Foodarama common stock, $1.00 par value per share (the "Shares"), not currently owned by the Purchaser Group, at a price of $53 per Share, in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase (the "Offer to Purchase"), which is attached as Exhibit (a)(1)(i) to Amendment No. 2 to Tender Offer Statement on Schedule TO filed with the SEC on June 16, 2006 by the Purchaser and the Purchaser Group (the "Schedule TO"), and the related Letter of Transmittal, attached to the Schedule TO as Exhibit (a)(1)(ii) (the "Letter of Transmittal") (the Offer to Purchase and the Letter of Transmittal collectively constitute the "Tender Offer"). The Tender Offer is being made in connection with a "going private" transaction which will result in Foodarama ceasing to be a publicly traded company.

The information set forth in the Offer to Purchase, including all appendices thereto, is expressly incorporated by reference into this Amendment in its entirety, and responses to each item in this Amendment are qualified in their entirety by the provisions of the Offer to Purchase.

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Item 15. Additional Information.

(b) Other Material Information.

This Amendment hereby amends and supplements the Schedule 13E-3 by adding the following disclosure for Item 15 thereof:

On July 20, 2006, Foodarama and the Purchaser issued a press release announcing the results of the Tender Offer. Based upon preliminary information provided by American Stock Transfer & Trust Company, the depositary for the Tender Offer, a total of 416,666 Shares were validly tendered (and not properly withdrawn) in the Tender Offer prior to the Tender Offer's expiration at 12:00 midnight on July 19, 2006. These Shares, together with all shares held by the members of the Purchaser Group, represent approximately 91% of the outstanding common stock of Foodarama.

Foodarama also announced that at a special meeting of its shareholders held on July 19, 2006, Foodarama's shareholders approved a share exchange between Foodarama and its wholly owned subsidiary, FSM-Delaware, Inc. ("FSM-Delaware"), which had been proposed in connection with the Tender Offer. As a result of these events, Purchaser expects that all conditions to the purchase of shares in the Tender Offer will soon be satisfied and plans to close the financing it has arranged to purchase the Shares in the Tender Offer and to proceed to accept and promptly pay for the Shares tendered for purchase. Immediately after the Tender Offer is completed, Foodarama will implement the share exchange whereby each outstanding share of Foodarama common stock will be exchanged for one share of common stock of FSM-Delaware. The share exchange will be immediately followed by the merger of FSM-Delaware with and into Purchaser. Shareholders of Foodarama who did not tender shares in the Tender Offer, other than the members of the Purchaser Group, will receive $53 per share in cash for the shares of FSM-Delaware they receive in the share exchange, subject to their right to seek appraisal rights under Delaware law. These transactions will result in Foodarama becoming a wholly owned subsidiary of Purchaser and ceasing to be a publicly traded company.

The full text of the press release is filed as Exhibit (a)(1)(xi) to Amendment No. 3 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on July 20, 2006.

Item 16. Exhibits.

Exhibit No.	Description.
(a)(1)(i)	Offer to Purchase, incorporated by reference to Exhibit (a)(1)(i) to Amendment No. 2 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on June 16, 2006.
(a)(1)(ii)	Letter of Transmittal, incorporated by reference to Exhibit (a)(1)(ii) to Amendment No. 2 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on June 16, 2006.

(a)(1)(iii)	Notice of Guaranteed Delivery, incorporated by reference to Exhibit (a)(1)(iii) to Amendment No. 2 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on June 16, 2006.
(a)(1)(iv)	Letter of Information from the Information Agent to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees, incorporated by reference to Exhibit (a)(1)(iv) to Amendment No. 2 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on June 16, 2006.
(a)(1)(v)	Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees, incorporated by reference to Exhibit (a)(1)(v) to Amendment No. 2 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on June 16, 2006.
(a)(1)(vi)	Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9, incorporated by reference to Exhibit (a)(1)(vi) to Amendment No. 2 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on June 16, 2006.
(a)(1)(vii)	Letter to Shareholders, incorporated by reference to Exhibit (a)(1)(vii) to Amendment No. 2 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on June 16, 2006.
(a)(1)(viii)	Press Release issued by Foodarama relating to the Tender Offer, incorporated by reference to Exhibit 99.2 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on December 2, 2005.
(a)(1)(ix)	Proposal Letter to Foodarama, dated December 1, 2005, incorporated by reference to Exhibit 99.1 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on December 2, 2005.

