SOUTHERN CONNECTICUT BANCORP INC
Form SB-2/A
June 04, 2004
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As filed with the Securities and Exchange Commission on June 4, 2004

Registration No. 333-115518

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1 to

Form SB-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

SOUTHERN CONNECTICUT BANCORP, INC.

(Name of Small Business Issuer as Specified in its Charter)

Connecticut	**6021**	**06-1609692**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

215 Church Street

New Haven, Connecticut 06510

(203) 782-1100

(Address and telephone number of principal executive offices)

215 Church Street

New Haven, Connecticut 06510

(203) 782-1100

(Address of principal place of business or intended principal place of business)

Joseph V. Ciaburri

Southern Connecticut Bancorp, Inc.

215 Church Street

New Haven, Connecticut 06510

(203) 782-1100

(Name, address and telephone number of agent for service)

Copies to:

Robert M. Taylor, III, Esq.	**William P. Mayer, Esq.**
Day, Berry & Howard LLP	**Kathryn I. Murtagh, Esq.**
CityPlace I	**Goodwin Procter LLP**
Hartford, Connecticut 06103	**Exchange Place, 53 State Street**
(860) 275-0100	**Boston, MA 02109-2881**
	(617) 570-1000

Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after the effective date of this Registration Statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered in any jurisdiction to any person to whom it is unlawful to make such offers or such solicitation in such jurisdiction.

Subject to Completion, Dated June 4, 2004

1,500,000 Shares

Common Stock

We are offering 1,500,000 shares of common stock. Our common stock trades on the Over The Counter (OTC) Bulletin Board under the symbol SCNO. The last reported sale price of our common stock on June 3, 2004 was $8.50 per share. Application has been made to list our common stock on the American Stock Exchange.

Investing in our common stock involves risks.

See Risk Factors beginning on page 5.

	Per Share	Total
Public offering price	$	$
Underwriting discounts	$	$
Proceeds, before expenses, to Southern Connecticut Bancorp, Inc.	$	$

We have granted the underwriters the right to purchase up to an additional 225,000 shares of common stock to cover over-allotments. The underwriters expect to deliver the shares to the purchasers on or about , 2004.

Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of the common stock or passed on the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The shares of common stock are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

A.G. EDWARDS **KEEFE, BRUYETTE & WOODS**

Prospectus dated , 2004.

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Map of Our Market Area

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because this is a summary, it may not contain all of the information that may be important to you. Therefore, you should carefully read this entire prospectus and other documents to which we refer herein before making a decision to invest in our common stock, including the risks discussed under the Risk Factors section and our financial statements and related notes.

Southern Connecticut Bancorp, Inc. (Bancorp) is the holding company for The Bank of Southern Connecticut (the Bank). In this prospectus, we, our, or us refers to Bancorp and the Bank on a consolidated basis; Bancorp refers to Bancorp alone; and Bank refers to the Bank alone.

Bancorp and the Bank

Bancorp, a bank holding company headquartered in New Haven, Connecticut, was incorporated on November 8, 2000. Bancorp s strategic objective is to serve as a bank holding company for community-based commercial banks serving the greater New Haven and greater New London markets as well as the approximately 45 miles of coastal towns and communities located between these two cities and extending to Rhode Island (the Southern Connecticut Market, see the map on the inside front cover of this prospectus).

Bancorp owns 100% of the capital stock of the Bank, a Connecticut-chartered bank headquartered in New Haven, Connecticut. The Bank commenced operations on October 1, 2001 after receiving its Final Certificate of Authority from the Connecticut Banking Commissioner and its deposit insurance from the Federal Deposit Insurance Corporation (FDIC). Bancorp has received a temporary certificate of authority from the State of Connecticut to charter a second, wholly-owned bank subsidiary to be located in New London, Connecticut. The opening of this bank is subject to raising a minimum of $6.0 million of equity capital, receipt of final approval from the Department of Banking, the approval of deposit insurance from the FDIC and the approval of the Federal Reserve Board. Subject to these approvals, the New London based bank, to be named The Bank of Southeastern Connecticut, is expected to be open for business during the fourth quarter of 2004 and will be staffed, managed and operated in a comparable manner to the Bank.

The Bank focuses on serving the banking needs of small to medium-sized businesses in the greater New Haven market. The Bank s target commercial customer has between $1.0 and $15.0 million in revenues, 15 to 50 employees and borrowing needs of up to $3.0 million. We believe that our primary focus on this commercial market makes us uniquely qualified to move deftly in responding to the needs of our clients. The Bank has been successful in winning business by offering a combination of competitive pricing for its services, quick decision making processes and a high level of personalized customer service.

We have experienced significant growth in both assets and deposits, and we were able to generate a profit in our ninth quarter of operation. As of March 31, 2004, we had assets of $65.5 million and deposits of $55.6 million, representing a 54.9% and 71.0% increase from March 31, 2003, respectively. Total loans outstanding as of March 31, 2004 were $45.7 million, an 88.9% increase from March 31, 2003. We have achieved this growth while maintaining excellent credit quality and margins, with non-performing loans at 0.09% of total loans as of March 31, 2004 and net interest margin of 4.77% for the three months ended March 31, 2004.

Our market focus is to serve the Southern Connecticut Market. The Southern Connecticut Market is located in the center of, and is a critical component of, the commercial activity of the northeast corridor in New England. Our market focus resides in the busy transportation and commercial area between New

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York City to the south, Hartford to the north, Providence to the east, and Boston to the northeast. The diversified economic base of this market region includes pharmaceutical, advanced manufacturing, healthcare, defense, technology and energy companies and Connecticut s leading port. The region is also one of New England s most popular tourist destinations, featuring popular shoreline and heritage sites. Additionally, New England s largest casinos, Foxwoods and the Mohegan Sun, are located in the region.

Growth and Operating Strategy

We are a bank holding company whose strategic focus is to own and operate independent, community-based commercial banks in southern Connecticut founded with the philosophy of local relationships and providing prompt personal service and quality banking products. Our target customers are small to medium-sized businesses and their owners and employees. We emphasize personal relationships with our customers, community involvement by our employees and our board of directors and responsive lending decisions by an accessible and experienced management team.

