SOUTHERN CONNECTICUT BANCORP INC
Form 10QSB
May 14, 2004

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

F O R M 10 - QSB

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

For the Quarterly Period Ended March 31, 2004

Commission file number 0-49784

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

Connecticut	06-1594123
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

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

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

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

The number of shares of the issuer's Common Stock, par value $.01 per share, outstanding as of April 26, 2004: 1,068,864

Transitional Small Business Disclosure Format

Yes ___ No X

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PART I
Financial Information

Item 1. Financial Statements

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

	2004	2003
Assets		
Cash and due from banks	$ 688,864	$ 1,147,883

Federal funds sold	4,350,000	966,000
Short-term investments	2,707,493	454,115
Cash and cash equivalents	7,746,357	2,567,998
Available for sale securities	7,319,300	8,478,068
Federal Home Loan Bank Stock	21,500	21,500
Loans receivable (net of allowance for loan losses of $452,958 in 2004 and $421,144 in 2003)	45,747,641	40,818,718
Accrued interest receivable	222,560	196,545
Premises and equipment, net	3,421,814	3,459,915
Other real estate owned	116,513	-
Other assets	898,817	843,296
Total assets	$ 65,494,502	$ 56,386,040
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing deposits	$ 13,060,917	$ 13,781,286
Interest bearing deposits	42,584,172	33,492,589
Total deposits	55,645,089	47,273,875
Repurchase agreements	874,610	339,752
Accrued expenses and other liabilities	197,659	267,232
Capital lease obligations	1,190,668	1,190,879
Total liabilities	57,908,026	49,071,738
Commitments and Contingencies	-	-
Stockholders' Equity		
Preferred stock, no par value; 500,000 shares authorized; none issued		
Common stock, par value $.01; 5,000,000, shares authorized; shares issued and outstanding: 2004 1,068,864; 2003 1,063,320	10,689	10,633
Additional paid-in capital	10,764,693	10,704,269
Accumulated deficit	(3,065,130)	(3,100,842)
Accumulated other comprehensive loss - net unrealized loss on available for sale securities	(123,776)	(299,758)
Total stockholders' equity	7,586,476	7,314,302
Total liabilities and stockholders' equity	$ 65,494,502	$ 56,386,040

See Notes to Consolidated Financial Statements.

SOUTHERN CONNECTICUT BANCORP,INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months Ended March 31, 2004 and 2003 (unaudited)

	Three Months Ended March 31	
	2004	2003
Interest Income		
Interest and fees on loans	$ 815,211	$ 414,797
Interest on securities	47,849	81,929
Interest on federal funds sold and short-term investments	9,715	5,949
Total interest income	872,775	502,675
Interest Expense		
Interest on deposits	152,336	92,464
Interest on capital lease obligations	42,572	41,958
Interest on repurchase agreements	2,102	802
Total interest expense	197,010	135,224
Net interest income	675,765	367,451
Provision for Loan Losses	31,750	62,900
Net interest income after provision for loan losses	644,015	304,551
Noninterest Income:		
Service charges and fees	57,611	20,217
Gains and fees from sales and referrals of SBA loans	131,834	-
Gains (losses) on sales of available for sale securities	(944)	39,505
Other noninterest income	24,274	19,455
Total noninterest income	212,775	79,177
Noninterest Expense		
Salaries and benefits	459,290	296,633
Occupancy and equipment	125,929	74,584
Professional services	61,766	65,642
Data processing and other outside services	69,229	39,010
Advertising and promotional expense	11,194	19,184
Forms, printing and supplies	15,814	12,179
Other operating expenses	77,856	60,679
Total noninterest expenses	821,078	567,911
Net income (loss)	$ 35,712	$(184,183)
Basic Income (Loss) per Share	$ 0.03	$ (0.17)
Diluted Income (Loss) per Share	$ 0.03	$ (0.17)

Dividends per Share	$ -	$ -

See Notes to Consolidated Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY For the Three Months ended March 31, 2004 and 2003 (unaudited)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit
Balance December 31, 2002	966,667	$ 9,667	$10,705,382	$(2,502,915)
Comprehensive Loss:				
Net Loss	-	-	-	(184,183)
Unrealized holding loss on available for sale securities	-	-	-	-
Total comprehensive loss				
Balance March 31, 2003	966,667	$ 9,667	$10,705,382	$(2,687,098)
Balance December 31, 2003	1,063,320	$ 10,633	$10,704,269	$(3,100,842)
Comprehensive Income:				
Net Income	-	-	-	35,712
Unrealized holding gain on available for sale securities	-	-	-	-
Total comprehensive income				
Exercise of stock warrants	5,544	56	60,424	
Balance March 31, 2004	1,068,864	$ 10,689	$10,764,693	$(3,065,130)