(a)(1)(x)	Press Release issued by the Purchaser announcing the commencement of the Tender Offer, incorporated by reference to Exhibit (a)(1)(x) to Amendment No. 2 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on June 16, 2006.
(a)(1)(xi)	Press Release issued by Foodarama and the Purchaser announcing the results of the Tender Offer and the approval of the share exchange, incorporated by reference to Exhibit (a)(1)(xi) to Amendment No. 3 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on July 20, 2006.
(a)(4)	Proxy Statement/Prospectus, incorporated by reference to the Proxy Statement/Prospectus contained in Amendment No. 3 to Registration Statement on Form S-4, filed by FSM-Delaware with the SEC on June 13, 2006.

(b)	Amended and Restated Commitment Letter, dated as of November 23, 2005, issued by GMAC Commercial Finance LLC, incorporated by reference to Exhibit (b) to Amendment No. 3 to Schedule 13E-3, filed by Foodarama, the Purchaser and certain members of the Purchaser Group with the SEC on June 13, 2006.
(c)(1)	Fairness Opinion of William Blair & Company LLC, incorporated by reference to Annex B to the Proxy Statement/Prospectus contained in Amendment No. 3 to Registration Statement on Form S-4, filed by FSM-Delaware, Inc. with the SEC on June 13, 2006.
(c)(2)	Materials presented to the Special Committee by William Blair & Company in connection with the March 2, 2006 meeting of the Special Committee, incorporated by reference to Exhibit (c)(2) to Amendment No. 1 to Schedule 13E-3, filed by Foodarama, the Purchaser and certain members of the Purchaser Group with the SEC on May 8, 2006.
(c)(3)	Materials dated January 27, 2006 presented to the Special Committee by William Blair & Company in connection with the January 30, 2006 conference call with the Special Committee, incorporated by reference to Exhibit (c)(3) to Amendment No. 3 to Schedule 13E-3, filed by Foodarama, the Purchaser and certain members of the Purchaser Group with the SEC on June 13, 2006.
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(d)(1)	Agreement and Plan of Share Exchange, dated March 2, 2006, by and between Foodarama and FSM-Delaware, incorporated by reference to Annex A to the Proxy Statement/Prospectus contained in Amendment No. 3 to Registration Statement on Form S-4, filed by FSM-Delaware, Inc. with the SEC on June 13,

2006.

(d)(2)(i)	Tender Offer and Support Agreement, dated as of March 2, 2006, between Foodarama and Purchaser, incorporated by reference to Exhibit 99.2 to the report on Form 8-K/A filed by Foodarama with the SEC on March 27, 2006.

(d)(2)(ii)	First Amendment to Tender Offer and Support Agreement, dated June 7, 2006, by and between Foodarama and Purchaser, incorporated by reference to Exhibit (d)(2)(ii) to Amendment No. 3 to Schedule 13E-3, filed by Foodarama, the Purchaser and certain members of the Purchaser Group with the SEC on June 13, 2006.
(d)(3)	Form of Agreement and Plan of Merger, by and between FSM-Delaware and Purchaser, incorporated by reference to Annex D to the Proxy Statement/Prospectus contained in Amendment No. 3 to Registration Statement on Form S-4, filed by FSM-Delaware with the SEC on June 13, 2006.
(d)(4)	Custody Agreement and Limited Power of Attorney, by and among Purchaser and members of the Purchaser Group, incorporated by reference to Exhibit (d)(4) to Amendment No. 1 to Schedule 13E-3 filed by Foodarama, the Purchaser and certain members of the Purchaser Group with the SEC on May 8, 2006.
(d)(5)	Custody Agreement, by and among Purchaser and members of the Purchaser Group, incorporated by reference to Exhibit (d)(5) to Amendment No. 1 to Schedule 13E-3 filed by Foodarama, the Purchaser and certain members of the Purchaser Group with the SEC on May 8, 2006.
(d)(6)	Exchange Agreement, dated March 2, 2006, by and among Purchaser and members of the Purchaser Group, incorporated by reference to Exhibit (d)(6) to Amendment No. 1 to Schedule 13E-3 filed by Foodarama, the Purchaser and certain members of the Purchaser Group with the SEC on May 8, 2006.
(d)(7)	Amendment No. 1 to Exchange Agreement, dated March 17, 2006, by and among Purchaser and members of the Purchaser Group, incorporated by reference to Exhibit (d)(7) to Amendment No. 1 to Schedule 13E-3 filed by Foodarama, the Purchaser and certain members of the Purchaser Group with the SEC on May 8, 2006.
(f)	Section 262 of the Delaware Business Corporation Act Re: Appraisal Rights of Stockholders, incorporated by reference to Schedule A to the Offer to Purchase.
(g)	None.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: July 20, 2006