The key elements of our business strategy for our local and independent commercial banks are:

- *Provide individualized attention with local underwriting and credit decision-making authority.* As owner of the only commercial bank based in and wholly focused on the greater New Haven area, we believe that the Bank is better able to provide the individualized customer service, combined with prompt local underwriting and credit decision-making authority that we believe small to medium-sized businesses desire. Following formation of The Bank of Southeastern Connecticut, we plan to extend that strategy into the greater New London area as well.

- *Take market share from large, non-local competitors.* As the only commercial bank headquartered in New Haven, the Bank competes with large, non-locally owned and headquartered financial institutions. The Bank of Southeastern Connecticut, when it commences operations, is expected to be the only commercial bank headquartered in New London, a market also dominated by large, non-locally owned and headquartered financial institutions. We believe that we have attracted and can continue to attract small to medium-sized businesses that prefer local decision-making authority and interaction with banking professionals who can provide prompt personalized and knowledgeable service.

- *Optimize our net interest margin.* We seek to optimize our net interest margin by funding our commercial loans, when possible, with low cost money market and non-interest bearing demand deposits.

- *Expand our branch network throughout our market area.* Currently, we have our main office and one branch office in New Haven and one branch office in Branford. We plan to seek attractive locations in the greater New Haven and Middlesex County areas in which to open additional branches following the completion of this offering. Following formation of The Bank of Southeastern Connecticut in the fourth quarter of 2004, we plan to open the bank headquarters in New London and then selectively expand through *de novo* branching in the greater New London area.

- *Leverage personal relationships and community involvement.* Our directors, officers and senior employees have extensive personal contacts, business relationships and involvement in the communities in which they live and work and which we serve. By building on and leveraging these relationships and community involvement, we believe that we have and will continue to generate enthusiasm and interest from small to medium-sized businesses in our market areas.

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Employ qualified and experienced banking professionals. We seek to continue to hire and retain highly experienced and qualified local commercial lenders and other banking professionals with successful track records and established relationships with small to medium-sized businesses in our market areas.

- *Maintain and enhance high credit quality.* The success of our business depends to a significant extent on the quality of our assets, particularly our loans. We have built a strong internal emphasis on credit quality and have established stringent underwriting standards and loan approval processes. We actively manage our past due and non-performing loans in an effort to minimize credit losses and related expenses and to ensure that our allowance for loan losses is adequate.

Our principal executive office is:

215 Church Street

New Haven, CT 06510

Telephone: (203) 782-1100

The Offering

Common stock offered by Bancorp	1,500,000 shares
Common stock outstanding after the offering (1)	2,568,864 shares
Offering price per share of common stock	$
Use of proceeds	We intend to use the net proceeds of this offering: (i) to invest approximately $6.0 million in The Bank of Southeastern Connecticut, a new bank being formed by Bancorp; (ii) to invest approximately $2.5 million in the Bank as additional capital; (iii) to use approximately $2.75 million to fund branch expansion over the next 12 to 18 months; (iv) to use approximately $150,000 to pay organizational and pre-operating expenses for The Bank of Southeastern Connecticut; and (v) the remainder for general corporate purposes.
Purchases by our officers, directors and their affiliates	Some of our officers and directors have indicated their intent to purchase up to 40,000 shares of common stock in this offering. Additionally, the Mashantucket Pequot Tribal Nation, an entity affiliated with one of our directors, has indicated its intent to purchase shares of common stock in this offering for an aggregate offering price of up to $1.0 million. For more information, see Underwriting.
Current OTC Bulletin Board symbol	SCNO
Proposed AMEX symbol	SSE

(1) Based on shares outstanding as of March 31, 2004. This does not include an aggregate of 325,527 shares of common stock reserved for issuance upon the exercise of outstanding options and 73,756 shares of common stock reserved for issuance upon the exercise of outstanding warrants. These numbers reflect the 10% stock dividend declared January 13, 2004 and issued February 17, 2004.

Except as otherwise indicated, all information in this prospectus assumes no exercise of the underwriters over-allotment option.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data set forth below as of and for the years ended December 31, 2002 and 2003 are derived from the respective audited financial statements of Bancorp which are included in this prospectus. The summary interim financial data set forth below as of March 31, 2004 and for the three months ended March 31, 2003 and 2004 are unaudited and are derived from the interim financial statements included in this prospectus. In the opinion of management, the unaudited data have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation. Results for interim periods are not indicative of results for a full year. The consolidated balance sheet and statement of operations data set forth below for the year ended December 31, 2001 and the period from December 16, 1999 (inception) to December 31, 2000 are derived from the respective audited consolidated financial statements of Bancorp which are not included in this prospectus. The interim balance sheet data as of March 31, 2003 is unaudited and is derived from interim financial statements which are not included in this prospectus. The data set forth below should be read in conjunction with the consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operation beginning on page 19.

