SOUTHERN CONNECTICUT BANCORP INC
Form 10-K
March 29, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

F O R M 10 – K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2009.

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

For the transition period from ____________________ to ____________________

Commission file number 1-32219

SOUTHERN CONNECTICUT BANCORP, INC.
(Exact name of registrant as specified in its charter)

Connecticut (State or other jurisdiction of incorporation or organization)	06-1609692 (I.R.S. Employer Identification Number)
215 Church Street New Haven, Connecticut (Address of Principal Executive Offices)	06510 (Zip Code)
Registrant's telephone number, including area code	(203) 782-1100

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No [x]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes [ ] No [x]

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [ ] No [ ]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [x]

The aggregate market value of the voting and non-voting common equity held by non-affiliates (assumes all directors, executive officers and 10% or greater holders are affiliates) of the registrant, computed by reference to the price at which the common equity was last sold as of June 30, 2009, the last business day of the registrant's most recently completed second fiscal quarter: $13,323,402.

The number of shares outstanding of each of the registrant's classes of common equity: Common Stock, par value $.01 per share, outstanding as of March 29, 2010: 2,695,902

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2010 Annual Meeting of Shareholders which is expected to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III of this report on Form 10-K.

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PART I

Item 1. Business.

Background

Southern Connecticut Bancorp, Inc. (the "Company") is a bank holding company headquartered in New Haven, Connecticut that was incorporated on November 8, 2000. The Company's strategic objective is to serve as a bank holding company for a community-based commercial bank and a mortgage broker serving primarily New Haven County (the "Greater New Haven Market"). The Company owns 100% of the capital stock of The Bank of Southern Connecticut (the "Bank"), a Connecticut-chartered bank with its headquarters in New Haven, Connecticut, and 100% of the capital stock of SCB Capital Inc., operating under the name "Evergreen Financial Services" ("Evergreen"), which is licensed by the State of Connecticut Department of Banking to operate a mortage brokerage business and also operates from the Company's headquarters in New Haven, Connecticut. The Company and its subsidiaries focus on meeting the financial services needs of consumers and small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Greater New Haven Market.

The Bank operates branches at four locations, including downtown New Haven, the Amity/Westville section of New Haven, Branford and North Haven. The Bank's branches have a consistent, attractive appearance. Each location has an open lobby, comfortable waiting area, offices for the branch manager and a loan officer, and a conference room. The design of the branches complements the business development strategy of the Bank, affording an appropriate space to deliver personalized banking services in professional, confidential surroundings.

The Bank focuses on serving the banking needs of small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Greater New Haven Market. The Bank's target commercial customer has between $1.0 and $30.0 million in revenues, 15 to 150 employees, and borrowing needs of up to $3.0 million. The primary focus on this commercial market makes the Bank uniquely qualified to move deftly in responding to the needs of its clients. The Bank has been successful in winning business by offering a combination of competitive pricing for its services, quick decision making processes and a high level of personalized, "high touch" customer service.

On February 22, 2010, the Company entered into an Agreement and Plan of Merger with Naugatuck Valley Financial Corporation ("NVSL") and Newco, a corporation to be formed by NVSL to be the holding company for Naugatuck Valley Savings and Loan ("NVSL Bank"), pursuant to which the Company will merge with and into NVSL, with NVSL being the surviving corporation.

In connection with the merger, Naugatuck Valley Mutual Holding Company ("NVSL MHC"), which is presently the majority shareholder of NVSL, will reorganize and convert from a mutual holding company form of organization to a stock holding company form of organization. The stock holding company will be Newco, which will (i) offer and sell shares of its common stock as prescribed in a Plan of Conversion adopted concurrently with the execution of the Agreement and Plan of Merger and (ii) exchange shares of its common stock for shares of NVSL common stock held by persons other than NVSL MHC. Additionally, in connection with the merger, the Bank will be merged with and into NVSL Bank. See Note 18 to the Consolidated Financial Statements for additional information relating to the merger.

The Greater New Haven Market

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

Bank Growth and Operating Strategy

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

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

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

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

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

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

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

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

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

Lending, Depository and Other Products

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

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

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

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

Mortgage Brokerage Services

Evergreen operates from the Company's headquarters in New Haven, Connecticut and is licensed by the State of Connecticut Department of Banking to operate a mortgage brokerage business.

Evergreen focuses on meeting the mortgage brokerage needs of residential and small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Southern Connecticut market.

Investment Services

The Company does not engage in investment services.

Investment Securities

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

Asset and Liability Management

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

Regulatory Compliance

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

Competition

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

New Haven county is currently served by approximately 271 offices of 26 commercial and savings banks. The majority of these banks are substantially larger than the Bank expects to be in the near future, and are able to offer products and services which may be impractical for the Bank to provide at this time. There are numerous banks and other financial institutions serving the communities surrounding New Haven, which also draw customers from New Haven, posing significant competition for the Bank to attract deposits and loans. The Bank also experiences competition from out-of-state financial institutions with little or no traditional bank branches in New Haven. Many of these banks and financial institutions are well established and better capitalized than the Bank, allowing them to provide a greater range of services.

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

Employees

As of December 31, 2009, the Bank and Evergreen had 35 and 2 full-time equivalent employees, respectively. Relationships with all employees are believed to be excellent.

REGULATION AND SUPERVISION

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

Laws and Regulations to which The Company is Subject

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

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

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

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

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

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

The Company is currently in compliance with the Total Risk-Based Capital Ratio, Tier I Capital and the Leverage Ratio requirements. As of December 31, 2009, the Company had a Tier I Risk-Based Capital Ratio and a Total Risk-Based Capital Ratio equal to 11.99% and 13.25%, respectively, and a Leverage Ratio equal to 11.24%. U.S. bank regulatory authorities and international bank supervisory organizations, principally the Basel Committee on Banking Supervision, currently are considering changes to the risk-based capital adequacy framework, including emphasis on credit, market and operational risk components, which ultimately could affect the appropriate capital guidelines.

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

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

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

The Sarbanes-Oxley Act. The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") implements a broad range of corporate governance and accounting measures for public companies (including publicly-held bank holding companies such as the Company) designed to promote honesty and transparency in corporate America. Sarbanes-Oxley's principal provisions, many of which have been interpreted through regulations of the Securities and Exchange Commission, provide for and include, among other things: (i) the creation of an independent accounting oversight board; (ii) auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients; (iii) additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements; (iv) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; (v) an increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with the company's independent auditors; (vi) requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer; (vii) requirements that companies disclose whether at least one member of the audit committee is a "financial expert" (as such term is defined by the SEC); (viii) expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods; (ix) a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions on non-preferential terms and in compliance with other bank regulatory requirements; (x) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; and (xi) a range of enhanced penalties for fraud and other violations. On December 15, 2006, the Securities and Exchange Commission delayed the internal control reporting requirements under Section 404 of the Sarbanes-Oxley Act for non-accelerated filers to periods ending after December 15, 2007. On January 31, 2008, the SEC proposed and on June 20, 2008 approved a further one-year delay from fiscal years ending after December 15, 2008 to fiscal years ending after December 15, 2009 for the auditors attestation report on internal controls over financial reporting. On October 2, 2009, the SEC announced a further six-month deferral from fiscal years ending on or after December 15, 2009 to fiscal years ending on or after June 15, 2010 for the auditors attestation report on internal controls over financial reporting. The six-month deferral was granted as a result of the issuance of the SEC's cost-benefit study conducted by its Office of Economic Analysis. The study was conducted to determine whether additional guidance provided to company management and auditors in 2007 was effective in reducing the costs of compliance. Because the study was published less than three months before the December 15 deadline, the Commission determined that a six-month deferral is appropriate and reasonable so that small public companies and their auditors can better plan for the required auditor attestation. In accordance with the requirements of Section 404(a), Management's report on internal controls is included herein at Item 9A(T).