See Notes to Consolidated Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2004 and 2003 (unaudited)

	Three Month March
Cash Flows From Operations	2004
Net Income (loss)	$ 35,712
Adjustments to reconcile net income (loss) to net cash used in operating activities	
Amortization and accretion of premiums and discounts on investments, net	14,663
Provision for loan losses	31,750
Loss (Gain) on sales of available for sale securities	944
Gains on sales of SBA loans	(125,986)
Depreciation and amortization	70,543
Increase in cash surrender value of life insurance	(3,061)
Changes in assets and liabilities	
Increase in deferred loan fees	8,262
(Increase) decrease in accrued interest receivable	(26,015)
(Increase) decrease in other assets	(52,460)
Decrease in accrued expenses and other liabilities	(69,573)
Net cash used in operating activities	(115,221)
Cash Flows From Investing Activities	
Purchases of available for sale securities	-
Principal repayments on available for sale securities	319,768
Proceeds from maturities of available for sale securities	-
Proceeds from sales of available for sale securities	999,375
Purchases of Federal Home Loan Bank Stock	-
Proceeds from sales of SBA loans	1,256,593
Net increase in loans receivable	(6,216,055)
Purchases of premises and equipment	(32,442)
Net cash used in investing activities	(3,672,761)
Cash Flows From Financing Activities	
Net increase in demand, savings and money market deposits	3,581,539
Net increase in certificates of deposit	4,789,675
Increase in repurchase agreements	534,858
Principal payments on capital lease obligations	(211)
Net cash provided by financing activities	8,905,861
Cash Flows from Equity Transactions	
Exercise of stock warrants	60,480
Net increase in cash and cash equivalents	5,178,359
Cash and cash equivalents	
Beginning	2,567,998

Ending	$ 7,746,357

See Notes to Consolidated Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the Three Months Ended March 31, 2004 and 2003 (unaudited)

	Three Months Ended March 31,	
	2004	2003
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$184,512	$131,776
Income taxes	$ -	$ -
Supplemental disclosures of noncash investing activities		
Transfer of Loans to OREO	$116,513	$ -

See Notes to Consolidated Financial Statements.

Southern Connecticut Bancorp, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Nature of Operations

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

Note 2. Basis of Financial Statement Presentation

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

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

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

The accompanying unaudited consolidated financial information reflects, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the interim periods presented. The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results of operations that may be expected for all of 2004.

Note 3. Available for Sale Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available for sale securities at March 31, 2004, and December 31, 2003 are as follows:

March 31, 2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agency Obligations	$6,199,476	$ 155	$ (97,916)	$ 6,101,715
Mortgage Backed Securities	1,243,600	-	(26,015)	1,217,585
	$7,443,076	$ 155	$(123,931)	$ 7,319,300

December 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agency Obligations	$7,200,948	$ -	$(269,550)	$ 6,931,398
Mortgage Backed Securities	1,576,878	-	(30,208)	1,546,670

$8,777,826	$ -	$(299,758)	$ 8,478,068

Note 4. Loans Receivable

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

	March 31, 2004	December 31, 2003
Commercial loans secured by real estate	$ 20,543,115	$ 18,043,588
Commercial loans	22,017,633	18,584,292
Construction and land loans, net of undisbursed portion of $986,476 in 2004 and $729,220 in 2003	619,860	1,500,891
Residential mortgages	847,366	948,258
Consumer home equity loans	1,059,164	1,042,717
Consumer installment loans	1,206,527	1,204,920
Total loans	46,293,665	41,324,666
Net deferred loan fees	(93,066)	(84,804)
Allowance for loan losses	(452,958)	(421,144)
Loans receivable, net	$ 45,747,641	$ 40,818,718

Note 5. Deposits

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

	March 31, 2004	December 31, 2003
Noninterest bearing deposits	$13,060,917	$13,781,286
Interest bearing deposits		
Checking	6,240,911	3,499,378
Money Market	18,924,147	17,251,327
Savings	2,520,896	2,633,341
Checking, money market & savings	27,685,954	23,384,046
Time Certificates under $100,000	3,009,617	3,057,294
Time Certificates of $100,000 or more	11,888,601	7,051,249
Time deposits	14,898,218	10,108,543
	42,584,172	33,492,589
Total deposits	$55,645,089	$47,273,875

Note 6. Available Borrowings

During 2003 Bancorp obtained secured and unsecured lines of credit with other financial institutions with total available borrowings of $4,400,000. There are no borrowings against these lines of credit as of March 31, 2004.