	From Inception (December 16, 1999) through and as of December 31,	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2000	2001	2002	2003	2003	2004
Balance Sheet Data:						
Total assets	$ 135,901	$ 17,412,399	$ 35,500,115	$ 56,386,040	$ 42,270,786	$ 65,494,502
Total loans		1,195,344	19,049,212	40,818,718	24,212,984	45,747,641
Total deposits		6,784,031	24,992,931	47,273,875	32,536,694	55,645,089
Stockholders (deficit) equity	(234,685)	9,596,147	8,274,679	7,314,302	8,030,383	7,586,476
Statement of Operations Data:						
Interest income	$ 802	$ 131,916	$ 1,125,321	$ 2,512,086	$ 502,675	$ 872,775
Interest expense		52,774	441,813	574,795	135,224	197,010
Net interest income	802	79,142	683,508	1,937,291	367,451	675,765
Provision for loan losses		12,000	220,000	213,100	62,900	31,750
Net interest income after provision for loan losses	802	67,142	463,508	1,724,191	304,551	644,015
Noninterest income		581	86,163	496,332	79,177	212,775
Noninterest expense	235,487	951,940	1,933,684	2,818,450	567,911	821,078
Income (loss) before income taxes	(234,685)	(884,217)	(1,384,013)	(597,927)	(184,183)	35,712
Net income (loss)	(234,685)	(884,217)	(1,384,013)	(597,927)	(184,183)	35,712
Per Share Data:(1)						
Average weighted shares outstanding during the period:						
Basic	None	463,206	1,063,320	1,063,320	1,063,320	1,064,599
Diluted	None	463,206	1,063,320	1,063,320	1,063,320	1,126,535
Net income (loss), basic	$ N/A	$ (1.91)	$ (1.30)	$ (0.56)	$ (0.17)	$ 0.03
Net income (loss), diluted	N/A	(1.91)	(1.30)	(0.56)	(0.17)	0.03
Book value	N/A	9.02	7.78	6.88	7.55	7.10
Asset Quality Ratios:						
Allowance for loan losses to loans	N/A	0.99%	1.20%	1.02%	1.20%	0.98%
Nonperforming loans to loans	N/A			0.23	0.07	0.09
Allowance for loan losses to nonperforming loans	N/A	N/M	N/M	447.73	1,843.13	1,076.91
Nonperforming assets to loans and other real estate	N/A			0.23	0.07	0.34
Net loan charge offs to average loans	N/A		N/M	0.08	N/M	N/M
Capital Ratios:						
Tier 1 risk-based capital ratio	N/A	90.54%	31.52%	16.33%	25.04%	14.57%
Total risk-based capital ratio	N/A	90.66	32.43	17.24	25.97	15.43

Leverage ratio	N/A	67.40	23.76	14.16	20.77	12.31
Average equity to average assets	N/A	69.44	33.05	16.56	21.20	11.91
Performance Ratios:						
Return on average total assets	N/A	(13.83)%	(5.02)%	(1.28)%	(1.94)%	0.23%
Return on average stockholders equity	N/A	(19.92)	(15.18)	(7.72)	(9.14)	1.93
Net interest margin	N/A	0.06	2.84	4.70	4.48	4.77
Efficiency ratio (2)	N/A	1,194.06	251.24	115.81	127.16	92.41

N/A = Not Applicable

N/M = Not Meaningful

(1) Per share data and share information have been adjusted to reflect a 10% stock dividend declared on January 13, 2004 and issued on February 17, 2004.

(2) We compute our efficiency ratio by dividing noninterest expense by the sum of net interest income and noninterest income.

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RISK FACTORS

In addition to the other information provided in this prospectus, you should carefully consider the following risks before deciding whether to invest in our common stock. Investing in our common stock involves risks. All of these could adversely impair our business, operating results or financial condition. In addition, the trading price of our common stock could decline due to any of the events described in these risks.

We have experienced losses in each year since our organization. Our earnings are volatile.

We have experienced losses in each full calendar year since the Bank s organization in October 2001. For the years ended December 31, 2002 and 2003, our net loss was $1,384,013 and $597,927, respectively. We expect to incur significant noninterest expense in 2004, largely as a result of the anticipated opening of our new subsidiary, The Bank of Southeastern Connecticut. To achieve profitability, we must increase our net interest income and noninterest income above anticipated expenses. If we do not increase these revenues sufficiently to offset anticipated expense increases, we will experience future losses. Additionally, our quarterly earnings have been volatile in the past and could continue to be subject to fluctuations in response to quarterly variations in our ability to originate and sell loans.

We have a limited operating history, and as a result our financial performance to date may not be a reliable indicator of whether our business strategy will be successful.

We commenced operations in October 2001, and therefore have a limited historical basis upon which to rely for gauging future business performance. Our prospects are subject to the risks and uncertainties frequently encountered by companies in their early stages of development, including the risk that we will not be able to successfully implement our business plan. Accordingly, our financial performance to date may not be representative of our long-term future performance or indicative of whether our business strategy will be successful.

Loss of any of our executive officers, key personnel or directors could disrupt our operations and result in reduced revenues.

We are a relationship-driven organization. We depend upon the skills and reputations of our executive officers, key employees and directors for our future success. These senior officers have primary contact with our customers and are extremely important in maintaining personalized relationships with our customer base, in increasing our market presence and to key aspects of our business strategy. The loss of any of these key persons, including, without limitation, Joseph V. Ciaburri, our Chairman and Chief Executive Officer, or the inability to attract and retain other key personnel could adversely affect our business. We cannot assure you that we will be able to retain our existing key personnel or attract other qualified persons. All of our current executive officers, with the exception of William F. Weaver, Chief Financial Officer, have been associated with us since the Bank s inception. While Joseph V. Ciaburri and Michael M. Ciaburri, our President and Chief Operating Officer, currently have employment agreements with the Bank, they may terminate their employment at any time. Neither of these employment agreements contains any agreement not to compete following termination and, therefore, upon leaving the employ of the Bank, either Joseph V. Ciaburri or Michael M. Ciaburri may become employed by our competitors. Additionally, our directors community involvement, diverse backgrounds and extensive local business relationships are important to our success. Our growth could be adversely affected if the composition of our board of directors or our management team changes materially.

Our level of assets and quarterly net interest income may not continue to grow as rapidly as they have in the past few years.

Since opening for business in 2001, our asset level has increased rapidly. Our quarterly net interest income has increased from $79,142 in the fourth quarter of 2001 (our first full quarter of operations) to

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$675,765 in the first quarter of 2004, an increase of over 750%, and our total assets have increased from $17.4 million as of December 31, 2001, to $65.5 million as of March 31, 2004, an increase of approximately 276%. Future increases in our profitability will depend on our continued ability to grow our assets while maintaining asset quality and controlling costs. We cannot assure you that we will continue to achieve comparable results in future years. As our asset size and earnings increase, it may become more difficult to achieve high rates of increase in assets and earnings. Additionally, it may become more difficult to achieve continued improvements in our efficiency ratio.

We intend to use a portion of the funds raised in this offering to fund anticipated increases in our loans. The remaining net proceeds of the offering may be invested in securities until we are able to deploy the proceeds in loans. Investing in securities provides lower interest rates than we generally earn on loans, potentially adversely impacting shareholder returns. Declines in the growth rate of income or assets, and increases in operating expenses or nonperforming assets, may have an adverse impact on the value of our common stock.