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

Significant Laws and Regulations to which the Bank is Subject

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

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

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

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

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

	Company			Bank		
	2009	2008	Capital Adequacy Target Ratio	2009	2008	Capital Adequacy Target Ratio
Total Capital to Risk Weighted Assets	13.25%	18.46%	8.00%	12.39%	17.09%	8.00%
Tier 1 Capital to Risk Weighted Assets	11.99%	17.13%	4.00%	11.13%	15.96%	4.00%
Tier 1 (Leverage) Capital Ratio to Average Assets	11.24%	15.64%	4.00%	10.44%	14.55%	4.00%

As of December 31, 2009, the Bank and the Company were deemed to be well-capitalized institutions.

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

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

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

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

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

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

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

Community Reinvestment Act. Under the Community Reinvestment Act ("CRA"), as implemented by FDIC regulations, the Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not prescribe specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of a depository institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The FDIC is required to provide a written evaluation and make public disclosure of an institution's CRA performance utilizing a four-tiered descriptive rating system. Institutions are evaluated and rated by the FDIC as "Outstanding," "Satisfactory," "Needs to Improve," or "Substantial Non Compliance." Failure to receive at least a "Satisfactory" rating may inhibit an institution from undertaking certain activities, including acquisitions of other financial institutions, which require regulatory approval based, in part, on CRA compliance considerations. In its most recent CRA evaluation, dated December 31, 2008, the Bank was rated as "Satisfactory."

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

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

Recent Legislative and Regulatory Initiatives to Address Difficult Market and Economic Conditions. Among the numerous initiatives the United States government has taken in response to the financial crises affecting the banking system and financial markets, was the enactment of the Emergency Economic Stabilization Act of 2008 ("EESA") on October 3, 2008. The EESA included a provision for an increase in the amount of deposits insured by the FDIC to $250,000 until December 2009 (which was subsequently extended to December 31, 2013 by the Helping Families Save Their Homes Act of 2009) as a way to instill confidence in the banking system. On October 14, 2008, the FDIC announced a new program, the Temporary Liquidity Guarantee Program ("TLGP") that provides unlimited FDIC deposit insurance on funds in noninterest-bearing transaction deposit accounts that are not otherwise covered by the existing FDIC deposit insurance limit of $250,000. The TLGP also provides that the FDIC will guarantee qualifying senior unsecured debt issued before June 2009 by participating banks and certain qualifying holding companies. Participating institutions are assessed a surcharge of 10 basis points on the additional insured deposits and an assessment of 50 to 100 basis points on qualifying senior unsecured debt issued under the debt guarantee segment of the program. The Bank elected to participate in both aspects of the TLGP and incurred the surcharge as a cost of such participation.

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

Item 1A. Risk Factors.

Not required.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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

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

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

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

When practical, the Bank seeks to sublease space within the building that is not needed for operations. The Bank of Southern Connecticut had no tenants during 2009.

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

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

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

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

Property in Clinton, Connecticut. In June 2005, the Company purchased a one-acre improved site with two buildings in Clinton, Connecticut for the primary purpose of establishing a branch office of the Bank. The net purchase price of the property was $495,000. During 2007, the Bank determined that it would not establish a branch at this location and subsequently retained a commercial real estate broker to represent the Company in the sale of the property, and the property is classified as held for sale at December 31, 2009.

In August 2009, the Company entered into an agreement to lease one of the two buildings located in Clinton, Connecticut. The lease is for an initial term of five years, with two successive five-year option periods. Base rent is $24,000 annually until August 31, 2009. The base rent for the option periods increases and is fixed in the lease. The tenant has a right of first refusal in the purchase the property. The tenant is responsible for all costs to maintain the building, other than structural repairs and real estate taxes.

Item 3. Legal Proceedings.

Periodically, there have been various claims and lawsuits against the Company, such as claims to enforce liens, condemnation proceedings on properties in which the Company holds security interests, claims involving the making and servicing of real property loans and other issues incident to our business. However, neither the Company nor any subsidiary is a party to any pending legal proceedings that management believes would have a material adverse effect on the Company’s financial condition, results of operations or cash flows.

PART II

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

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

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

Quarter Ended	High	Low
March 31,2009	$ 8.90	$ 4.93
June 30, 2009	$ 5.70	$ 4.55
September 30, 2009	$ 6.25	$ 4.13
December 31, 2009	$ 4.65	$ 2.04
March 31,2008	$ 7.50	$ 6.73
June 30, 2008	$ 7.45	$ 6.95
September 30, 2008	$ 7.05	$ 5.48
December 31, 2008	$ 6.25	$ 1.40

Holders

There were approximately 100 registered shareholders of record of the Company's Common Stock as of March 29, 2010.

Dividends

No cash dividends have been declared to date by the Company. Management expects that earnings, if any, will be retained and that no cash dividends will be paid in the near future. The Company may, however, declare stock dividends at the discretion of its Board of Directors. No stock dividends were declared in 2009 and 2008.

The Company's only significant operating subsidiary during 2009 is the Bank. The Company is dependent upon the ability of the Bank to declare and pay dividends to the Company. The Bank's ability to declare cash dividends is dependent upon the Bank's ability to earn profits and to maintain acceptable capital ratios, as well as meet regulatory requirements and remain compliant with banking law.

The policy of the Connecticut Banking Commissioner is to prohibit payment of any cash dividends prior to recapture of organization and pre-operating expenses from operating profits. In addition, the Bank is prohibited by Connecticut law from declaring a cash dividend on its Common Stock without prior approval of the Connecticut Banking Commissioner except from its net profits for that year and any retained net profits of the preceding two years. "Net profits" is defined as the remainder of all earnings from current operations. In some instances, the FDIC may impose further restrictions on dividends. At December 31, 2009 and 2008, no cash dividends may be declared by the Bank without regulatory approval.

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

Recent Sales of Unregistered Securities

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

Item 6. Selected Financial Data.

Not required.

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

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

Overview

Southern Connecticut Bancorp, Inc. is a bank holding company headquartered in New Haven, Connecticut that was incorporated on November 8, 2000. The Company's strategic objective is to serve as a bank holding company for The Bank of Southern Connecticut, a commercial bank serving New Haven, Connecticut and the surrounding communities. The Bank of Southern Connecticut commenced operations on October 1, 2001. The Company owns 100% of the capital stock of The Bank of Southern Connecticut (the "Bank"), a Connecticut-chartered bank with its headquarters in New Haven, Connecticut and 100% of the capital stock of SCB Capital Inc., operating under the name "Evergreen Financial Services" (Evergreen), a mortage broker with its headquarters in New Haven, Connecticut.

The Company's net loss for fiscal year 2009 was $2,907,000 (or basic and diluted loss per share of $1.08), compared to net income of $134,000 (or basic and diluted income per share of $0.05) in fiscal year 2008

The Company's net loss for the year ended December 31, 2009 was largely attributable to a provision for loan losses of $1,992,000 for 2009 compared to $226,000 in 2008. The significant increase in the provision for loan losses during the 2009 is related to a group of ten impaired loans that have been severely impacted by prevailing economic conditions, discussed in more detail under Allowance for Loan Losses.

In addition to the impact of the provision for loan losses, the operating results for the year ended December 31, 2009 compared to 2008 were influenced by the following factors:

- Net interest income decreased due primarily to lower yields on interest earning assets, offset partially by lower costs on interest bearing liabilities and changes in asset and liability volumes;
- Noninterest income decreased because noninterest income in 2008 included the gain on the sale of the New London branch; a decrease in loan fees attributable to a prepayment penalty received in 2008; and due to a decrease in service charges and fees, resulting from changes in the business practices of customers of the Bank; and
- Noninterest expenses decreased due to lower salaries and benefits resulting from reductions in staff, both from the sale of the New London branch and other reductions, and the elimination of certain employee benefits and bonuses in 2009. In addition, salaries and benefits expense for 2008 included expenses related to separation payments made to the former Chief Executive Officer and President of the Bank, and there were no such expenses in 2009; expense reductions attributable to lower negotiated rates on certain insurance and telecommunications service contracts; decreases in advertising and promotional campaigns; and expense savings related to printing the Company's 2009 shareholders' letter and proxy statement. These decreases were partially offset by the impairment write-down of goodwill relating to Evergreen; an increase in professional service fees; and by higher FDIC insurance premiums due to an increase in assessment rates and deposit balances subject to assessment, as well as a special one-time assessment paid during 2009.