Saker Holdings Corp.

By: /s/ Richard J. Saker

Name: Richard J. Saker
Title: President and Chief Executive Officer

/s/ Joseph J. Saker

Joseph J. Saker

/s/ Richard J. Saker

Richard J. Saker

/s/ Joseph J. Saker, Jr.

Joseph J. Saker, Jr.

/s/ Thomas A. Saker

Thomas A. Saker

Joseph Saker Family Partnership, L.P.
By: The Saker Family Corporation

By: /s/ Richard J. Saker

Name: Richard J. Saker
Title: President

EXHIBIT INDEX

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	Dealers, Commercial Banks, Trust Companies and Other Nominees, incorporated by reference to Exhibit (a)(1)(iv) to Amendment No. 2 to Schedule TO, filed by the Purchaser and the Purchaser Group with the SEC on June 16, 2006.
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(f)	Section 262 of the Delaware Business Corporation Act Re: Appraisal Rights of Stockholders, incorporated by reference to Schedule A to the Offer to Purchase.
(g)	None.

, Connecticut 2,822 Owned The Bank of Southern Connecticut entered into a lease agreement on August 7, 2002 to lease the facility at 445 West Main Street, Branford, Connecticut, the site of the Branford branch which opened for business on October 7, 2002. The Branford branch lease is for an initial term of five years, with an option to extend the lease for up to three additional terms of five years. The base rent payable for the initial term and monthly rent is $3,095 until September 30, 2007. 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. On August 15, 2002 the Bank also purchased an additional branch facility at 1475 Whalley Avenue, New Haven, Connecticut, the site of the Amity branch location which opened March 24, 2003. On January 14, 2004 Bancorp entered into a lease agreement to lease the facility at 15 Masonic Street, New London, Connecticut, the site of the proposed TBSEC. Pending regulatory approval of TBSEC, the facility is in the process of being improved to accommodate the new bank, which is expected to be completed shortly. Improvements, furnishings and equipment are estimated to be $363,000. TBSEC is expected to commence operations during the second half of 2005. The Lease is for an initial term of five years, with three successive five year option periods. Base rent is $45,580 annually until January 14, 2009. The base rent for the option years is subject to increases. Bancorp is responsible for pro rata allocations for taxes, utilities, common facility charges and other customary tenant expenses of the premises. Upon the commencement of bank operations, it is Bancorp's intention to assign the lease to TBSEC. 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. During 2004, the Bank filed applications to the Connecticut Department of Banking and the FDIC to establish bank operations at the Clinton location. Due to a delay in completing the acquisition of the Clinton property, the Bank's initial application to the FDIC to establish the Clinton branch was withdrawn pending completion of the acquisition of the property. 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. Development of the property is expected to begin in the second half of 2005, at which time the Bank will reapply with the FDIC for permission to establish the Clinton branch. 17 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 whom 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 offers core deposit products, including checking accounts, money market accounts, savings accounts, sweep accounts, NOW accounts and a variety of certificates of deposit and IRA accounts to the public. To attract deposits, the Bank continues to employ 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 SBA to enable it to make SBA guaranteed 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 18 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, however the Bank originates and sells individual SBA guaranteed loan participations. 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 prudent 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 sponsored agency obligations and sponsored agency 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. 19 The greater New Haven is currently served by approximately 80 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 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 at least 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 and 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. 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. Application to the Federal Insurance Deposit Corporation for deposit insurance has been extended to allow Bancorp to provide information regarding the infrastructure in place to support the two banks and to revise certain proposed policies of the new bank. On April 21, 2005, the FDIC acknowledged reciept of the now compete application. Application to the Federal Reserve Bank of Boston for Bancorp to acquire the new bank will be filed in the near future after receipt of approval from the FDIC. Subject to the reciept of regulatory approvals, Bancorp expects the new bank to commence operations in the second half of 2005. 