Note 7. Income (Loss) Per Share

Bancorp is required to present basic income (loss) per share and diluted income (loss) per share in its statements of operations. Basic per share amounts are computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted per share amounts assume exercise of all potential common stock in weighted average shares outstanding, unless the effect is antidilutive. Bancorp is also required to provide a reconciliation of the numerator and denominator used in the computation of both basic and diluted income per share. The following is information about the computation of income per share for the three months ended March 31, 2004 and 2003.

Three Months Ended March 31, 2004

	Net Income	Shares	Amount Per Share
Basic Income Per Share			
Income available to common shareholders	$ 35,712	1,064,599	$ 0
Effect of Dilutive Securities			
Warrants/Stock Options outstanding	-	61,936	
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	$ 35,712	1,126,535	$ 0

Weighted average shares outstanding for the three months ended March 31, 2003 were 1,063,320. For the three months ended March 31, 2003, common stock equivalents have been excluded from the computation of the net loss per share because the inclusion of such equivalents is antidilutive.

Note 8. Other Comprehensive Income

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

Three Months Ended

	March 31, 2004		
	Before-Tax Amount	Taxes	Net A
Unrealized holding gains arising during the period	$ 175,038	$ -	$ 1
Add: Reclassification adjustment for losses recognized in net income	944	-	
Unrealized holding gain on available for sale securities, net of taxes	$ 175,982	$ -	$ 1

	Three Months Ended March 31, 2003		
	Before-Tax Amount	Taxes	Net A
Unrealized holding losses arising during the period	$ (58,961)	$ 22,966	$ (
Less: Reclassification adjustment for gains recognized in net income	(39,505)	15,387	(
Unrealized holding loss on available for sale securities, net of taxes	$ (98,466)	$ 38,353	$ (

Note 9. Stock Based Compensation

During the three months ended March 31, 2004, Bancorp granted 9,450 stock options to employees and directors at an exercise price of $9.50 per share.

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

Had compensation cost for issuance of such options and warrants been recognized based on the fair values of awards on the grant dates, in accordance with the method described in SFAS No. 123, reported net income (loss) and per share amounts for the three months ended March 31, 2004 and 2003 would have differed from the pro forma amounts as shown below:

For the three months ended March 31, 2004 and March 31, 2003

	Three Months Ended March 31, 2004
Net income (loss) as reported	$ 35,712
Deduct: total stock based employee compensation expense determined under fair value based method for all awards	(81,428)
Pro forma net loss	$ (45,716)
Basic income (loss) per share:	
As reported	$ 0.03
Pro forma	$ (0.04)
Diluted income (loss) per share:	
As reported	$ 0.03
Pro forma	$ (0.04)

Note 10. Bank Application and Capital Raising

During 2003, Bancorp's Board of Directors approved the establishment of a new commercial bank in New London, Connecticut and Bancorp plans to raise between $10 million and $15 million in capital through a public offering of its common stock to fund the establishment of the new bank and for other corporate purposes. In October 2003, Bancorp submitted its final application to the State of Connecticut Department of Banking related to the establishment of the new bank. On April 28, 2004, the State of Connecticut Department of Banking issued a temporary certificate of authority in connection with this application. Subject to applicable Federal agency regulatory approval and the issuance of a final certificate of authority, and the successful raising of capital, Bancorp plans to open the new bank in the fourth quarter of 2004 or the first quarter of 2005.

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

In the normal course of business, Bancorp is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. The contractual amounts of these instruments reflect the extent of involvement Bancorp has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should: the contract be fully drawn upon; the customer default; and the value of any existing collateral become worthless. Bancorp uses the came credit policies in making commitments and conditional obligations as it does for on-balance-sheet and evaluates each customer's creditworthiness on a case-by-case basis. Management believes that Bancorp controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

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Financial instruments whose contract amounts represent credit risk are as follows at March 31, 2004 and December 31 2003:

	March 31, 2004	December 31, 2003
Commitments to extend credit		
Future Loan Commitments	$ 5,378,000	$ 3,752,000
Unused Line of Credit	6,560,791	9,065,661
Undisbursed construction loans	986,476	729,220
Financial standby letters of credit	933,055	933,055
	$13,858,322	$14,479,936

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by Bancorp upon extension of credit, is based upon management's credit evaluation of the counter party. Collateral held varies, but may include residential and commercial property, deposits and securities.

Standby letters of credit are written commitments issued by Bancorp to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Newly issued or modified guarantees that are not derivative contracts have been recorded on Bancorp's books at their fair value at inception. The liability related to guarantees recorded at March 31, 2004 and December 31, 2003 was not significant.