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

On February 22, 2010, the Company entered into an Agreement and Plan of Merger with Naugatuck Valley Financial Corporation ("NVSL") and Newco, a corporation to be formed by NVSL to be the holding company for Naugatuck Valley Savings and Loan ("NVSL Bank"), pursuant to which the Company will merge with and into NVSL, with NVSL being the surviving corporation. See Note 18 to the Consolidated Financial Statements for additional information regarding the transaction.

Selected Operating and Balance Sheet Data –
Years Ended December 31, 2009 and December 31, 2008

Operating Data	2008	2008
Interest income	$6,425,869	$7,000,100
Interest expense	2,172,387	2,240,045
Net interest income	4,253,482	4,760,055
Provision for loan losses	1,992,113	226,019
Noninterest income	628,944	1,666,625
Noninterest expenses	5,797,738	6,066,912
Net (loss) income	(2,907,425)	133,749
Basic and diluted (loss) income per share	(1.08)	0.05
Balance sheet data		
Cash and due from banks	$2,541,557	$5,267,439
Short-term investments	15,383,081	8,637,450
Interest bearing certificates of deposit	347,331	1,642,612
Investment securities	2,219,751	5,130,005
Loans, net	109,865,195	89,241,432
Total assets	135,610,178	114,916,562
Total deposits	117,555,542	93,970,024
Repurchase agreements	294,332	214,391
Total shareholders' equity	15,632,536	18,540,954
Book value per share	5.80	6.90

Segment Reporting

The Company has three reporting segments for purposes of reporting business line results: Community Banking, Mortgage Brokerage and the Holding Company. The Community Banking segment is defined as all operating results of the Bank. The Mortgage Brokerage segment is defined as the results of Evergreen and the Holding Company segment is defined as the results of Southern Connecticut Bancorp on an unconsolidated or standalone basis. The Company uses an internal reporting system to generate information by operating segment. Estimates and allocations are used for noninterest expenses.

Assets

The Company’s total assets were $135.6 million as of December 31, 2009, an increase of $20.7 million over December 31, 2008 total assets of $114.9 million. $20.6 million of the increase in total assets during 2009 is attributable to an increase in loans receivable from December 31, 2008. Earning assets comprise $130.6 million of the total assets, and consist of short-term investments, interest-bearing certificates of deposit, securities and loans, which collectively increased $24.7 million from 2008. The Company has maintained liquidity by maintaining balances in overnight Federal Funds sold and in short-term investments, primarily money market mutual funds, to provide funding for higher yielding loans as they are approved. As of December 31, 2009 and 2008 short-term investments balances were $15.4 million and $8.6 million, respectively. During the latter part of 2008, due to historically low returns available on federal funds sold, the Company focused on money market funds as a short-term investment strategy. Investment securities classified as available for sale were $2.2 million and $5.1 million as of December 31, 2009 and 2008, respectively. The gross loan portfolio was $112.6 million and $90.4 million as of December 31, 2009 and 2008 respectively, an increase of $22.2 million. The allowance for loan losses increased $1.6 million to $2.8 million at December 31, 2009 compared to $1.2 million at the end of 2008.

Investments

The amortized cost of the Company’s investments decreased $2.9 million during 2009, representing the difference between securities that matured ($7.1 million) and were called ($5.0 million) and purchases of new securities ($9.2 million).

The following table presents the maturity distribution of the amortized cost of investment securities at December 31, 2009, and the weighted average yield of such securities. The weighted average yields were calculated based on the amortized cost and effective yields to maturity of each security.

Available for sale	One Year or Less	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	No Maturity	Total	Weighted Average Yield
U. S. Government sponsored agency obligations	$-	$-	$2,126,216	$-	$-	$2,126,216	3.07 %
Mortgage-backed securities	-	-	-	-	105,331	105,331	4.49 %
Total	$-	$-	$2,126,216	$-	$105,331	$2,231,547	
Weighted Average Yield	0.00 %	0.00 %	3.07 %	0.00 %	4.49 %	3.13 %	

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders’ equity at December 31, 2009:

	Amortized Cost	Fair Value
Federal National Mortgage Association	$ 2,126,216	$ 2,113,733

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

Loans

The Bank's net loan portfolio was $109.9 million at December 31, 2009 versus $89.2 million at December 31, 2008, an increase of $20.7 million. The Company attributes the 2009 loan growth to the success of the Bank's loan business development program in generating loan demand to small to medium-sized businesses. Management believes that the loan growth will continue as the Bank's branch system deposit base grows and additional lending capacity is developed. The Bank's loans have been made to borrowers primarily in the New Haven market area. There are no other significant loan concentrations in the loan portfolio.

The following table presents the maturities of loans in the Company's portfolio at December 31, 2009 by type of loan, and the sensitivities of loans to changes in interest rates:

	Due in one year or less	Due after one year through five years	Due after five years	Total	% of Total
Commercial loans secured by real estate	$14,812,625	$42,490,005	$6,534,082	$63,836,712	56.60 %
Commercial loans	30,742,366	11,365,251	1,785,574	43,893,191	38.92 %
Construction loans	3,732,354	575,551	300,000	4,607,905	4.08 %
Consumer installment loans	254,899	152,858	40,786	448,543	0.40 %
Total	$49,542,244	$54,583,665	$8,660,442	$112,786,351	100.00 %
Fixed rate loans	$15,010,814	$11,488,564	$4,707,011	$31,206,389	
Variable rate loans	34,531,430	43,095,101	3,953,431	81,579,962	
Total	$49,542,244	$54,583,665	$8,660,442	$112,786,351	

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

Critical Accounting Policy

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to reporting the results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes the following discussion addresses the Company's only critical accounting policy, which is the policy that is most important to the portrayal of the Company's financial condition and results, and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company has reviewed this critical accounting policy and estimates with its audit committee. Refer to the discussion below under "Allowance for Loan Losses" and Note 1 to the consolidated financial statements for a detailed description of our estimation process and methodology related to the allowance for loan losses.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are considered impaired. For such impaired loans, an allowance is established when the discounted cash flows (or observable market price or collateral value if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans, segregated generally by loan type, and is based on historical loss experience with adjustments for qualitative factors which are made after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Impaired loans also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer installment loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Based upon this evaluation, management believes the allowance for loan losses of $2,768,000 or 2.46% of gross loans outstanding at December 31, 2009 is adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2008, the allowance for loan losses was $1,183,000 or 1.31% of gross loans outstanding. The increase in the allowance is attributable to a $1,327,000 increase in the specific component of the allowance and a $258,000 increase in the general component of the allowance. The increase in the specific component is due to an increase in specific reserves totaling $1,420,000 for ten loans (five construction and land loans, four commercial real estate loans and one commercial loan secured by residential real estate) identified as impaired during the year ended December 31, 2009. This was partially offset by a decrease in specific reserves totaling $5,000,for loans that were impaired, at both December 31, 2009 and December 31, 2008; and by $88,000 for loans charged off during the year that were classified as impaired at December 31, 2008. The increase in the general component of the reserve is primarily due to an increase in the reserve factors and increased loan volume, partially offset by the reclassification of thirteen loans to impaired loans.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the loan is well-secured and in process of collection. Consumer installment loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Management considers all non-accrual loans and troubled-debt restructured loans to be impaired. In most cases, loan payments that are past due less than 90 days and the related loans are not considered to be impaired.

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

	2009	2008
Balance at beginning of year	$1,183,369	$1,256,965
Provision for loan losses	1,992,113	226,019
Recoveries of loans previously charged-off:		
Commercial	10,000	37,109
Consumer	563	-
Total recoveries	10,563	37,109
Loans charged-off:		
Commercial loans secured by real estate	(413,839)	(90,215)
Commercial	(2,300)	-
Consumer	(1,339)	(246,509)
Total charge-offs	(417,478)	(336,724)
Balance at end of year	$2,768,567	$1,183,369
Net charge-offs to average loans	(0.42 %)	(0.36 %)

Allocation of the Allowance for Loan Losses at December 31. 2009 and 2008:

	2009			2008		
	Balance	Percent of Loans in Each Category to Total Loans		Balance	Percent of Loans in Each Category to Total Loans	
Commercial loans secured by real estate	$1,530,085	56.60	%	$528,754	50.22	%
Commercial loans	1,140,924	38.92	%	530,088	41.57	%
Construction and land loans	90,274	4.08	%	114,340	7.18	%
Consumer home equity loans	-	0.00	%	6,890	0.42	%
Consumer installment loans	7,284	0.40	%	3,297	0.61	%
	$2,768,567	100.00	%	$1,183,369	100.00	%

Non-Accrual, Past Due and Restructured Loans

The following represents non-accrual and past due loans at December 31, 2009 and December 31, 2008:

	December 31, 2009	December 31, 2008
Non-accrual loans	$5,363,061	$881,948
Accruing loans contractually past due 90 days or more		
Loans past due 90 days or more and still accruing	$483,897	$195,822
Matured loans pending renewal and still accruing	-	188,620
Total	$483,897	$384,442

In 2009 and 2008, there were no loans considered "troubled debt restructurings."