20 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 ("NASD"). 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 at the time of application to the NASD. SCB Capital, Inc. is expected to act solely as broker and advisor and is not intended to make equity investments in capital and debt security raises it completes or assists in. SCB Capital, Inc. may accept warrants, options or similar instruments in partial compensation for its services. Recent Developments The Board of Directors of the Bank adopted resolutions designed to strengthen and enhance the Bank's Bank Secrecy Act compliance and the Bank's Information Technology controls. During the quarter ended March 31, 2005, the Bank continued to strengthen and enhance its infrastructure, policies and staffing. During the quarter, the Bancorp added staff to its lending, loan administration and operations staff. Also, the Bank reviewed its privacy and information technology security policies and procedures to strengthen compliance. Additionally, the Bank has retained an experienced outside consultant to assist it in developing and implementing additional Information Technology policies, controls and procedures. Employees As of March 31, 2005, the Bancorp has 34 full-time employees, the majority with the Bank. Bancorp's 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. 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. 21 (b) Management's Discussion and Analysis of Financial Condition and Results of Operations Summary Bancorp had a net loss of $15,567 (or basic and diluted loss per share of $0.01) for the quarter ended March 31, 2005, compared to a net income of $35,712 (or basic and diluted earnings per share of $0.03) for the quarter ended March 31, 2004. The 2005 quarterly loss reflects: i) ongoing costs of developing infrastructure to support The Bank of Southeastern Connecticut, and ii) the absence of gains on the sale of SBA guaranteed loan participations during the period ended March 31, 2005, in comparison to the period ending March 31, 2004, in which $125,984 of such gains were recognized. Financial Condition Assets Bancorp has reached total assets of $88.0 million at March 31, 2005, an increase of $6.3 million (7.8%) from $81.7 million in assets as of December 31, 2004. Earning assets as of March 31, 2005 were $82.6 million, an increase of $6.8 million (9.0%) during the first three months of 2005. 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 March 31, 2005, Federal funds sold were $8.6 million and short-term investments balances were $8.5 million. Federal funds sold and short-term investments increased by $3.2 million and $0.1 million, respectively, during the first three months of 2005. The increases were due to increases in deposits in excess of the increase in loans receivable. Investments Available for sale securities totaled $11.1 million as of March 31, 2005, a decrease of $0.2 million from December 31, 2004, reflecting amortization on mortgage backed securities held in the portfolio. The portfolio is invested in U.S. government sponsored agency and sponsored agency issued mortgage backed securities. As of March 31, 2005, gross unrealized losses on the available for sale securities portfolio totaled $363,000. These losses were the result of volatility in market rates and yield curve changes and impacted the market prices in government sponsored 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 total of the Loans receivable portfolio increased $3.2 million (6.4%) from $49.8 million at December 31, 2004 to $53.0 million at March 31, 2005. The increase in loans is due to strong commercial demand in the greater New Haven and Connecticut markets. The increase in the loans receivable portfolio was funded primarily by increases in deposits. The loans receivable to deposit ratio as of March 31, 2005 was 81%, within Bancorp's target loan receivable to deposit ratio of the 80% to 90% range. Bancorp and the Bank's Boards of Directors may elect to review Bancorp's policy regarding this ratio. 22 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 $770,000 at March 31, 2005, which represents 1.43% of gross loan receivables outstanding, is adequate, under prevailing economic conditions, to absorb probable losses on existing loans. At December 31, 2004, the allowance for loan losses was $752,000 or 1.49% of gross loans outstanding. 