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

(a) Plan of Operation

Southern Connecticut Bancorp

Bancorp, a Connecticut corporation, was incorporated on November 8, 2000 to serve as a bank holding company. Bancorp is a bank holding company registered in accordance with the Bank Holding Company Act of 1956, as amended (the "BHC Act") and is regulated by and subject to the supervision of the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). Bancorp owns one hundred percent of the capital stock of The Bank of Southern Connecticut ("Bank"), a Connecticut chartered bank headquartered in New Haven, Connecticut. The Bank commenced operations on October 1, 2001 after receiving its Final Certificate of Authority from the Connecticut Banking Commissioner and its deposit insurance from the Federal Deposit Insurance Corporation ("FDIC"). Bancorp invested $10,000,000 of the net proceeds of its July 26, 2001 stock offering to purchase the capital stock of the Bank and an additional $360,000 to cover the Bank's pre-opening deficit. The $10,000,000 of initial equity capital for the Bank, that was required under the Bank's Temporary Certificate of Authority, substantially exceeded the statutory minimum equity capital for a new Connecticut bank of $5,000,000.

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

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

Bancorp's plan of operation is to continue to operate the Bank and increase its market share within the City of New Haven and the surrounding areas, and possibly offer certain additional banking services, such as internet based cash management services. Subject to receipt of regulatory approvals, Bancorp also intends to charter and commence the operations of a second, wholly owned bank subsidiary to serve the New London, Connecticut market, called The Bank of Southeastern Connecticut. The Bank of Southeastern Connecticut is expected to be staffed, managed and operated in a manner consistent with the Bank.

Locations

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

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

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

The Bank focuses on serving the banking needs of small and mid sized businesses, professionals and their employees. The Bank's target customer has $5 to $25 million in revenues, 35 to 100 employees, and borrowing needs between $250,000 and $2 million. The Bank serves the greater New Haven marketplace and has a Board of Directors and management team drawn from the communities served, each of who is recognized and respected by the New Haven business community. The Bank's focus on the commercial market makes it uniquely qualified to move deftly in responding to the needs of its clients.

The Bank does not expect to compete with large institutions for the primary banking relationships of large corporations, but it competes for the small to medium-size businesses and for the consumer business of employees of such entities. The Bank's geographic market focus also provides a unique competitive advantage by clearly identifying the Bank as the independent local bank focused on commercial lending and other commercial banking services. The Bank's focus clients operate retail, service, wholesale distribution, manufacturing and international businesses. Many of these customers use the services of the Bank because of relationships and contacts with the Bank's directors and management. We believe that the Bank is successfully winning new business because of these relationships and a combination of a fair price for our services, quick decision processes and a high 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 expects to be able to help its customers meet all of their banking needs, including obtaining services which the Bank may not offer directly.

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

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

The Bank's loan strategy is to offer a broad range of loans to businesses and individuals in its service area, including commercial and business loans, personal loans, mortgage loans, home equity loans, and automobile loans. The Bank has received lending approval status from the Small Business Administration ("SBA") to enable it to make SBA loans to both the

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

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

Other services provided currently or to be provided include, cashier's checks, money orders, travelers checks, bank by mail, lock box, direct deposit and U. S. Savings Bonds. The Bank is associated with a shared network of automated teller machines that its customers are able to use throughout Connecticut and other regions. The Bank does not currently expect to offer trust services but may offer trust services through a joint venture with a larger institution. To offer trust services in the future, the Bank would need the approval of the Connecticut Banking Commissioner.

Investment Securities

Another significant activity for the Bank is maintaining an investment portfolio. Although granting a variety of loans to generate interest income and loan fees is an important aspect of the Bank's business plan, the aggregate amount of loans will be subject to maintaining a satisfactory loan-to-deposit ratio. The Bank's overall portfolio objective is to maximize the long-term total rate of return through active management of portfolio holdings taking into consideration estimated asset/liability and liquidity needs, tax equivalent yields and maturities. Permissible investments include debt securities such as U. S. Government securities, government sponsored agency securities, municipal bonds, domestic certificates of deposit that are insured by the FDIC, mortgage-backed securities and collateralized mortgage obligations. The Bank expects that investments in equity securities will be very limited. The Bank's current investment portfolio is limited to U. S. government and agency obligations and agency issue collateralized mortgage obligations classified as available for sale. Accordingly, the principal risk associated with the Bank's current investing activities is market risk (variations in value resulting from general changes in interest rates) rather than credit risk.

Market and Competition

Greater New Haven is currently served by approximately 70 offices of commercial banks, none of which is headquartered in New Haven. All of these banks are substantially larger than the Bank expects to be in the near future and are able to offer products and services which may be impracticable for the Bank to provide at this time.