Potential Problem Loans

At December 31, 2009, the Bank had loans totaling $1.0 million, which were not disclosed in the table above, and were not on non-accrual status, but were deemed to be impaired. The loans were current with respect to principal and interest. Management of the Company has reviewed the collateral for the loans and considers the current specific reserves, if any, on the loans to be adequate to cover potential losses related to the relationships.

Deposits

Total deposits were $117.6 million at December 31, 2009, an increase of $23.6 million (25.1%) in comparison to total deposits at December 31, 2008 of $94.0 million. The overall growth in deposit balances occurred primarily during the first six months of 2009 to fund anticipated increased loan volume. Non-interest bearing deposits were $29.8 million at December 31, 2009, an increase of $1.6 million (5.7%) from $28.2 million at December 31, 2008. The balance of interest bearing checking accounts can fluctuate as much as 5% to 10% on a daily basis. Total interest bearing checking, money market and savings deposits increased $3.6 million, or 10.8%, to $37.4 million at December 31, 2009 from $33.8 million at December 31, 2008. Time deposits increased to $50.3 million at December 31, 2009 from

$32.0 million at December 31, 2008, an $18.3 million (57.2%) increase. Included in time deposits at December 31, 2009 is $14.0 million in brokered deposits, which includes the Company's placement of $3.4 million in customer deposits and purchase of $3.5 million in brokered certificates of deposit through the CDARS program. The CDARS program offers the Bank both reciprocal and one way swap programs which allow customers to enjoy additional FDIC insurance for deposits that might not otherwise be eligible for FDIC insurance and gives the Bank additional access to funding. As of December 31, 2009, core deposits represented 57.2% of total deposits compared to 66.0% at December 31, 2008. The decrease in core deposits as a percentage of total deposits is due to seasonal fluctuations in deposit levels as well as the effect of reduced economic activity in general, on the Bank's customer's businesses.

The Bank maintains relationships with several deposit brokers and could continue to utilize the services of one or more of such brokers if management determines that issuing brokered certificates of deposit would be in the best interest of the Bank and the Company.

The Greater New Haven Market is highly competitive. The Bank faces competition from a large number of banks (ranging from small community banks to large international banks), credit unions, and other providers of financial services. The level of rates offered by the Bank reflects the high level of competition in our market.

As of December 31, 2009 the Bank's maturities of time deposits were:

(Thousands of dollars)	$100,000 or greater	Less than $100,000	Totals
Three months or less	$4,196	$2,260	$6,456
Over three months to six months	2,873	5,505	8,378
Over six months to one year	9,217	9,495	18,712
Over one year to two years	2,930	4,513	7,443
Over two years to three years	2,843	4,842	7,685
Over three years	454	1,171	1,625
	$22,513	$27,786	$50,299

Other

The increase in Other Assets of $457,000 is due mainly to the prepayment in December 2009 of FDIC insurance premiums totaling $678,000, partially offset by the write-down in 2009 of $238,000 in Goodwill recorded by the Company related to the Evergreen asset purchase in 2008.

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 years ended December 31, 2009 and 2008.

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

	2009			2008			
							(Decreases)
	Average	Interest Income/	Average	Average	Interest Income/	Average	Increases in interest
(Dollars in thousands)	Balance	Expense	Rate	Balance	Expense	Rate	Income/Expense
Interest earning assets							
Loans (1)(2)	$97,773	$6,102	6.24 %	$84,106	$6,334	7.53 %	$ (232)
Short-term and other investments	22,023	203	0.92 %	10,120	266	2.63 %	(63)
Investments	3,353	121	3.61 %	5,051	196	3.88 %	(75)
Federal funds sold	-	-	-	7,497	204	2.72 %	(204)
Total interest earning assets	123,149	6,426	5.22 %	106,774	7,000	6.56 %	(574)
Cash and due from banks	4,362			4,387			
Premises and equipment, net	2,625			2,974			
Allowance for loan losses	(2,522)			(1,213)			
Other	2,319			1,995			
Total assets	$129,933			$114,917			
Interest bearing liabilities							
Time certificates	$47,288	1,457	3.08 %	$29,904	1,251	4.18 %	206
Savings deposits	1,907	20	1.05 %	1,557	21	1.35 %	(1)
Money market / checking deposits	34,318	514	1.50 %	35,661	783	2.20 %	(269)
Capital lease obligations	1,178	176	14.94 %	1,184	176	14.86 %	-
Repurchase agreements	764	6	0.79 %	567	9	1.59 %	(3)
Total interest bearing liabilities	85,455	2,173	2.54 %	68,873	2,240	3.25 %	(67)

Non-interest bearing deposits	26,792				25,170				
Accrued expenses and other liabilities	1,058				1,281				
Shareholder's equity	16,628				19,593				
Total liabilities and equity	$129,933				$114,917				
Net interest income		$4,253				$4,760			$ (507)
Interest spread			2.68	%			3.31	%	
Interest margin			3.45	%			4.46	%	-

(1) Average balance includes nonaccruing loans.
(2) Interest income includes loan fees, which are not material.

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Rate Volume Variance Analysis

The following table summarizes the variance in interest income and expense for 2009 and 2008 resulting from changes in assets and liabilities and fluctuations in interest rates earned and paid. The changes in interest income and expense attributable to both rate and volume have been allocated to both rate and volume on a pro rata basis.

	2009 vs 2008		
	Due to Change in Average		(Decrease)
(Dollars in thousands)	Volume	Rate	Increase
Interest earning assets			
Loans	$943	$(1,175)	$(232)
Short-term and other investments	182	(245)	(63)
Investments	(62)	(13)	(75)
Federal funds sold	(204)	-	(204)
Total interest earning assets	859	(1,433)	(574)
Interest bearing liabilities			
Time certificates	595	(389)	206
Savings deposits	4	(5)	(1)
Money market / checking deposits	(29)	(240)	(269)
Capital lease obligations	(1)	1	-
Repurchase agreements	2	(5)	(3)
Total interest bearing liabilities	571	(638)	(67)
Net interest income	$288	$(795)	$(507)

The decrease in net interest income during 2009 reflects the decrease in the yields on earning assets from 6.56% in 2008 to 5.22% in 2009, partially offset by an increase in total average interest earning asset balances from 2008, as the average interest earning assets in 2009 of $123.1 million were 15% higher than 2008. The decline in interest income attributable to average interest earning assets was partially offset by the combined effects of a decrease in rates on interest bearing liabilities from 3.25% in 2008 to 2.54% in 2009 and a $16.6 million increase in average interest bearing liabilities from $68.9 million in 2008 to $85.5 million in 2009. Overall, the change in interest income attributed to volume increases was $288,000 offset by a decrease of $795,000 due to the decrease in interest rates. Interest income from interest earning assets in 2009 compared to 2008 declined $1.4 million due to rates and increased $859,000 due to volume. Variances in the 2009 cost of interest bearing liabilities in comparison to 2008 were due to decreased rate considerations of $638,000 offset by increased volume considerations of $571,000.

The Company intends for the Bank to continue to emphasize lending to small to medium-sized businesses in its market area as its strategy to increase assets under management and to improve earnings. The Bank will seek opportunities through marketing to increase its deposit base, with a primary objective of attracting core non-interest checking and related money market deposit accounts, in order to support its earning assets and also by considering additional branch locations and new product and service offerings.