23 Analysis of Allowance for Loan Losses The following represents the activity in the allowance for loan losses for the three months ended March 31: Allowance for Loan Losses as of March 31, 2005 and 2004 As of March 31, ---------------------------------- 2005 2004 ----------------- ----------------- Balance at beginning of period $ 752,394 $ 421,144 Charge-offs - (153) Recoveries 750 217 Provision charged to operations 17,000 31,750 ---------------- ----------------- Balance at end of period $ 770,144 $ 452,958 ================ ================= Net charge-offs to average loans .00% .00% ================ ================= Non-Accrual, Past Due and Restructured Loans The following table represents non-accruing and past due loans (Thousands of dollars) March 31, 2005 December 31, 2004 -- -------------------- ---------------- Loans delinquent over 90 days and still accruing $ - $ - Non-accruing loans 408,333 227,358 --------------------- ---------------- Total $ 408,333 $ 227,358 ===================== ================ % of Total Loans 0.76% 0.45% % of Total Assets 0.46% 0.28% Potential Problem Loans At March 31, 2005, 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 $65.3 million at March 31, 2005, an increase of $6.6 million (11.3%) from $58.7 million as of December 31, 2004. Interest bearing checking and money market accounts increased by $2.7 million or 10.6%, followed by time certificates which increased $2.7 million, or 31.4%. Savings accounts increased $1.1 million, or 34.1% higher than at year end 2004. Non-interest bearing checking and NOW accounts did not change significantly from December 31, 2004. The increase in the total deposit portfolio reflects the ongoing, vigorous marketing effort of the Bank. Bancorp does not have any brokered deposits. Other Repurchase agreement balances decreased $0.2 million from December 31, 2004 to $593,000, as of March 31, 2005, due to normal customer activity. 24 Results 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. Bancorp had a loss of $16,000 in the first quarter of 2005, due to a decline of approximately $126,000 from the first quarter of 2004 in SBA loan participation sale gains. Loans held for sale, comprised of SBA guaranteed loan and other loan balances, increased during the first quarter of 2005 by $538,000 to $637,000, but Bancorp did not complete any loan participation sale transactions during the quarter and thus did not realize any gains. Bancorp intends to continue to originate and to sell at a profit participations in SBA guaranteed loans and other loans, including those currently classified as held-for-sale, in the future. De Novo banks in Connecticut have reached profitability on average within three to four years after commencement of operations. The Bank was profitable in its ninth quarter of operation, and has been profitable in four of the following five quarters. The Bank is Bancorp's sole source of SBA loan sales and contributes substantially all net interest income and non-interest income to Bancorp's consolidated results of operations. Average Balances, Yields and Rates The following table presents average balance sheets (daily averages), interest income, interest expense, and the corresponding annualized rates on earning assets and rates paid on interest bearing liabilities for the nine and three months ended March 31, 2005 compared to the three months ended March 31, 2004. Interest income on loans includes loan fee income which is not significant. In addition, Bancorp does not have any tax-exempt securities or loans. 25 Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest differential Three months Ended Three months Ended March 31, 2005 March 31, 2004 ---------------------------------- ---------------------------------- Fluctuations Interest Interest in interest Average Income/ Average Average Income/ Average Income/Expense (Dollars in thousands) Balance Expense Rate Balance Expense Rate Total ---------------------------------- ---------------------------------- --------------------- Interest earning assets Loans (1) $ 51,468 $ 988 7.79% $ 44,342 $ 815 7.35% $ 173 Short-term investments 8,422 41 1.97% 2,583 3 0.46% 38 Investments 11,341 87 3.11% 7,911 48 2.43% 39 Federal funds sold 8,126 48 2.40% 1,891 7 1.48% 41 ------------------------ ------------------------ --------------------- Total interest earning assets 79,357 1,164 5.95% 56,727 873 6.16% 291 ---------- ----------- Cash and due from banks 812 1,387 Premises and equipment, net 3,619 3,449 Allowance for loan losses (757) (434) Other 1,327 1,120 ------------- ------------- Total assets $ 84,358 $ 62,249 ============= ============= Interest bearing liabilities Time certificates $ 10,110 63 2.53% $ 14,090 74 2.10% (11) Savings deposits 3,814 12 1.28% 2,483 7 1.13% 5 Money market / checking deposits 31,472 115 1.48% 22,435 71 1.27% 44 Capital lease obligations 1,190 43 14.65% 1,191 43 14.44% - Repurchase agreements 1,016 3 1.20% 959 2 0.83% 1 ------------------------ ------------------------ --------------------- Total interest bearing liabilities 47,602 236 2.01% 41,158 197 1.91% 39 --------------------- ---------------------- --------------------- Non-interest bearing deposits 15,788 13,490 Accrued expenses and other liabilities 274 185 Shareholder's equity 20,694 7,416 ------------- ------------- Total liabilities and equity $ 84,358 $ 62,249 ============= ============= Net interest income $ 928 $ 676 $ 252 ============ ============ ===================== Interest spread 3.94% 4.25% ========== =========== Interest margin 4.74% 4.77% ========== =========== (1) Includes nonaccruing loans. 