Key components of our growth plans are subject to regulatory approvals, including the opening of additional branches and the acquisition of the charter and the commencement of operations for The Bank of Southeastern Connecticut.

We have opened two new branches since commencing operations. We have received a temporary certificate of authority from the Department of Banking of the State of Connecticut to charter The Bank of Southeastern Connecticut. We intend to file applications to the Federal Reserve Bank of Boston to acquire this bank and to the FDIC for deposit insurance. We may also apply to the State of Connecticut to open additional branches of the Bank in the future. If any of these applications are denied, or if future applications to establish additional branches in Connecticut are denied, our growth strategy could be adversely affected.

Our business is concentrated in Southern Connecticut and adverse economic conditions in this region may adversely affect our business.

Approximately 80% of our loan portfolio has been generated in the greater New Haven area and we expect that a comparable percentage of the business of The Bank of Southeastern Connecticut will be located in the greater New London area. As a result, our financial condition and results of operations may be affected by changes in the Southern Connecticut economy. The economy of the State of Connecticut has been growing slowly for the past four years and a continuation of this slow rate of economic growth, or other adverse economic conditions in Connecticut, may result in decreases in demand for our services, increases in nonpayment of loans and decreases in the value of collateral securing loans. The occurrence of adverse economic conditions in Southern Connecticut could have a material adverse effect on our business, future prospects, financial condition or results of operations.

A relatively high percentage of our loan portfolio consists of commercial loans, primarily to small- to medium-sized businesses, which may be impacted more severely than larger businesses during periods of economic weakness.

A substantial focus of our marketing and business strategy is to serve small- to medium-sized businesses located in the greater New Haven and greater New London areas. During periods of economic weakness, small- to medium-sized businesses may be impacted more severely than larger businesses, and consequently the ability of such businesses to repay their loans may deteriorate. As a result, our results of operations and financial condition may be adversely affected.

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We could experience credit losses which exceed our allowance for loan losses.

The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower, and, in the case of a collateralized loan, the value and marketability of the collateral. We maintain an allowance for loan losses based upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Based upon such factors, we make various assumptions and determinations about the ultimate collectibility of our loan portfolio and provide an allowance for losses based upon a percentage of the outstanding balances and for specific loans where their collectibility is considered to be questionable.

As of December 31, 2003, our allowance for loan losses was $421,144 and at March 31, 2004, it was $452,958. This represents 1.02% and 0.98%, respectively, of gross outstanding loans. Although we believe that this allowance is adequate, we cannot assure you that it will be sufficient to cover probable loan losses. Although we use the best information available to make our determinations with respect to this allowance, future adjustments may be necessary if economic conditions change substantially from the assumptions used or if negative developments occur with respect to non-performing or performing loans. If our assumptions or conclusions prove to be incorrect and the allowance for loan losses is not adequate to absorb probable losses, or if bank regulatory agencies require us to increase our allowance, our earnings, and potentially our capital, could be significantly and adversely impacted.

Lack of seasoning of our loan portfolio may increase the risk of credit defaults in the future.

Most of the loans in our loan portfolio were originated within the past two years, and approximately 53% were originated during the twelve months ended March 31, 2004. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as seasoning. As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned. Additionally, because of the relatively small size of our loan portfolio, one or more loan defaults or loan prepayments could have an adverse effect on our earnings.

We face strong competition from larger, more established financial institutions which may adversely affect our ability to operate profitably.

We encounter strong competition from financial institutions operating in the Southern Connecticut Market. Greater New Haven, where the Bank is located, is currently served by approximately 86 branches of commercial and savings banks. Greater New London, where The Bank of Southeastern Connecticut will be located, is currently served by approximately 66 branches of commercial and savings banks. We also compete with credit unions, insurance companies, money market mutual funds, mortgage lenders and brokers, and other financial institutions, some of which are not subject to the same degree of regulation as we are. We may need to pay higher rates of interest on our deposits or charge lower rates on our loans than our competitors in order to attract customers. This would decrease our net interest income.

Some of our competitors have been in the banking business for a longer time than us and have better established their customer base and name recognition. Many of these competitors have substantially greater resources and lending limits than we have. Although we believe that we have been and will continue to be able to compete effectively with these institutions because of our experienced bankers and personalized service, if we are wrong, our ability to grow and operate profitably may be negatively affected.

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Our common stock has a limited trading market, so you may have to hold the common stock indefinitely.

Currently there is only a limited trading market for our common stock, and it is not certain that an active and liquid trading market will develop or be maintained in the foreseeable future. Our common stock trades from time to time over the counter and such trades are reported on the OTC Bulletin Board under the symbol SCNO. Although we have applied to have our common stock listed on the American Stock Exchange upon completion of this offering, we cannot assure you that an active and liquid trading market will develop in our common stock, or if one does develop that it will continue after the offering. The development of an active public trading market depends upon the existence of willing buyers and sellers and is not within our control. For these reasons, our common stock may not be appropriate as a short-term investment and you should be prepared to hold our common stock for an extended period or indefinitely. We cannot assure you that you will be able to resell your shares of common stock for a price that is equal to or greater than the offering price.

The issuance of shares of common stock upon the exercise of outstanding options and warrants will result in dilution to current stockholders ownership.

As of March 31, 2004, there were 325,527 shares of common stock reserved for issuance upon the exercise of outstanding stock options and 73,756 shares of common stock reserved for issuance upon the exercise of outstanding warrants, as adjusted to reflect the 10% stock dividend declared in January 2004. The issuance of shares of common stock upon the exercise of these options and warrants will result in dilution to existing stockholders ownership.

Since we realize income primarily from the difference between interest earned on loans and investments and interest paid on deposits and borrowings, fluctuations in interest rates could reduce our profitability.

Our earnings are significantly dependent on our net interest income. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this gap may work against us, and our earnings may be negatively affected. We are unable to predict with certainty fluctuations of market interest rates, which are affected by many factors, including inflation, recession, a rise in unemployment, tightening money supply, and disorder and instability in domestic and foreign financial markets.