The following are measurements of the Company's results of operations in relation to assets and equity, and average equity to average assets for the years ended December 31, 2009 and 2008:

	2009	2008
(Loss) income on average assets	(2.24 %)	0.12 %
(Loss) income on average equity	(17.50 %)	0.68 %
Average equity to average assets	12.79 %	17.05 %

Results of Operations

The Company's net loss for fiscal year 2009 was $2,907,000 (or basic and diluted loss per share of $1.08), compared to net income of $134,000 (or basic and diluted income per share of $0.05) in fiscal year 2008.

The Company's net loss for the year ended December 31, 2009 was largely attributable to a provision for loan losses of $1,992,000 for 2009 compared to $226,000 for 2008. The significant increase in the provision for loan losses during 2009 is related to a group of ten impaired loans that have been severely impacted by prevailing economic conditions, discussed in more detail under Allowance for Loan Losses.

In addition to the impact of the provision for loan losses, the operating results for the year ended December 31, 2009 compared to 2008 were influenced by the following factors:

- Net interest income decreased due primarily to lower yields on interest earning assets, offset partially by lower costs on interest bearing liabilities and changes in asset and liability volumes;
- Noninterest income decreased because noninterest income in 2008 included the gain on the sale of the New London branch; a decrease in loan fees attributable to a prepayment penalty received in 2008; and due to a decrease in service charges and fees, resulting from changes in the business practices of customers of the Bank; and
- Noninterest expenses decreased due to lower salaries and benefits resulting from reductions in staff, both from the sale of the New London branch and other reductions, and the elimination of certain employee benefits and bonuses in 2009. In addition, salaries and benefits expense for 2008 included expenses related to separation payments made to the former Chief Executive Officer and President of the Bank, and there were no such expenses in 2009; expense reductions attributable to lower negotiated rates on certain insurance and telecommunications service contracts; decreases in advertising and promotional campaigns; and expense savings related to printing the Company's 2009 shareholders' letter and proxy statement. These decreases were partially offset by the impairment write-down of goodwill relating to Evergreen; an increase in professional service fees; and by higher FDIC insurance premiums due to an increase in assessment rates and deposit balances subject to assessment, as well as a special one-time assessment paid during 2009.

Net Interest Income

The principal source of revenue for the Bank is net interest income. The Bank's net interest income is dependent primarily upon the difference or spread between the average yield earned on loans receivable and securities and the average rate paid on deposits and borrowings, as well as the relative amounts of such assets and liabilities. The Bank, like other banking institutions, is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different times, or on a different basis, than its interest-earning assets.

For the year ended December 31, 2009, net interest income was $4,253,000 versus $4,760,000 for the same period in 2008. The $507,000 (or 10.6%) decrease was the result of a $574,000 decrease in interest income and a $67,000 decrease in interest expense. This net decrease was primarily the result of decreases in rates, partially offset by increases in volume, on both interest earning assets and interest bearing liabilities.

The Company's average total interest earning assets were $123.1 million during the year ended December 31, 2009 compared to $106.8 million for the same period in 2008, an increase of $16.3 million (or 15.3%). The increase in average interest earning assets of $16.3 million was comprised of increases in average balances of loans of $13.7 million and short-term and other investments of $11.9 million, partially offset by decreases in average balances of federal funds sold of $7.5 million and investments of $1.6 million.

The yield on average interest earning assets for the year ended December 31, 2009 was 5.22% compared to 6.56% for 2008, a decrease of 134 basis points. The decrease in the yield on average earning assets reflects the impact of reductions in the FOMC rates, particularly in the prime lending rate, LIBOR and the Bank's base lending rate; as well as an increase in non-performing assets and an increasingly competitive market to attract new loans.

The combined effects of the 134 basis point decrease in yield on average interest earning assets and the $16.3 million increase in average balances of interest earning assets resulted in the $574,000 decrease in interest income between the year ended December 31, 2009 and the year ended December 31, 2008.

The average balance of the Company's interest bearing liabilities was $85.5 million during the year ended December 31, 2009 compared to $68.9 million for 2008, an increase of $16.6 million (or 24.1%). The cost of average interest bearing liabilities decreased 71 basis points to 2.54% during the year ended December 31, 2009 compared to 3.25% for the same period in 2008, which was primarily due to a general decrease in market interest rates.

The combined effects of the 71 basis point decrease in yield on average interest bearing liabilities and the $16.6 million increase in average balances of interest bearing liabilities resulted in the $67,000 decrease in interest expense between the year ended December 31, 2009 and the year ended December 31, 2008.

Provision for Loan Losses

The Bank's provision for loan losses was $1,992,000 for the year ended December 31, 2009, as compared to $226,000 for the year ended December 31, 2008. The significant increase in the provision for loan losses during the year ended December 31, 2009 was primarily related to specific reserves established for a group of ten impaired loans that have been severely impacted by prevailing economic conditions, discussed in more detail under Allowance for Loan Losses.

Noninterest Income

Total noninterest income was $629,000 for the year ended December 31, 2009 compared to $1,667,000 for the same period in 2008. Noninterest income in 2008 included an $875,000 gain on the sale of the Bank's New London branch. Service charges and fees decreased $70,000 due to changes in business practices of customers of the Bank during the year ended December 31, 2009. Other non-interest income decreased to $122,000 in 2009 from $215,000 in 2008, due to decreases in loan prepayment fees ($74,000), insurance commissions ($9,000), letter of credit fees ($10,000), and other fees ($29,000), partially offset by increases in other loan and SBA servicing related fees ($29,000).

Noninterest Expenses

Total noninterest expenses were $5,798,000 for the year ended December 31, 2009 compared to $6,067,000 for 2008, a decrease of $269,000 or 4.4%.

Salaries and benefits expense for the year ended December 31, 2009 was $3,089,000 versus $3,688,000 for the same period in 2008. Salaries and benefits expense decreased $599,000, or 16.2%, primarily because of expense savings related to reductions in staff, both from the sale of the New London branch and other reductions, and the elimination of certain employee benefits and bonuses in 2009, as well as the reduction relating to separation payments made to the former Chief Executive Officer and President of the Bank in 2008, with no such expenses incurred in 2009.

FDIC insurance expense increased by $167,000 from $79,000 to $246,000 primarily due to increased assessment rates and deposit balances subject to assessment, as well as a one time special assessment of five basis points based upon deposit balances on June 30, 2009. The Temporary Liquidity Guarantee Program announcement by the FDIC on October 17, 2008 provided banks with the option to fully insure non-interest bearing transaction deposit accounts. The Bank elected to participate in the program, resulting in a 10 basis point annual rate surcharge applied to balances in such accounts over $250,000, beginning in 2009.

Professional services for the year ended December 31, 2009 increased by $152,000 from $358,000 to $510,000, primarily due to an increase in legal fees related to the merger announced on February 22, 2010 (see Note 18 to the Consolidated Financial Statements) and accounting fees, partially offset by a reduction in other professional fees.

Other operating expenses increased by $61,000 to $846,000 for the year ended December 31, 2009, compared to the same period in 2008. The increase is primarily due to the $238,000 impairment write-down of goodwill relating to Evergreen, partially offset by expense reductions attributable to lower negotiated rates on certain insurance and telecommunications service contracts, and expense savings related to printing the Company's 2009 shareholders' letter and proxy statement. The goodwill impairment recognized was due to the recurring operating losses incurred by Evergreen since its acquisition, and the uncertainty that such results were not likely to improve in the near future.

Off-Balance-Sheet Arrangements

See Note 13 to the accompanying Consolidated Financial Statements for required disclosure regarding off-balance-sheet arrangements.

Liquidity

The Company's liquidity position as of December 31, 2009 and 2008 consisted of liquid assets totaling $20.4 million and $20.7 million, respectively. This represents 15.1% and 18.0% of total assets at December 31, 2009 and 2008, respectively. 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, interest-bearing certificates of deposit and securities available for sale. Liquidity is a measure of the Company'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.

Management believes the Company's short-term assets provide sufficient liquidity to cover potential fluctuations in deposit accounts and loan demand and to meet other anticipated operating cash and investment requirements.