There are numerous banks and other financial institutions serving the communities surrounding New Haven, which also draw customers from New Haven, posing significant competition for the Bank to attract deposits and loans. The Bank also experiences competition from out-of-state financial institutions with little or no traditional bank branches in New Haven. To grow, the Bank 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 New Haven and the surrounding area. Many of such banks and financial institutions are well established and well capitalized, allowing them to provide a greater range of services than the Bank will be able to offer in the near future.

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.

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.

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

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

SCB Capital, Inc.

On November 17, 2003, SCB Capital, Inc., a wholly-owned subsidiary of Bancorp, was incorporated. SCB Capital, Inc. will engage in a limited range of investment banking, advisory and financial brokerage services primarily to small to medium size business clients of Bancorp and the general public located in Connecticut. SCB Capital, Inc. is in the process of applying for approval as a broker-dealer and membership with the National Association of Security Dealers. SCB Capital, Inc. has not commenced operations. The ultimate amount to be invested in SCB Capital, Inc. will be determined by Bancorp's Board of Directors following completion of the application.

Recent Developments

Bancorp expects to raise $10 to $15 million in new capital. The expected use of this capital will be approximately$6.0 million to fund the start up of the new bank and $2.5 million added to the capital of the Bank.

For a more detailed discussion of Bancorp's liquidity, see Liquidity on page 24 of this Form 10-QSB. Currently, other than the potential start up of a new bank in 2004 and the possible establishment of a new Bank branch office (as previously discussed on page 14 under the "Locations" heading), there are no plans involving the significant purchase or sale of property or equipment in the next twelve months. Outside of staffing the new bank located in New London and new offices of the Bank, Bancorp does not anticipate a significant change in the number of its employees.

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

Currently, the Bank has 27 full-time employees. Its employees perform most routine day-to-day banking transactions for the Bank. However, the Bank has entered into a number of arrangements for banking services such as correspondent banking, data processing and armored carriers.

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

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

Summary

Bancorp had net income of $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 December 31, 2003. Earning assets reached $60.6 million, increasing $9.4 million (18%) during the first three months of 2004.

Bancorp has maintained liquidity by maintaining balances in overnight Federal funds sold and short-term investments including money market mutual funds to provide funding for higher yielding loans as they are approved and closed. As of March 31, 2004, Federal funds sold were $4.4 million and money market mutual fund balances were $2.7 million. Federal funds and Short-term investments increased by $3.4 million and $2.2 million respectively during the first quarter of 2004. The increases were due to the excess of deposit volume over net new loan volume during the quarter. In addition, Bancorp has invested $7.3 million in U.S. Government Agency and mortgage backed securities classified as available for sale.

Investments

Available for sale securities decreased $1.2 million from December 31, 2003 to partially fund the increase in loans.

During the three months ended March 31, 2004, gross unrealized losses on the available for sale securities portfolio totaled $123,776. These losses were the result of volatility in market rates and yield curve changes and impacted the market prices in government agency bonds and mortgage-backed securities. Management does not believe these losses are other than temporary, and Bancorp has the ability to hold these securities to maturity if necessary, and has both the intent and ability to retain its investments for a period of time sufficient to allow for any anticipated recovery in fair value. As a result, management believes that these unrealized losses will not have a negative impact on future earnings and capital.

Loans

The net loan portfolio increased $4.9 million (12%) from $40.8 million at December 31, 2003 to $45.7 million at March 31, 2004. The increase in loans is due to the addition of a branch office in 2003 and continued robust demand in the greater New Haven and Connecticut markets. The increase in the loan portfolio was funded primarily by increases in deposits and the decrease in investments. The loans to deposits ratio as of March 31, 2004 was 82%. Bancorp continues to target a loans to deposits ratio in the 80% to 85% range.

Critical Accounting Policy

In the ordinary course of business, Bancorp has made a number of estimates and assumptions relating to reporting results of operations and financial condition in preparing its financial statements in conformity with accounting principals generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. Bancorp believes the following discussion addresses Bancorp's only critical accounting policy, which is the policy that is most important to the portrayal of Bancorp's financial condition and results and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Allowance for Loan Losses

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified

loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Based on its evaluation, management believes the allowance for loan losses of $452,958 at March 31, 2004, which represents 0.98% of gross loans outstanding, is adequate, under prevailing economic conditions, to absorb probable losses on existing loans. At December 31, 2003, the allowance for loan losses was $421,144 or 1.02% of gross loans outstanding.