We are subject to regulatory capital adequacy guidelines and, if we fail to meet these guidelines, our financial condition could be adversely affected.

Under regulatory capital adequacy guidelines and other regulatory requirements, we and our subsidiary banks must meet guidelines that include quantitative measures of assets, liabilities and certain off-balance sheet items, subject to qualitative judgments by regulators about components, risk weightings and other factors. If we fail to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. The regulatory accords on international banking institutions to be reached by the Basel Committee on Banking Supervision may require us to meet additional capital adequacy measures. We cannot predict the final form of, or the effects of, the regulatory accords.

Additionally, Bancorp and the Bank are subject to certain regulatory restrictions because the Bank was recently organized. Until October 1, 2004, the Bank will be required to maintain a ratio of tier 1 capital to average assets of at least 8% which is significantly higher than the 5% level necessary for well capitalized status under applicable banking laws and regulations. Following its formation, The Bank of

Southeastern Connecticut will be subject to similar capital requirements for its first three years of operations.

Our banking business is highly regulated which could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business.

Bank holding companies and state chartered banks operate in a highly regulated environment and are subject to supervision and examination by federal and state regulatory agencies. We are subject to the Bank Holding Company Act and to regulation and supervision by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). The Bank, as a Connecticut chartered bank the deposits of which are insured by the FDIC, is subject to regulation and supervision by the Connecticut Banking Commissioner and the FDIC.

Federal and state laws and regulations govern numerous matters including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. The FDIC and the Connecticut Commissioner of Banks possess cease and desist powers to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the Federal Reserve Board possesses similar powers with respect to bank holding companies. These and other restrictions limit the manner in which we and our banks may conduct business and obtain financing.

Furthermore, our banking business is affected not only by general economic conditions, but also by the monetary policies of the Federal Reserve Board. Changes in monetary or legislative policies may affect the interest rates our banks must offer to attract deposits and the interest rates they must charge on their loans, as well as the manner in which they offer deposits and make loans. These monetary policies have had, and are expected to continue to have, significant effects on the operating results of depository institutions generally, including our banks.

We have no current plans to pay cash dividends.

The Bank, and following its formation, The Bank of Southeastern Connecticut, are our principal revenue producing operations. As a result, the ability to pay cash dividends to shareholders largely depends on receiving dividends from the Bank and The Bank of Southeastern Connecticut. The amount of cash dividends that a bank may pay is limited by state and federal laws and regulations. Even if we have earnings in an amount sufficient to pay cash dividends, our board of directors currently intends to retain earnings for the purpose of financing growth. See Dividend Policy on page 14.

We may issue additional common stock or other equity securities in the future which could dilute the ownership interest of existing shareholders.

In order to maintain our capital at desired or regulatory-required levels, we may be required to issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of common stock. We may sell these shares at prices below the public offering price of the shares offered by this prospectus, and the sale of these shares may significantly dilute your ownership as a shareholder.

The amount of our common stock owned by our officers and directors may make it more difficult to obtain shareholder approval of potential takeovers that they oppose.

Following completion of the offering, our directors and executive officers and their affiliates will own approximately 19.5% of the outstanding common stock, assuming that they purchase shares in the

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offering as currently expected and the over-allotment option is exercised. These persons may purchase a greater or lesser number of shares than expected in the offering.

By voting against a proposal submitted to shareholders, the directors and officers, as a group, may be able to make approval more difficult for proposals requiring the vote of shareholders, such as some mergers, share exchanges, asset sales, and amendments to the Certificate of Incorporation. See Security Ownership of Certain Beneficial Owners and Management, on page 53, and Description of Our Capital Stock on page 57.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus may include forward-looking statements within the meaning of Section 17A of the Securities Act of 1933 as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements, other than statements of historical facts, including statements regarding our strategy, effectiveness of investment programs, evaluations of future interest rate trends and liquidity, expectations as to growth in assets, deposits and results of operations, receipt of regulatory approval for pending transactions, future operations, market position, financial position, and prospects, plans and objectives of management are forward-looking statements.

Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained or incorporated by reference in this prospectus. Important factors that could cause actual results to differ materially from our forward-looking statements are set forth under the headings Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus. Forward-looking statements are based on the current assumptions and beliefs of management and are only expectations of future results. Our actual results could differ materially from those projected in the forward-looking statements as the result of, among other factors, changes in interest rates, changes in the securities or financial markets, a deterioration in general economic conditions on a national basis or in the local markets in which we operate, including changes which adversely affect borrowers ability to service and repay our loans, changes in loan default and charge-off rates, reductions in deposit levels necessitating increased borrowing to fund loans and investments, delays in obtaining regulatory approval to allow The Bank of Southeastern Connecticut or new branches of either of our banks to commence operations, our ability to consummate proposed transactions in a timely manner, passing of adverse governmental regulations, and changes in assumptions used in making such forward-looking statements. This is not an exhaustive list and as a result of variations in any of these factors actual results may differ materially from any forward-looking statements.

Forward-looking statements speak only as of the date they are made. You should not place undue reliance on these forward-looking statements. We will not update forward-looking statements to reflect facts, assumptions, circumstances or events which have changed after a forward-looking statement was made.

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USE OF PROCEEDS

The estimated net proceeds to us from the sale of 1,500,000 shares of common stock in this offering at an assumed public offering price of $8.50 will be approximately $11,532,500 (assuming no exercise of the underwriters   over-allotment option) after deducting the underwriting discount and aggregate offering expenses payable by us. The offering expenses are estimated to be approximately $325,000. If the underwriters over-allotment option is exercised in full, the estimated net proceeds will be approximately $13,311,125.

Subject to receipt of final regulatory approvals which we have not yet received, we intend to charter and commence the operations of a second, wholly-owned bank subsidiary, The Bank of Southeastern Connecticut, and to invest approximately $6.0 million of the net proceeds from this offering in this bank to fund its lending and investment activities and approximately $150,000 to pay organizational and pre-operating expense of this bank. We intend to use approximately $2.75 million of the net proceeds from this offering to provide additional capital to the Bank for lending and investment activities associated with its anticipated growth. We intend to use approximately $3.0 million of the net proceeds for branch expansion over the next 12 to 18 months. We will retain the remaining net proceeds for general corporate purposes to position us for further internal growth. Pending these uses, we plan to invest any net proceeds of the offering in short-term investment-grade securities, certificates of deposit or guaranteed obligations of the United States government.