26 Changes in Assets and Liabilities and Fluctuations in Interest Rates The following tables summarize the variance in interest income and expense for the three months ended March 31, 2005 and 2004 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 March 31, 2005 v. 2004 --- Increase Due to Change in Or Average -------------------------------- (Dollars in thousands) (Decrease) Volume Rate ----------------- ----------------- ------------- (Dollars in thousands) Interest earning assets Loans $ 173 $ 126 # $ 47 Short-term investments 38 16 22 Investments 39 24 15 Federal funds sold 41 35 6 ----------------- ----------------- ------------- Total interest earning assets 291 201 90 ----------------- ----------------- ------------- Interest bearing liabilities Time certificates (11) (77) 66 Savings deposits 5 4 1 Money market / checking deposits 44 32 12 Capital lease obligations - - - Repurchase agreements 1 - 1 ----------------- ----------------- ------------- Total interest bearing liabilities 39 (41) 80 ----------------- ----------------- ------------- Net interest income $ 252 $ 242 $ 10 ================= ================= ============= 27 Net Interest Income For the quarter ended March 31, 2005, net interest income was $928,000 versus $676,000 for the same period in 2004, a $252,000 or 37% increase. This was the result of a $22.6 million increase in average earning assets in the quarter ended March 31, 2005 in comparison to the same period a year ago, including increases in average loans of $7.1 million, short term investments and federal funds sold of $12.1 million and investments of $3.4 million. The increase in short term investments reflects the receipt of net proceeds of approximately $13.3 million from the June 2004 public offering of common shares of Bancorp. Also, average interest bearing liabilities increased $6.4 million during the quarter ended March 31, 2005 in comparison to the same period a year ago, partially offsetting the favorable net interest income effects of the increase in average earning assets volume. The ratio of average loans to average total interest earning assets declined during the quarter ended March 31, 2005 in comparison to the quarter ended March 31, 2004, to 64.9% from 78.2%, due to the increase in short term investments and investments following the completion of Bancorp's common stock offering in June 2004. The yield on average interest earning assets for the three months ended March 31, 2005 was 5.95% versus 6.16% for same period in 2004. The decrease in the yield on average earning assets is due to the change in asset mix from 2004 to 2005, reflecting the larger investments in federal funds sold, short term investments and available for sale investment securities which are at significantly lower yields than loans. The cost of average interest bearing liabilities was 2.01% for the three months ended March 31, 2005 versus 1.91% for the same period in 2004. The increase in the cost of average interest bearing liabilities was primarily the result of increased deposit balances and higher rates paid on daily rate money market and interest checking accounts, offset somewhat by lower balances in 2005 in comparison to 2004 in time deposits. Volume related decreases in time deposit interest expense in the 2005 period in comparison to the 2004 period were partially offset by increases in the rates of interest paid on new time deposits acquired during the past year. Provision for Loan Losses The $17,000 provision for loan losses for the three months ended March 31, 2005 reflects the increase of the loans receivable portfolio during the quarter and portfolio seasoning. During the quarter, net recoveries of $750 were recorded. The provision for loan losses for the three months ended March 31, 2004 was $32,000 and was primarily due to the increase in the Bank's loan volume during the period. Noninterest Income The $75,000 decrease in total noninterest income for the first quarter of 2005 versus the first quarter 2004 is due to the presence of approximately $126,000 in SBA guaranteed loan participation sales gains during the 2004 period. During the first quarter of 2005, Bancorp did not have any gains from the sales of SBA guaranteed loan participations. Bancorp originated for sale in the secondary market $538,000 of SBA guaranteed loans and other loans during the first quarter of 2005, which are included in the loans held for sale total of $637,000 on Bancorp's Consolidated Balance Sheet. Bancorp intends to continue to originate SBA guaranteed loans in the future and expects to continue to earn income from SBA loan participation sales and referrals. Separately, service charges and fees derived from deposits, loans and other services increased by approximately $43,000 in the quarter ended March 31, 2005 verses the same period in 2004. Noninterest Expense Total noninterest expense was approximately $1,064,000 for the first quarter of 2005 versus $821,000 for the same period in 2004, an increase of $243,000 or 29.6%. A number of factors contributed to the