Analysis of Allowance for Loan Losses

The following represents the activity in the allowance for loan losses for the three months ended March 31:

	2004	2003

Balance at beginning of period	$ 421,144	$ 232,000
Charge-offs	(153)	-
Recoveries	217	-
Provision charged to operations	31,750	62,900
Balance at end of period	$ 452,958	$ 294,900

Non-Accrual, Past Due and Restructured Loans

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

(Thousands of dollars)	March 31, 2004	December 31, 2003
Loans delinquent over 90 days and still accruing	$14,999	$ -
Non-accruing loans	27,062	94,063
Total	$42,061	$ 94,063
% of Total Loans	0.09%	0.23%
% of Total Assets	0.06%	0.17%

Potential Problem Loans

At March 31, 2004, the Bank had no other loans, other than those disclosed in the table above, as to which management has significant doubts as to the ability of the borrower to comply with the present repayment terms.

Deposits

The increase in earning assets for the three months ended March 31, 2004 has been funded primarily by increases in deposits generated from within Bancorp's market area. Deposits reached $55.6 million at March 31, 2004, an increase of $8.3 million (18%) from $47.3 million as of December 31, 2003. The increase in deposits was primarily in interest bearing deposits including certificates of deposits and money market accounts and reflects the continued vigorous marketing effort of the Bank. Bancorp does not have any brokered deposits.

Other

Repurchase agreements increased $534,858 from December 31, 2003 to $874,610 as of March 31, 2004 due to increased activity in these customer accounts.

Results of Operations

De Novo banks in Connecticut have reached profitability on average within three to four years after commencement of operations. Bancorp was profitable in the fourth quarter of 2003, the ninth quarter of operation. Bancorp was also profitable in the quarter ended March 31, 2004.

Average balances, Yields and Rates

The following table presents average balance sheets (daily averages), interest income, interest expense, and the corresponding annualized rates on earning assets and rates paid on interest bearing liabilities for the three months ended March 31, 2004 compared to the three months ended March 31, 2003. Interest income on loans includes loan fee income which is not significant. In addition, Bancorp does not have any tax-exempt securities or loans.

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

	Three months Ended March 31, 2004			Three months Ended March 31, 2003		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Interest earning assets						
Loans (1)	$ 44,342	$ 815	7.35%	$ 21,819	$ 415	7.61%
Federal funds sold	1,891	7	1.48%	1,774	5	1.13%
Short-term investments	2,583	3	0.46%	805	1	0.50%
Investments	7,911	48	2.43%	8,435	82	3.89%
Total interest earning assets	56,727	873	6.16%	32,833	503	6.13%
Cash and due from banks	1,387			1,540		
Premises and equipment, net	3,449			3,065		
Allowance for loan losses	(434)			(254)		
Other	1,120			839		
Total assets	$ 62,249			$ 38,023		
Interest bearing liabilities						
Time certificates	$ 14,090	74	2.10%	$ 6,343	42	2.65%
Savings deposits	2,483	7	1.13%	1,066	3	1.13%
Money market / checking deposits	22,435	71	1.27%	13,964	47	1.35%
Capital lease obligations	1,191	43	14.44%	1,192	42	14.09%
Repurchase agreements	959	2	0.83%	530	1	0.75%
Total interest bearing liabilities	41,158	197	1.91%	23,095	135	2.34%
Non-interest bearing deposits	13,490			6,739		
Accrued expenses and other liabilities	185			130		
Shareholder's equity	7,416			8,059		
Total liabilities and equity	$ 62,249			$ 38,023		

Net interest income	$ 676		$ 368	
Interest spread		4.25%		3.79%
Interest margin		4.77%		4.48%

(1) Includes nonaccruing loans.

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Changes in Assets and Liabilities and Fluctuations in Interest Rates

The following table summarizes the variance in interest income and expense for the three months ended March 31, 2004 and 2003 resulting in changes in assets and liabilities and fluctuations in interest rates earned and paid. The changes in interest attributable to both rate and volume have been allocated to both rate and volume on a pro rata basis.

	Three months Ended March 31, 2004 v. 2003		
	Increase Or	Due to Change in Average	
(Dollars in thousands)	(Decrease	Volume	Rate
	(Dollars in thousands)		
Interest earning assets			
Loans	$ 400	$ 494	$ (94)
Federal funds sold	2	-	2
Short-term investments	2	2	0
Investments	(34)	(5)	(29)
Total interest earning assets	370	491	(121)
Interest bearing liabilities			
Time certificates	$ 32	90	(58)
Savings deposits	4	4	0
Money market / checking deposits	24	42	(18)
Capital lease obligations	1	1	0
Repurchase agreements	1	-	1
Total interest bearing liabilities	62	137	(75)
Net interest income	$ 308	$ 354	$ (46)

Net Interest Income

For the quarter ended March 31, 2004, net interest income was $675,765 versus $367,451 for the same period in 2003, a $308,314 or 84% increase. This was the result of a $23.9 million increase in average earning assets in the quarter ended March 31, 2004 in comparison to the same period a year ago, due primarily to increases in average loans of $22.5 million and short term investments and federal funds of $1.9 million, partially offset by a decrease in average investments of $524,000. Also, average interest bearing liabilities increased $18.1 million during the quarter ended March 31, 2004 in comparison to the same period a year ago, also partially offsetting the favorable net interest income effect of the increase in average earning assets.