The foregoing represents Bancorp   s anticipated use of the net proceeds of this offering based upon the current status of our business operations, our current plans and current economic conditions. A change in the use of proceeds or the timing of such use will be at Bancorp   s discretion.

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PRICE RANGE OF OUR COMMON STOCK

Our common stock is quoted on the OTC Bulletin Board under the symbol SCNO. We anticipate that, following the offering, our stock will be traded on the American Stock Exchange under the symbol SSE.

The following table sets forth the high and low closing sale price and the average daily trading volumes for the periods indicated. The prices have been adjusted to reflect the 10% stock dividend declared on January 13, 2004 and issued on February 17, 2004.

	Average Daily Trading Volume	Price Range	
		High	Low
Current Fiscal Year 2004:			
Second Quarter (through June 3, 2004)	516	$ 9.80	$ 7.95
First Quarter	1,650	11.70	7.95
Fiscal Year Ended December 31, 2003:			
Fourth Quarter	1,173	9.09	7.86
Third Quarter	346	9.36	7.86
Second Quarter	1,232	9.77	7.00
First Quarter	772	7.50	7.09
Fiscal Year Ended December 31, 2002:			
Fourth Quarter	1,282	8.64	7.32
Third Quarter	1,688	9.09	7.14
Second Quarter	1,105	10.00	7.73
First Quarter	865	10.91	7.73

On June 3, 2004, the last day on which our stock has traded, the last reported sale price for our common stock on the OTC Bulletin Board was $8.50 per share. Since the trading volume in our common stock is low, trading prices may not be indicative of the market value of our common stock.

Holders

There were approximately 100 registered shareholders of record and at least 290 beneficial holders of Bancorp s common stock as of April 7, 2004.

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DIVIDEND POLICY

Holders of our common stock are entitled to receive dividends when, as and if declared by our board of directors out of funds legally available for dividends. We have never declared or paid any cash dividends on our common stock. In order to pay any cash dividends, we will need to receive dividends from the Bank or The Bank of Southeastern Connecticut, if and when that bank is chartered and commences operations, or have other sources of funds.

As a matter of policy, the Connecticut Banking Commissioner does not permit payment of any cash dividends prior to recapture of organization and pre-operating expenses from operating profits. Our accumulated deficit at March 31, 2004 was $3,065,130. In addition, the Bank is prohibited under Connecticut law from declaring a cash dividend on its common stock without prior approval of the Connecticut Banking Commissioner except from its net profits for that year and any retained net profits of the preceding two years. Net profits is defined as the remainder of all earnings from current operations. In some instances, further restrictions on dividends may be imposed by the FDIC. However, during 2002, the Bank requested, and was granted permission from the State of Connecticut Department of Banking, to pay a special dividend to Bancorp in the amount of $200,000.

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

Bancorp may, however, declare stock dividends at the discretion of its board of directors. Bancorp declared a 10% stock dividend on January 13, 2004 to shareholders of record as of January 30, 2004.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2004 and the pro forma consolidated capitalization at such date, as adjusted to give effect to receipt of estimated net proceeds from the sale of 1,500,000 shares of common stock at an assumed public offering price of $8.50 per share. This table should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in this prospectus.

	March 31, 2004	
	Actual	As Adjusted
Shareholders Equity		
Preferred stock, no par value; 500,000 shares authorized; no shares issued	$	$
Common stock, par value $0.01; 5,000,000 shares authorized; 1,068,864 shares issued; 2,568,864 shares issued as adjusted	10,689	25,689
Additional paid-in capital	10,764,693	22,282,193
Accumulated deficit	(3,065,130)	(3,065,130)
Accumulated other comprehensive loss net unrealized loss on available for sale securities	(123,776)	(123,776)
Total Shareholders Equity	$ 7,586,476	$ 19,118,976

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DILUTION

Our unaudited net tangible book value as of March 31, 2004 was $7,586,476 or $7.10 per share. Net tangible book value per share represents the amount of our total assets reduced by total liabilities, less intangible assets, divided by the shares of our common stock outstanding. Giving effect to the sale of the 1,500,000 shares offered at an assumed public offering price of $8.50 per share, the net tangible book value will be $19,118,976 or $7.44 per share, resulting in an immediate increase to existing shareholders in net tangible book value of $0.34 per share and an immediate dilution to the investors in this offering of $1.06 per share. Dilution means the difference between the net tangible book value before this offering and after giving effect to this offering. The foregoing calculations assume all shares are sold through the efforts of the underwriters and the proceeds of the offering are net of their underwriting discount and the costs associated with the offering.

The following table illustrates this per share dilution.

Assumed offering price per share of common stock		$ 8.50
Net tangible book value per share at March 31, 2004	$ 7.10	
Increase in net tangible book value per share attributable to the offering	$ 0.34	
Pro forma, net tangible book value per share after the offering		$ 7.44
Dilution per share to investors in this offering		$ (1.06)

The number of shares shown as outstanding after giving effect to the offering, and the book value of those shares, do not include shares of common stock issuable upon the exercise of warrants or options that may be granted under Bancorp s Stock Option Plan, 2002 Stock Option Plan, 2001 Warrant Plan and 2001 Supplemental Warrant Plan. For additional information regarding the number and terms of these warrants and options, see Management The 2002 Stock Option Plan, The Stock Option Plan and Warrant Plans.

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below as of and for the years ended December 31, 2002 and 2003 are derived from the respective audited financial statements of Bancorp which are included in this prospectus. The selected interim financial data set forth below as of March 31, 2004 and for the three months ended March 31, 2003 and 2004 are unaudited and are derived from the interim financial statements included in this prospectus. In the opinion of management, the unaudited data have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation. Results for interim periods are not indicative of results for a full year. The consolidated balance sheet and statement of operations data set forth below for the year ended December 31, 2001 and the period from December 16, 1999 (inception) to December 31, 2000 are derived from the respective audited consolidated financial statements of Bancorp which are not included in this prospectus. The interim balance sheet data as of March 31, 2003 is unaudited and is derived from interim financial statements which are not included in this prospectus. The data set forth below should be read in conjunction with the consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operation beginning on page 19.