increase in non-interest expense year-over-year. Principal among these factors are 1) ongoing investment in the 28 development of infrastructure to support the proposed new bank subsidiary, TBSEC, 2) additional staff, principally in the areas of loan administration, lending, and operations, 3) professional services relating to advisory and compliance services, 4) upgrading and expansion of technology infrastructure, including network facilities and 5) increased services costs due to increases in the loan and deposit portfolios. Salaries and benefits for the first quarter of 2005 of $557,000 increased by $98,000, or 21%, from the first quarter of 2004. The increase is due to staff compensation and benefits increases in the first quarter of 2005 in comparison to the same period a year ago, primarily arising from additions to operations, lending, and loan administration staff. Occupancy and equipment for the first quarter of 2005 increased by $17,000, or 14%, due primarily to increases relating to depreciation of buildings, equipment and furniture, rent and property taxes. Professional fees for the first quarter of 2005 increased by $32,000 or by 52% due primarily to the engagement of consultants to assist the Bank in developing infrastructure and related policies and procedures, legal and other professional costs relating to the chartering and operational planning of the proposed banking subsidiary to be located in New London, consulting relating to the proposed Clinton branch property, assistance in upgrading technology, and other matters. Data processing and other outside services for the first quarter increased by $7,000, or 10%, primarily due to increased loan and deposit volumes. Advertising and promotional expense for the first quarter of 2005 increased $16,000, or 146% due to marketing initiatives, including promotional cable and print media placement, undertaken during the quarter. Other Operating Expense for the first three months of 2005 increased by $70,000, or 90%, primarily due to increases in the legal, professional, and other costs of the collection of delinquent and non-performing loans of $37,000, insurance cost increases of $8,000, local tax increases of $9,000, filing fees increases of $5,000 and a net increase of $11,000 in all other categories. Off-Balance Sheet Arrangements See Note 11 for information regarding 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 March 31, 2005 and December 31, 2004 consisted of liquid assets totaling $29.4 million and $27.1 million, respectively. This represents 33.4% and 33.2% of total assets at March 31, 2005 and December 31, 2004, respectively. The $2.3 million net increase in liquidity during the first three months of 2005 is primarily due to increases in federal funds sold, principally due to the $3.5 million excess of deposit portfolio increase over loan increase offset by the $538,000 increase in loans held for sale and a $800,000 decrease in Cash and due from banks. 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. 29 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 approximately $2.8 million 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. On November 9, 2004, Bancorp committed to investing an additional $1 million in The Bank of Southern Connecticut. The remaining balance of the public offering net proceeds will be utilized for future branch office expansion and general corporate purposes. Currently, other than the potential start up of TBSEC in the second half of 2005 and the establishment of new Bank branch offices (as previously discussed on pages 16 and 17 under the "Locations" heading), there are no plans involving the significant purchase or sale of property or equipment in the next twelve months. Capital The following table illustrates Bancorp's regulatory capital ratios at: March 31, December 31, 2005 2004 ----------------- ----------------- Tier 1 (Leverage) Capital Ratio to Average assets 24.77% 24.66% Tier 1 Capital to Risk Weighted Assets 30.27% 32.08% Total Capital to Risk Weighted Assets 31.39% 33.24% The following table illustrates the Bank's regulatory capital ratios at: March 31, December 31, 2005 2004 ----------------- ----------------- Tier 1 (Leverage) Capital Ratio to Average assets 14.89% 14.87% Tier 1 Capital to Risk Weighted Assets 18.63% 19.59% Total Capital to Risk Weighted Assets 19.87% 20.84% 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 changing interest rates have on current and future earnings. 30 Bancorp's goal is to maximize long-term profitability, while controlling 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 of Bancorp and the Bank on a quarterly basis regarding the status of ALCO activities and interest rate risk. 