Capital

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

	Company			Bank		
	2009	2008	Capital Adequacy Target Ratio	2009	2008	Capital Adequacy Target Ratio
Total Capital to Risk Weighted Assets	13.25%	18.46%	8.00%	12.39%	17.09%	8.00%
Tier 1 Capital to Risk Weighted Assets	11.99%	17.13%	4.00%	11.13%	15.96%	4.00%
Tier 1 (Leverage) Capital Ratio to Average Assets	11.24%	15.64%	4.00%	10.44%	14.55%	4.00%

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%.

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 the nature of the Company's business, market risk is primarily limited to interest rate risk, which is defined as the impact of changing interest rates on current and future earnings.

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The Company's goal is to maximize long-term profitability, while minimizing its exposure to interest rate fluctuations. The first priority is to structure and price the Company'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, the Company 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 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 Senior Management of the Bank and reported quarterly to the Asset and Liability Management Committee and the Board of Directors. Management reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk.

Impact of Inflation and Changing Prices

The Company's consolidated 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 the Company's earnings in future periods.

Factors Affecting Future Results

Some of the statements under "Management's Discussion and Analysis or Plan of Operations," "Business" and elsewhere in this Annual Report on Form 10-K may include forward-looking statements which reflect our current views with respect to future events and financial performance. Statements which include the words "expect," "intend," "plan," "believe," "project," "anticipate" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements or that could adversely affect the holders of our common stock. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on the Company's interest earning assets and the interest paid on its interest bearing liabilities, (2) the timing of re-pricing of the Company'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 the Company 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 the Company to provide products and services which it is impractical for the Company to provide, (7) the volatility of quarterly earnings, due in part to the variation in the number, dollar volume and profit realized from SBA guaranteed loan participation sales in different quarters, (8) the effect of a loss of any executive officer, key personnel, or directors, (9) the effect of the Company's opening of branches and the receipt of regulatory approval to complete such actions, (10) concentration of the Company's business in southern and southeastern Connecticut, (11) the concentration of the Company's loan portfolio in commercial loans to small-to-medium sized businesses, which may be impacted more severely than larger businesses during periods of economic weakness, (12) lack of seasoning in the Company's loan portfolio, which may increase the risk of future credit defaults, and (13) the effect of any decision by the Company to engage in any business not historically permitted to it. Other such factors may be described in other filings made by the Company with the SEC.

Although the Company believes that it has the resources needed for success, future revenues and interest spreads and yields cannot be reliably predicted. These trends may cause the Company 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.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not required.

Item 8. Financial Statements and Supplementary Data.

The consolidated balance sheets of the Company as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, together with the report thereon of McGladrey & Pullen, LLP dated March 29, 2010 are included as part of this Form 10-K following page 46 hereof.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A(T). Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of the Company's disclosure controls and procedures performed by the Company's management, with participation of the Company's President and Chief Operating Officer, Chief Financial Officer, and Chief Accounting Officer as of the end of the period covered by this report, the Company's President and Chief Operating Officer, Chief Financial Officer, and Chief Accounting Officer concluded that the Company's disclosure controls and procedures have been effective in ensuring that material information relating to the Company, including its consolidated subsidiary, is made known to the certifying officers by others within the Company and the Bank during the period covered by this report.

As used herein, "disclosure controls and procedures" means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company 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 Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the Company'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) Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of the President and Chief Operating Officer, the Chief Financial Officer and the Chief Accounting Officer, we conducted an evaluation of the effectiveness of our control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluation under the framework, management has concluded that our internal control over financial reporting was effective as of December 31, 2009.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

(c) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal controls over financial reporting during the Company's last fiscal quarter ended December 31, 2009 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item 10 is incorporated into this Form 10-K by reference from the sections captioned "Proposal 1 – Election of Directors", "Corporate Governance", "Section 16(a) Beneficial Ownership Reporting Compliance", and "Code of Ethics" in the Company's definitive proxy statement for its 2010 Annual Meeting of Shareholders (the "Definitive Proxy Statement").

Item 11. Executive Compensation.

The information required by this Item 11 is incorporated into this Form 10-K by reference from the sections captioned "Executive Compensation" and "Director Compensation" in the Definitive Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information

The following schedule provides information with respect to the compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance as of December 31, 2009:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity Compensation Plans approved by security holders	202,201	$7.79	257,971
Equity Compensation Plan not approved by security holders (1)	77,184	$10.39	0
Total	279,385	$8.51	257,971

(1) The Company adopted a 2001 Warrant Plan and 2001 Supplemental Warrant Plan (collectively, the "Warrant Plans") on April 11, 2001 and October 16, 2001, respectively. The Warrant Plans were not approved by security holders. Under the Warrant Plans, each director of the Company, other than Mr. Joseph V. Ciaburri (who served as the Chairman of the board of directors of the Company at the time), and each director of the Bank who is not a director of the Company, as of the initial public offering of the Company in July 2001, received a warrant to purchase one share of the Company common stock for each four shares purchased in the offering by such director or members

of such director's immediate family. Under the 2001 Supplemental Warrant Plan, certain organizers of the Company who are not directors, officers or employees of the Company or the Bank but who made contributions to the Company's enterprise received a warrant to purchase one share of the Company common stock for each five shares purchased in the offering by such person or member of such person's immediate family. The warrants have a term of ten years. The exercise price of the warrants is $10.39, the price at which the Company's common stock was sold in the initial public offering, as adjusted for subsequent stock dividends. As of December 31, 2009, the warrants are fully exercisable.

Additional information required by this Item 12 is incorporated into this Form 10-K by reference from the section captioned "Security Ownership of Certain Beneficial Owners and Management" in the Definitive Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item 13 is incorporated into this Form 10-K by reference from the sections captioned "Corporate Governance", "Compensation Committee Interlocks and Insider Participation" and "Certain Relationships and Related Transactions" in the Definitive Proxy Statement.

Item 14. Principal Accountant Fees and Services.

McGladrey & Pullen, LLP and RSM McGladrey, Inc. provide audit, audit-related and tax advisory and tax return preparation services for the Company and The Bank of Southern Connecticut. The following table summarizes the fees provided in 2009 and 2008, respectively:

	2009	2008
Audit fees	$ 128,580	$ 139,609
Audit Related Fees	None	None
Tax fees	11,900	10,900
All Other fees	1,700	2,733

Audit fees consist of fees for professional services rendered for the audit of the consolidated financial statements, review of consolidated financial statements included in quarterly reports on Form 10-Q and annual reports on Form 10-K, and services connected with statutory and regulatory filings or engagements. Audit-related fees are principally for consultations on various accounting and reporting matters. Tax service fees consist of fees for tax return preparation for the Company. All other fees consist of consultations related to Sarbanes-Oxley Act Section 404 implementation.

The audit committee of the Company's Board of Directors has established policies and procedures for the engagement of the independent registered public accounting firm to provide non-audit services, including a requirement for approval in advance of all non-audit services to be provided by the independent auditor. To ensure that this does not restrict access to the independent registered public accounting firm by management on matters where the advice and consultation of the independent registered public accounting firm is sought by management and such advice or consultation, in the opinion of management, cannot practically be delayed pending pre-approval by the audit committee, the committee authorizes management to use their judgment and retain the independent auditor for such matters and consider such services to be pre-approved provided the estimated cost of such services does not exceed 5% of the annual fees paid to the independent registered public accounting firm and such services are formally approved by the audit committee at its next meeting.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Financial Statements and Schedules:

The following Financial Statements and Supplementary Data are filed as part of this annual report:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Operations
Consolidated Statements of Shareholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

All financial statement schedules are omitted because they are either inapplicable or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

(b) Exhibits (numbered in accordance with Item 601 of Regulation S-K):

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of February 22, 2010, by and among Naugatuck Valley Financial Corporation, Newco (as defined therein) and the Registrant (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on February 23, 2010)
3(i)	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(i) to the Registrant's Quarterly Report on Form 10-QSB filed on August 14, 2002)
3(ii)	By-Laws of the Registrant (incorporated by reference to Exhibit 3(ii) to the Registrant's Current Report on Form 8-K filed on March 6, 2007)
10.1	Lease, dated as of August 17, 2000, between 215 Church Street, LLC and the Registrant (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001)
10.2	Letter agreement dated January 3, 2001 amending the Lease between 215 Church Street, LLC and the Registrant (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001)
10.3	First Amendment to Lease dated March 30, 2001 between 215 Church Street, LLC and the Registrant (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001)
10.4	Second Amendment to Lease dated March 31, 2001 between 215 Church Street, LLC and the Registrant (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement Form SB-2 filed on April 30, 2001)