	From Inception (December 16, 1999) through and as of December 31,	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2000	2001	2002	2003	2003	2004
Balance Sheet Data:						
Total assets	$ 135,901	$ 17,412,399	$ 35,500,115	$ 56,386,040	$ 42,270,786	$ 65,494,502
Total loans		1,195,344	19,049,212	40,818,718	24,212,984	45,747,641
Total deposits		6,784,031	24,992,931	47,273,875	32,536,694	55,645,089
Stockholders (deficit) equity	(234,685)	9,596,147	8,274,679	7,314,302	8,030,383	7,586,476
Statement of Operations Data:						
Interest income	$ 802	$ 131,916	$ 1,125,321	$ 2,512,086	$ 502,675	$ 872,775
Interest expense		52,774	441,813	574,795	135,224	197,010
Net interest income	802	79,142	683,508	1,937,291	367,451	675,765
Provision for loan losses		12,000	220,000	213,100	62,900	31,750
Net interest income after provision for loan losses	802	67,142	463,508	1,724,191	304,551	644,015
Noninterest income		581	86,163	496,332	79,177	212,775
Noninterest expense	235,487	951,940	1,933,684	2,818,450	567,911	821,078
Income (loss) before income taxes	(234,685)	(884,217)	(1,384,013)	(597,927)	(184,183)	35,712
Net income (loss)	(234,685)	(884,217)	(1,384,013)	(597,927)	(184,183)	35,712
Per Share Data: (1)						
Average weighted shares outstanding during the period						
Basic	None	463,206	1,063,320	1,063,320	1,063,320	1,064,599
Diluted	None	463,206	1,063,320	1,063,320	1,063,320	1,126,535
Net income (loss), basic	$ N/A	$ (1.91)	$ (1.30)	$ (0.56)	$ (0.17)	$ 0.03
Net income (loss), diluted	N/A	(1.91)	(1.30)	(0.56)	(0.17)	0.03
Book value	N/A	9.02	7.78	6.88	7.55	7.10
Asset Quality Ratios:						
Allowance for loan losses to loans	N/A	0.99%	1.20%	1.02%	1.20%	0.98%
Nonperforming loans to loans	N/A			0.23	0.07	0.09%
Allowance for loan losses to nonperforming loans	N/A	N/M	N/M	447.73	1,843.13	1,076.91%
Nonperforming assets to loans and other real estate	N/A			0.23	0.07	0.34
Net loan charge offs to average loans	N/A		N/M	0.08	N/M	N/M
Capital Ratios:						
Tier 1 risk-based capital ratio	N/A	90.54%	31.52%	16.33%	25.04%	14.57%
Total risk-based capital ratio	N/A	90.66	32.43	17.24	25.97	15.43
Leverage ratio	N/A	67.40	23.76	14.16	20.77	12.31

Average equity to average assets	N/A	69.44	33.05	16.56	21.20	11.91
Performance Ratios:						
Return on average total assets	N/A	(13.83)%	(5.02)%	(1.28)%	(1.94)%	0.23%
Return on average stockholders equity	N/A	(19.92)	(15.18)	(7.72)	(9.14)	1.93
Net interest margin	N/A	0.06	2.84	4.70	4.48	4.77
Efficiency ratio (2)	N/A	1,194.06	251.24	115.81	127.16	92.41

N/A = Not Applicable

N/M = Not Meaningful

(1) Per share data and share information have been adjusted to reflect a 10% stock dividend declared on January 13, 2004 and issued on February 17, 2004.

(2) We compute our efficiency ratio by dividing noninterest expense by the sum of net interest income and noninterest income.

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SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA

The following table shows selected historical quarterly consolidated financial data for Bancorp. You should read it together with the historical consolidated financial information contained in the consolidated financial statements as of and for the three months ended March 31, 2004 included within this prospectus and with the other information provided in this prospectus. Information for each quarterly period is derived from unaudited interim financial statements and includes, in the opinion of management, all adjustments, consisting of only normal recurring adjustments necessary to present fairly the data for such periods. The results of operations for the three month period ended March 31, 2004 do not necessarily indicate the results which may be expected for any future period or for the full year.

	As of and for the three months ended								
	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003	March 31, 2004
Balance Sheet Data:									
Total assets	$ 21,470,320	$ 28,266,484	$ 32,728,635	$ 35,500,115	$ 42,270,786	$ 48,033,314	$ 49,684,359	$ 56,386,040	$ 65,494,502
Total loans.	3,978,101	10,838,503	14,606,161	19,049,212	24,212,984	27,880,453	35,329,196	40,818,718	45,747,641
Total deposits	11,248,145	17,886,137	21,991,055	24,992,931	32,536,694	36,953,812	39,774,731	47,273,875	55,645,089
Stockholders (deficit) equity	9,282,549	8,981,394	8,666,887	8,274,679	8,030,383	7,757,646	7,343,947	7,314,302	7,586,476
Statement of Operations Data:									
Interest income.	$ 143,071	$ 295,051	$ 319,790	$ 367,409	$ 502,675	$ 571,637	$ 651,037	$ 786,737	$ 872,775
Interest expense	81,764	98,676	118,592	142,781	135,224	135,505	134,853	169,213	197,010
Net interest income.	61,307	196,375	201,198	224,628	367,451	436,132	516,184	617,524	675,765
Provision for loan losses	18,000	52,000	36,000	114,000	62,900	23,500	57,100	69,600	31,750
Net interest income after provision for loan losses	43,307	144,375	165,198	110,628	304,551	412,632	459,084	547,924	644,015
Noninterest income	3,838	14,082	11,630	56,613	79,177	50,925	71,733	294,497	212,775
Noninterest expense	360,743	459,612	491,335	621,994	567,911	692,023	742,043	816,473	821,078
Income (loss) before income taxes	(313,598)	(301,155)	(314,507)	(454,753)	(184,183)	(228,466)	(211,226)	25,948	35,712
Net income (loss)	(313,598)	(301,155)	(314,507)	(454,753)	(184,183)	(228,466)	(211,226)	25,948	35,712
Per Share Data: (1)									
Average weighted shares outstanding during the period:									
Basic	1,063,320	1,063,320	1,063,320	1,063,320	1,063,320	1,063,320	1,063,320	1,063,320	1,064,599
Diluted	1,063,320	1,063,320	1,063,320	1,063,320	1,063,320	1,063,320	1,063,320	1,078,114	1,126,535
Net income (loss), basic	$ (0.29)	$ (0.28)	$ (0.30)	$ (0.43)	$ (0.17)	$ (0.21)	$ (0.20)	$ 0.02	$ 0.03