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 volatility of quarterly earnings, due in part to the variation in the number, dollar volume and profit realized from SBA guaranteed loan participation sales in different quarters, (6) the effect of a loss of any executive officer, key personnel, or directors, (7) 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, (8) the ability of competitors which are larger than Bancorp to provide products and services which it is impracticable for Bancorp to provide, (9) the effect of Bancorp's opening of branches and organization of a new bank and the receipt of regulatory approval to complete both actions, (10) the effect of any decision by Bancorp to engage in any business not historically permitted to it, (11) concentration of our business in Southern Connecticut, (12) 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 (13) 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. 31 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, its Chief Operating Officer, and its Chief Financial Officer as of the end of the period covered by this report, Bancorp's Chief Executive Officer, Chief Operating 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 March 31, 2005 that could significantly affect these controls subsequent to the evaluation referenced in paragraph (a) above. 32 PART II Other Information Item 1. Legal Proceedings Not applicable. Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Not applicable. Item 3. Defaults Upon Senior Securities Not applicable. Item 4. Submission of Matters to a Vote of Security Holders Not applicable. 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 on 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)) 33 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 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)) 10.8 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)) 10.9 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)) 10.10 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)) 10.11 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) 10.12 Issuer's 2002 Stock Option Plan (incorporated by reference to Appendix B to Issuer's Definitive Proxy Statement dated April 18, 2002). 10.13 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). 10.14 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-QSB dated November 12, 2003 10.15 Lease dated January 14, 2004 between The City of New London and the Issuer (incorporated by reference to Exhibit 10.16 to the Issuer's Form 10-KSB dated March 30, 2004 10.16 Lease dated August 2, 2002, between 469 West Main Street LLC and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.17 to the Issuer's Form 10-KSB dated March 30, 2004 10.17 Underwriting Agreement between A.G. Edwards & Sons, Inc. and Keefe, Bruyette & Woods, and Southern Connecticut Bancorp dated June 16, 2004. (Incorporated by reference to Exhibit 1.1 to the Issuer's Registration Statement on Form SB-2 (No. 333-115518)). 10.18 Form of Stock Option Agreement for a Non-Qualified Stock Option granted under the Issuer's 2002 Stock Option Plan (incorporated by reference to Exhibit 10.18 to Issuer's Form 10-QSB dated November 15, 2004) 10.19 Form of Stock Option Agreement for an Incentive Stock Option granted under the Issuer's 2002 Stock Option Plan (incorporated by reference to Exhibit 10.19 to Issuer's Form 10-QSB dated November 15, 2004) 10.20 Agreement of Sale of property and premises located in Clinton, Connecticut made June 22, 2004 between Dr. Alan Maris and James S. Brownstein, Trustee (incorporated by reference to Exhibit 10.20 to Issuer's Form 10-QSB dated November 15, 2004) 10.21 Form of Non-Qualified Stock Option Agreement under Bancorp's 2005 Stock Option Plan 10.22 Form of Incentive Stock Option Agreement under Bancorp's 2005 Stock Option Plan 34 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) by Vice President and Chief Financial Officer 32.1 Section 1350 Certification by Chairman and Chief Executive Officer 32.2 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 March 31, 2005. Date of Filing Item Reported -------------- ------------- January 26, 2005 Entry into employment agreement with Michael M. Ciaburri, Bancorp's President and Chief Operating Officer. January 27, 2005 Results of Bancorp's operations for year ended December 31, 2004. March 28, 2005 Appointment of Daniel R. Dennis, Jr. as Chairman of the Bank of Southeastern Connecticut (In Organization) 35 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 Date: May 13, 2005 Title: Chairman & Chief Executive Officer By: /S/ Michael M. Ciaburri ----------------------- Name: Michael M. Ciaburri Date: May 13, 2005 Title: President & Chief Operating Officer By: /S/ William F. Weaver ----------------------- Name: William F. Weaver Date: May 13, 2005 Title: Vice President & Chief Financial Officer 36 Exhibit Index -------------- 10.21 Form of Non-Qualified Stock Option Agreement under Bancorp's 2005 Stock Option Plan 10.22 Form of Incentive Stock Option Agreement under Bancorp's 2005 Stock Option Plan 31.1 Rule 13(a)-14(a)/15(d)-14(a) Certification by Chairman and Chief Executive Officer. 31.2 Rule 13(a)-14(a)/15(d)-14(a) Certification by President and Chief Operating Officer. 31.3 Rule 13(a)-14(a)/15(d)-14(a) Certification 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. 37