10.5 Assignment of Lease dated April 11, 2001 between the Registrant and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001)

10.6 Lease dated August 2, 2002 between 469 West Main Street LLC and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-KSB filed on March 30, 2004)

10.7 Registrant's 2001 Stock Option Plan (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001) #

10.8 Registrant's 2001 Warrant Plan (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001) #

10.9 Registrant's 2001 Supplemental Warrant Plan (incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-KSB filed on March 29, 2002) #

10.10 Registrant's 2002 Stock Option Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement filed on April 18, 2002) #

10.11 Form of Stock Option Agreement for Non-qualified Stock Option granted under the Registrant's 2002 Stock Option Plan (incorporated by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-QSB filed on November 15, 2004) #

10.12 Form of Stock Option Agreement for Incentive Stock Option granted under the Registrant's 2002 Stock Option Plan (incorporated by reference to Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-QSB filed on November 15, 2004) #

10.13 Consulting agreement dated March 1, 2007, by and among the Registrant and The Bank of Southern Connecticut and Joseph V. Ciaburri (incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-KSB filed on March 28, 2007) #

10.14 Employment Agreement dated February 8, 2008, effective January 1, 2008, by and among the Registrant and The Bank of Southern Connecticut and John Howard Howland (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 14, 2008)

10.15 Employment Agreement dated May 5, 2008, effective May 5, 2008, by and among the Registrant and The Bank of Southern Connecticut and Stephen V. Ciancarelli (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 9, 2008)

10.16 Employment Agreement, effective January 1, 2010, by and among the Registrant and The Bank of Southern Connecticut and John H. Howland (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 30, 2009) #

10.17 Employment Agreement, effective January 1, 2010, by and among the Registrant and The Bank of Southern Connecticut and Stephen V. Ciancarelli (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 30, 2009) #

10.18 2005 Stock Option and Award Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Form S-8 filed on January 13, 2006) #

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10.19 Form of Common Stock Award Agreement for Restricted Stock Awards granted under the 2005 Stock Option and Award Plan (incorporated by reference to Exhibit 99.2 to the Registrant's Form S-8 filed on January 13, 2006) #

14. Code of Ethics (incorporated by reference to Exhibit 14 to the Registrant's Annual Report on Form 10-KSB filed on March 30, 2004)

21. Subsidiaries (filed herewith)

23. Consent of McGladrey & Pullen, LLP (filed herewith)

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

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

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

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

32.2 Section 1350 Certification by Senior Vice President and Chief Financial Officer (filed herewith)

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

Management contract or compensatory plan or arrangement

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHERN CONNECTICUT BANCORP, INC.
(Registrant)

By: /s/ JOHN HOWARD HOWLAND
Name: John Howard Howland
Title: President and Chief Operating Officer

Date: March 29, 2010

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in capacities and on the dates indicated.

/s/ John Howard Howland John H. Howland President and Chief Operating Officer	March 29, 2010 Date
/s/ Stephen V. Ciancarelli Stephen V. Ciancarelli Senior Vice President and Chief Financial Officer	March 29, 2010 Date
/s/ Elmer F. Laydon Elmer F. Laydon Chairman and Director	March 29, 2010 Date
/s/ Alphonse F. Spadaro, Jr. Alphonse F. Spadaro, Jr. Vice Chairman and Director	March 29, 2010 Date
/s/ Carl R. Borrelli Carl R. Borrelli Director	March 29, 2010 Date
/s/ James S. Brownstein, Esq. James S. Brownstein, Esq. Director	March 29, 2010 Date
/s/ Alfred J. Ranieri, Jr. Alfred J. Ranieri, Jr. Director	March 29, 2010 Date

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/s/ Joshua H. Sandman, Ph.D.	March 29, 2010
Joshua H. Sandman, Ph.D.	Date
Director	
/s/ Anthony M. Avellani	March 29, 2010
Anthony M. Avellani	Date
Vice President, Chief Accounting Officer	

FINANCIAL STATEMENTS
December 31, 2009 and 2008

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Southern Connecticut Bancorp, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Southern Connecticut Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Connecticut Bancorp, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, included in the accompanying "Management's Annual Report on Internal Control Over Financial Reporting" and accordingly, we do not express an opinion thereon.

/s/ McGladrey & Pullen, LLP

New Haven, Connecticut
March 29, 2010

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2009 and December 31, 2008

ASSETS	2009	2008
Cash and due from banks (Note 2)	$2,541,557	$5,267,439
Short-term investments	15,383,081	8,637,450
Cash and cash equivalents	17,924,638	13,904,889
Interest bearing certificates of deposit	347,331	1,642,612
Available for sale securities (at fair value) (Note 3)	2,219,751	5,130,005
Federal Home Loan Bank stock (Note 7)	66,100	66,100
Loans receivable (Note 4)		
Loans receivable	112,633,762	90,424,801
Allowance for loan losses	(2,768,567)	(1,183,369)
Loans receivable, net	109,865,195	89,241,432
Accrued interest receivable	480,497	411,729
Premises and equipment (Note 5)	2,485,797	2,754,153
Other assets held for sale (Note 17)	372,758	374,920
Other assets	1,848,111	1,390,722
Total assets	$135,610,178	$114,916,562

LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities	2009	2008
Deposits (Note 6)		
Noninterest bearing deposits	$29,834,836	$28,214,381
Interest bearing deposits	87,720,706	65,755,643
Total deposits	117,555,542	93,970,024
Repurchase agreements	294,332	214,391
Capital lease obligations (Note 8)	1,175,263	1,180,938
Accrued expenses and other liabilities	952,505	1,010,255
Total liabilities	119,977,642	96,375,608
Commitments and Contingencies (Notes 7, 8, and 13)		
Shareholders' Equity (Notes 10 and 14)		
Preferred stock, no par value; shares authorized: 500,000; none issued	-	-
Common stock, par value $.01; shares authorized: 5,000,000; shares issued and outstanding: 2009 2,695,902; 2008 2,688,152	26,959	26,882
Additional paid-in capital	22,560,100	22,521,164
Accumulated deficit	(6,942,727)	(4,035,302)
Accumulated other comprehensive (loss) income - net unrealized (loss) gain on available for sale securities	(11,796)	28,210
Total shareholders' equity	15,632,536	18,540,954
Total liabilities and shareholders' equity	$135,610,178	$114,916,562

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2009 and 2008

	December 31, 2009	December 31, 2008
Interest Income:		
Interest and fees on loans	$6,102,192	$6,333,993
Interest on securities	120,944	195,748
Interest on Federal funds sold and short-term and other investments	202,733	470,359
Total interest income	6,425,869	7,000,100
Interest Expense:		
Interest expense on deposits (Note 6)	1,990,314	2,055,427
Interest expense on capital lease obligations	175,641	176,110
Interest expense on repurchase agreements and other borrowings	6,432	8,508
Total interest expense	2,172,387	2,240,045
Net interest income	4,253,482	4,760,055
Provision for loan losses (Note 4)	1,992,113	226,019
Net interest income after provision for loan losses	2,261,369	4,534,036
Noninterest Income:		
Service charges and fees	506,944	576,801
Gain from sale of branch (Note 17)	-	874,912
Other noninterest income	122,000	214,912
Total noninterest income	628,944	1,666,625
Noninterest Expenses:		
Salaries and benefits	3,089,483	3,688,383
Occupancy and equipment	677,803	684,817
Professional services	510,431	358,122
Data processing and other outside services	412,684	397,464
Advertising and promotional expenses	14,321	73,641
FDIC Insurance	246,533	79,068
Other operating expenses	846,483	785,417
Total noninterest expenses	5,797,738	6,066,912
Net (loss) income	$(2,907,425)	$133,749
Basic and diluted (loss) income per share	$(1.08)	$0.05