Net income (loss), diluted.	$ (0.29)	$ (0.28)	$ (0.30)	$ (0.43)	$ (0.17)	$ (0.21)	$ (0.20)	$ 0.02	$ 0.03
Book value	$ 8.73	$ 8.45	$ 8.15	$ 7.78	$ 7.55	$ 7.30	$ 6.91	$ 6.88	$ 7.10
Asset Quality Ratios									
Allowance for loan losses to loans	0.75%	0.75%	0.80%	1.20%	1.20%	1.11%	0.99%	1.02%	0.98%
Nonperforming loans to loans					0.07	0.06	0.17	0.23	0.09
Allowance for loan losses to nonperforming loans	N/M	N/M	N/M	N/M	1,843.13	1,960.64	585.23	447.73	1,076.91
Nonperforming assets to loans and other real estate.	N/M	N/M	N/M	N/M	0.07	0.06	0.78	0.23	0.34
Net loan charge offs (recoveries) to average loans	N/M	N/M	N/M	N/M	N/M	0.02	0.06	(0.06)	N/M
Capital Ratios:									
Tier 1 risk-based capital ratio	74.45%	50.94%	38.06%	31.52%	25.04%	21.05%	18.35%	16.33%	14.57%
Total risk-based capital ratio	74.69	51.41	38.57	32.43	25.97	21.92	19.21	17.24	15.43
Leverage ratio.	47.08	35.77	27.52	23.76	20.77	16.55	15.45	14.16	12.31
Average equity to average assets	48.14	36.35	29.63	24.96	21.20	17.19	15.30	13.70	11.91
Performance Ratios									
Return on average total assets	(6.44)%	(4.79)%	(4.15)%	(5.35)%	(1.94)%	(1.97)%	(1.73)%	0.19%	0.23%
Return on average stockholders equity	(13.38)	(13.16)	(14.00)	(21.42)	(9.14)	(11.48)	(11.29)	1.41	1.93
Net interest margin	1.42	3.48	3.03	3.03	4.48	4.26	4.79	5.06	4.77
Efficiency ratio (2)	553.75	218.39	230.86	221.16	127.16	142.08	126.22	89.52	92.41

N/A = Not Applicable

N/M = Not Meaningful

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(1) Per share data and share information have been adjusted to reflect a 10% stock dividend declared on January 13, 2004 and issued on February 17, 2004.
(2) We compute our efficiency ratio by dividing noninterest expense by the sum of net interest income and noninterest income.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist you in understanding the financial condition and results of operations of Bancorp and the Bank, and should be read in conjunction with the consolidated financial statements and related notes beginning on page F-3. All per share data in this discussion has been adjusted to reflect the 10% stock dividend declared on January 13, 2004 and issued on February 17, 2004.

Overview

Southern Connecticut Bancorp is a bank holding company headquartered in New Haven, Connecticut that was incorporated on November 8, 2000. Bancorp s strategic objective is to serve as a bank holding company for community based commercial banks serving the greater New Haven and greater New London markets, as well as the approximately 45 miles of coastal towns and communities located between these two cities and extending to Rhode Island.

Bancorp owns 100% of the capital stock of The Bank of Southern Connecticut, a Connecticut-chartered bank with its headquarters in New Haven, Connecticut, which commenced operations on October 1, 2001 after receiving its Final Certificate of Authority from the State of Connecticut and its deposit insurance from the FDIC. Bancorp has received a temporary certificate of authority from the State of Connecticut to charter a second, wholly-owned bank to be headquartered in New London, Connecticut. The establishment of this bank is subject to raising a minimum of $6.0 million of equity capital, receipt of final approval from the Department of Banking, the approval of deposit insurance from the FDIC and the approval of the Federal Reserve Board. Subject to these approvals, the New London based bank, to be named The Bank of Southeastern Connecticut, is expected to be open for business during the fourth quarter of 2004 and will be staffed, managed and operated in a comparable manner to the Bank.

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

Newly chartered banks in Connecticut have reached profitability on average within three to four years after commencement of operations. Bancorp was marginally profitable in the fourth quarter of 2003, the ninth quarter of operation, and in the first quarter of 2004. Our profits in the fourth quarter of 2003 and first quarter of 2004 are largely attributable to $177,000 and $132,000, respectively, of referral fee income and gains on sales of SBA guaranteed loan participations. We anticipate originating and selling SBA guaranteed loans in the future.

Critical Accounting Policies

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 principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. Bancorp believes the

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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. Bancorp has reviewed this critical accounting policy and estimates with its audit committee.

We believe the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of our consolidated financial statements. Refer to the discussion below under Allowance for Loan Losses, and Note 1 to the consolidated financial statements on page F-7 herein for a detailed description of our estimation process and methodology related to the allowance for loan losses.

THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THREE MONTHS ENDED MARCH 31, 2003

Summary

Bancorp had net income of $35,712 (or basic and diluted earnings per share of $0.03) for the quarter ended March 31, 2004, compared to a net loss of $184,183 (or basic and diluted loss per share of $0.17) for the quarter ended March 31, 2003.

Financial Condition

Assets. Since commencing operations on October 1, 2001, Bancorp has reached total assets of $65.5 million at March 31, 2004, an increase of $9.1 million (16%) from $56.4 million in assets as of Decembe