The yield on average interest earning assets for the three months ended March 31, 2004 was 6.16% versus 6.13% for same period in 2003. The cost of average interest bearing liabilities was 1.91% for the three months ended March 31, 2004 versus 2.34% for the same period in 2003. The decrease in the cost of average interest bearing liabilities was the primarily the result of lower rates paid on daily rate money market and interest bearing checking accounts and lower roll-over rates offered to renewing and new time deposits in the first quarter of 2004, in comparison to those paid and offered in the first quarter of 2003.

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Provision for Loan Losses

The $31,750 provision for loan losses for the three months ended March 31, 2004 is due primarily to the increase in the Bank's loan volume. The provision for loan losses for the three months ended March 31, 2003 was $62,900, and was primarily due to the increase in the Bank's loan volume during the period. The decrease in provision between the quarter ended March 31, 2004 in comparison to the year earlier period is primarily due to portfolio mix and seasoning considerations.

Noninterest Income

The $133,598 increase in total noninterest income for the first quarter of 2004 versus 2003 is primarily the result of an increase in the gains from the sales of the guaranteed portion of Small Business Administration ("SBA") guaranteed loans of $125,986, fees from increased deposit related volume and activity of $37,393, offset in part by a decrease in realized gains from the sale of securities of $40,449. Bancorp intends to continue to originate SBA guaranteed loans in the future and expects to continue to earn fee income from SBA loan participation sales and referrals.

Noninterest Expense

Total noninterest expense was $821,078 for the first quarter of 2004 versus $567,911 for the same period in 2003, an increase of $253,167 or 45%. The increase in expense is due to the growth in the Bancorp's loan and deposit volume, the addition of the New Haven (Amity) office in March of 2003, as well as the acquisition of additional infrastructure relating to administration and compliance, requiring additional staffing and other operating expenses.

Salaries and benefits increased by $162,657 or 55% due to staff increases relating to the New Haven (Amity) office and other new employees engaged due to volume and infrastructure development.

Occupancy and equipment increased by $51,345 or 69% due primarily to increases relating to depreciation of buildings, equipment and furniture of $22,682, rent relating to New London of $7,597, maintenance of $7,392, and utilities expense of $6,427.

Data processing and other outside services increased by $30,219, or 77%, primarily due to increased loan and deposit volumes.

Off-Balance Sheet Arrangements

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

Liquidity

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

Bancorp's liquidity position as of March 31, 2004 and December 31, 2003 consisted of liquid assets totaling $15.1 million and $11.0 million, respectively. This represents 23.0% and 19.6% of total assets at March 31, 2004 and December 31, 2003, respectively. The net increase in liquidity during the first quarter of 2004 is the result of deposit growth exceeding the increase in total loans and a decrease in available for sale securities. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying balance sheet are considered liquid assets: cash and due from banks, federal funds sold, short-term investments, and securities available for sale. Liquidity is a measure of Bancorp's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposits and increases in its loan portfolio.

Capital

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

	March 31, 2004	December
Tier 1 (Leverage) Capital to Average Assets	12.31%	1
Tier 1 Capital to Risk Weighted Assets	14.57%	1
Total Capital to Risk Weighted Assets	15.43%	1

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, the Bank 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%.

Bancorp is also considered to be well capitalized under the regulatory framework specified by the Federal Reserve Bank. Bancorp's actual and required ratios are not substantially different from those shown above.

Market Risk

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

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

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

Impact of Inflation and Changing Prices

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

fact, inflation can directly affect the value of loan collateral, in particular, real estate. Inflation, or disinflation, could significantly affect Bancorp's earnings in future periods.

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

Certain statements contained in Bancorp's public reports, including this report, and in particular in this "Management's Discussion and Analysis or Plan of Operation", may be forward looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on Bancorp's interest earning assets and the interest paid on its bearing liabilities, (2) the timing of re-pricing of Bancorp's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the effect of changes in regulations applicable to Bancorp and the conduct of its business, (5) 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, (6) the ability of competitors which are larger than Bancorp to provide products and services which it is impracticable for Bancorp to provide, (7) the effect of Bancorp's opening of branches, (8) the effect of any decision by Bancorp to engage in any business not historically permitted to it. Other such factors may be described in Bancorp's filings with the SEC.