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2009 and 2008

	Number of Common Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2007	2,969,714	$29,697	$24,263,531	$ (4,169,051)	$ (39,694)	$20,084,483
Comprehensive income:						
Net income	-	-	-	133,749	-	133,749
Unrealized holding gain on available for sale securities	-	-	-	-	67,904	67,904
Total comprehensive income						201,653
Restricted stock compensation (Note 10)	6,750	68	54,943	-	-	55,011
Stock option compensation (Note 10)			20,119	-	-	20,119
Stock repurchase (Note 10)	(288,312)	(2,883)	(1,817,429)	-	-	(1,820,312)
Balance, December 31, 2008	2,688,152	26,882	22,521,164	(4,035,302)	28,210	18,540,954
Comprehensive loss:						
Net loss	-	-	-	(2,907,425)	-	(2,907,425)
Unrealized holding loss on available for sale securities	-	-	-	-	(40,006)	(40,006)
Total comprehensive loss						(2,947,431)
Restricted stock compensation (Note 10)	7,750	77	53,781	-	-	53,858
Stock option compensation (Note 10)	-	-	(14,845)	-	-	(14,845)
Balance, December 31, 2009	2,695,902	$26,959	$22,560,100	$ (6,942,727)	$ (11,796)	$15,632,536

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	2009	2008
Cash Flows From Operations		
Net (loss) income	$(2,907,425)	$133,749
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Amortization and accretion of premiums and discounts on investments, net	26,369	3,575
Provision for loan losses	1,992,113	226,019
Gain on sale of branch	-	(874,912)
Share based compensation	39,013	75,130
Loans originated for sale, net of principal payments received	-	(58,513)
Depreciation and amortization	290,191	300,165
Increase in cash surrender of life insurance	(40,684)	(46,444)
Write-down of other assets held for sale	2,162	40,000
Changes in assets and liabilities:		
Increase in deferred loan fees	53,995	25,299
(Increase) decrease in accrued interest receivable	(68,768)	121,961
Increase in other assets	(416,705)	(96,364)
Decrease in accrued expenses and other liabilities	(57,750)	(432,443)
Net cash used in operating activities	(1,087,489)	(582,778)
Cash Flows From Investing Activities		
Purchases of interest bearing certificates of deposit	-	(1,642,612)
Proceeds from maturities of interest bearing certificates of deposit	1,295,281	-
Purchases of available for sale securities	(9,206,124)	(11,500,000)
Principal repayments on available for sale securities	3	3
Proceeds from maturities / calls of available for sale securities	12,050,000	11,700,000
Net payments on sale of branch	-	(495,521)
Net increase in loans receivable	(23,198,121)	(10,333,247)
Purchases of premises and equipment	(21,835)	(113,971)
Proceeds from the sale of other real estate owned	528,250	-
Acquisiton of mortgage broker	-	(130,094)
Net cash used in investing activities	(18,552,546)	(12,515,442)
Cash Flows From Financing Activities		
Net increase (decrease) in demand, savings and money market deposits	5,286,573	(4,732,082)
Net increase in certificates of deposit	18,298,945	543,614
Net increase (decrease) in repurchase agreements	79,941	(329,950)
Principal repayments on capital lease obligations	(5,675)	(5,105)
Stock repurchased	-	(1,820,312)
Net cash provided by (used in) financing activities	23,659,784	(6,343,835)
Net increase (decrease) in cash and cash equivalents	4,019,749	(19,442,055)
Cash and cash equivalents		
Beginning	13,904,889	33,346,944

Ending	$17,924,638	$13,904,889

(Continued)

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
For the Years Ended December 31, 2009 and 2008

	2009	2008
Supplemental Disclosures of Cash Flow Information:		
Cash paid for:		
Interest	$2,123,546	$2,247,054
Income taxes	$750	$750
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Assets and Liabilities transferred in sale of branch:		
Premises and equipment	$-	$644,723
Loans receivable	$-	$7,248,744
Deposits	$-	$9,263,900
Transfer of loans held for sale to loans receivable	$-	$413,119
Transfer of loans receivable to Other Real Estate Owned	$528,250	$-
Unrealized holding (losses) gains on available for sale securities arising during the period	$(40,006)	$67,904

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Southern Connecticut Bancorp, Inc. (the "Company") is a bank holding company headquartered in New Haven, Connecticut that was incorporated on November 8, 2000. The Company's strategic objective is to serve as a bank holding company for a community-based commercial bank and a mortgage broker serving primarily New Haven County (the "Greater New Haven Market"). The Company owns 100% of the capital stock of The Bank of Southern Connecticut (the "Bank"), a Connecticut-chartered bank with its headquarters in New Haven, Connecticut, and 100% of the capital stock of SCB Capital Inc., operating under the name "Evergreen Financial Services" ("Evergreen"), which is licensed by the State of Connecticut Department of Banking to operate a mortage brokerage business and also operates from the Company's headquarters in New Haven, Connecticut. The Company and its subsidiaries focus on meeting the financial services needs of consumers and small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Greater New Haven Market.

The Bank operates branches at four locations, including downtown New Haven, the Amity/Westville section of New Haven, Branford and North Haven. The Bank's branches have a consistent, attractive appearance. Each location has an open lobby, comfortable waiting area, offices for the branch manager and a loan officer, and a conference room. The design of the branches complements the business development strategy of the Bank, affording an appropriate space to deliver personalized banking services in professional, confidential surroundings.

The Bank focuses on serving the banking needs of small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Greater New Haven Market. The Bank's target commercial customer has between $1.0 and $30.0 million in revenues, 15 to 150 employees, and borrowing needs of up to $3.0 million. The primary focus on this commercial market makes the Bank uniquely qualified to move deftly in responding to the needs of its clients. The Bank has been successful in winning business by offering a combination of competitive pricing for its services, quick decision making processes and a high level of personalized, "high touch" customer service.

Principles of consolidation and basis of financial statement presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry. All significant intercompany balances and transactions have been eliminated. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the balance sheet and the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates.

On July 1, 2009, the Accounting Standards Codification ("ASC") became the Financial Accounting Standard Board's ("FASB's") single source of authoritative U.S. accounting and reporting standards applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related literature. The adoption of this ASC topic changed the applicable citations and naming conventions used when referencing generally accepted accounting principles.

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008

Significant group concentrations of credit risk

Most of the Company’s activities are with customers located within New Haven County, Connecticut. Note 3 discusses the types of securities in which the Company invests and Note 4 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations in any one industry or customer.

The following is a summary of the Company's significant accounting policies.

Cash and cash equivalents and statement of cash flows

Cash and due from banks, Federal funds sold, and short-term investments are recognized as cash equivalents in the statements of cash flows. Federal funds sold generally mature in one day. For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash flows from loans, deposits, and short-term borrowings are reported net. The Company maintains amounts due from banks and Federal funds sold which, at times, may exceed Federally insured limits. The Company has not experienced any losses from such concentrations.

Interest-bearing certificates of deposit

Interest-bearing certificates of deposit are carried at cost. At December 31, 2009 the balance in interest-bearing cerificates of deposit was $347,000, which consisted of fixed rate certificates of deposit which mature in March 2010 ($248,000) and June 2013 ($99,000).

Investments in debt and marketable equity securities

Management determines the appropriate classification of securities at the date individual investment securities are acquired, and the appropriateness of such classification is reassessed at each balance sheet date.

Debt securities that management has the positive intent and ability to hold to maturity, if any, are classified as “held to maturity” and recorded at amortized cost. “Trading” securities, if any, are carried at fair value with unrealized gains and losses recognized in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of taxes. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008

Effective April 1, 2009, the Company adopted new accounting guidance related to recognition and presentation of other-than-temporary impairment. This recent accounting guidance amends the recognition guidance for other-than-temporary impairments of debt securities and expands the financial statement disclosures for other-than-temporary impairment losses on debt and equity securities. The recent guidance replaced the "intent and ability" indication in prior guidance by specifying that (a) if the Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Company does not intend to sell the security, and it is more-likely-than-not the Company will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections discounted at the applicable original yield of the security. The adoption of the other-than-temporary impairment accounting guidance had no impact on the Company's consolidated financial statements.

Prior to the adoption of the recent accounting guidance on April 1, 2009, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that were deemed to be other than temporary were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considered (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.