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

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

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

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

(b) Changes in Internal Controls

There have not been any significant changes in Bancorp's internal controls or in other factors that occurred during Bancorp's quarter ended March 31, 2004 that could significantly affect these controls subsequent to the evaluation referenced in paragraph (a) above.

PART II
Other Information

Item 1. Legal Proceedings

Not Applicable

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

On March 11, 2004, Mr. Carl R. Borrelli, a director of Bancorp, exercised a warrant granted to Mr. Borrelli under the Warrant Plan, and acquired 5,544 shares of common stock for an aggregate purchase price of $10.91 per share. Bancorp relied on the exemption from registration under section 4(2) of the Securities Act of 1933, as amended.

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

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

No.	Description
3(i)	Amended and Restated Certificate of Incorporation of the Issuer (incorporated by reference to Exhibit 3(i) to Issuer's Quarterly Report on Form 10-QSB dated June 30, 2002)
3(ii)	By-Laws of the Issuer (incorporated by reference to Exhibit 3(ii) to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.1	Lease, dated as of August 17, 2000, between 215 Church Street, LLC and the Issuer (incorporated by reference to Exhibit 10.1 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.2	Letter agreement dated January 3, 2001 amending the Lease between 215 Church Street, LLC and the Issuer (incorporated by reference to Exhibit 10.2 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.3	First Amendment to Lease dated March 30, 2001 between 215 Church Street, LLC and the Issuer (incorporated by reference to Exhibit 10.3 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.4	Second Amendment to Lease dated March 31, 2001 between 215 Church Street, LLC and the Issuer (incorporated by reference to Exhibit 10.4 to the Issuer's Registration Statement Form SB-2 (No. 333-59824))

10.5	Assignment of Lease dated April 11, 2001 between the Issuer and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.5 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.6	Employment Agreement dated as of January 23, 2001, between The Bank of Southern Connecticut, the Issuer and Joseph V. Ciaburri (incorporated

by reference to Exhibit 10.6 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))

10.7	Employment Agreement dated as of March 29, 2001 between The Bank of Southern Connecticut, and Gary D. Mullin (incorporated by reference to Exhibit 10.7 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.8	Issuer's 2001 Stock Option Plan (incorporated by reference to Exhibit 10.8 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.9	Issuer's 2001 Warrant Plan (incorporated by reference to Exhibit 10.9 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.10	Sublease dated January 1, 2001 between Michael Ciaburri, d/b/a Ciaburri Bank Strategies and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.10 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.11	Sublease dated January 1, 2001 between Laydon and Company, LLC and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.11 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.12	Issuer's 2001 Supplemental Warrant Plan (incorporated by reference to Exhibit 10.12 to Issuer's Annual Report on Form 10-KSB dated March 29, 2002)
10.13	Issuer's 2002 Stock Option Plan (incorporated by reference to Appendix B to Issuer's Definitive Proxy Statement dated April 18, 2002).
10.14	Employment Agreement dated as of February 12, 2003, between The Bank of Southern Connecticut and Michael M. Ciaburri. (incorporated by reference to Exhibit 10.14 to Issuer's Form 10-QSB dated May 14, 2003).
10.15	Bancorp's Board of Directors approval of the establishment by Bancorp of a new commercial bank in New London, Connecticut and a capital raising by Bancorp.
10.16	Amendment to Employment Agreement dated as of October 20, 2003, between The Bank of Southern Connecticut and Southern Connecticut Bancorp, Inc. and Joseph V. Ciaburri.
10.17	Lease dated January 14, 2004 between The City of New London and the Issuer (incorporated by reference to Exhibit 10.17 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.18	Lease dated August 2, 2002, between 469 West Main Street LLC and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.18 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
31.1	Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chairman and Chief Executive Officer.
31.2	Section Rule 13(a)-14(a)/15(d)-14(a) Certification by President and Chief Operating Officer.
31.3	Section Rule 13(a)-14(a)/15(d)-14(a) by Vice President and Chief Financial Officer.

32.1 Section 1350 Certification by Chairman and Chief Executive Officer.

32.2 Section 1350 Certification by President and Chief Operating Officer.

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

(b) Reports on Form 8-K

The issuer filed no reports on Form 8-K during the quarter ended March 31, 2004.

SIGNATURES

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

SOUTHERN CONNECTICUT BANCORP, INC.

By: /S/ Joseph V. Ciaburri

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

Date: May 13, 2004

Exhibit Index

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

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

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

32.1 Section 1350 Certification by Chairman and Chief Executive Officer. (filed herewith)

32.2 Section 1350 Certification by President and Chief Operating Officer. (filed herewith)

32.3 Section 1350 Certification by Vice President and Chief Financial Officer. (filed herewith)