

SOUTHERN CONNECTICUT BANCORP INC
Form 10QSB
August 10, 2007

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

F O R M 10 – Q S B

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

For the Quarterly Period Ended June 30, 2007

Commission file number 0-49784

SOUTHERN CONNECTICUT BANCORP, INC.
(Name of Small Business Issuer 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 06510
(Address of Principal Executive Offices)

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

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

The number of shares of the issuer's Common Stock, par value \$.01 per share, outstanding as of August 10, 2007: 2,943,735

Transitional Small Business Disclosure Format

Yes ___ No **X**

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

Yes___ No **X**

Table of Contents
Part I
Financial Information

	Page
Item 1. Financial Statements	
Consolidated Balance Sheets as of June 30, 2007 and December 31, 2006 (unaudited)	<u>2</u>
Consolidated Statements of Operations for the three months and six months ended June 30, 2007 and 2006 (unaudited)	<u>3</u>
Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2007 and 2006 (unaudited)	<u>4</u>
Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006 (unaudited)	<u>5</u>
Notes to Consolidated Financial Statements (unaudited)	<u>7</u>
Item 2. Management's Discussion and Analysis or Plan of Operation	<u>14</u>
Item 3. Controls and Procedures	<u>27</u>
	Part II Other Information
Item 1. Legal Proceedings	<u>28</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>28</u>
Item 3. Defaults Upon Senior Securities	<u>28</u>
Item 4. Submission of Matters to a Vote of Security Holders	<u>28</u>
Item 5. Other Information	<u>28</u>
Item 6. Exhibits	<u>29</u>
Signatures	<u>30</u>

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2007 and December 31, 2006 (unaudited)

	2007	2006
Assets		
Cash and due from banks	\$ 5,606,797	\$ 5,821,084
Federal funds sold	19,100,000	22,700,000
Short-term investments	7,566,940	6,288,663
Cash and cash equivalents	32,273,737	34,809,747
Available for sale securities, at fair value	7,086,233	8,054,821
Federal Home Loan Bank Stock	66,100	66,100
Loans receivable (net of allowance for loan losses of \$1,140,787 in 2007 and \$1,062,661 in 2006)	84,631,413	75,306,255
Loans held for sale	60,349	118,223
Accrued interest receivable	495,921	467,698
Premises and equipment, net	4,263,056	4,424,828
Other assets	1,151,811	1,014,873
Total assets	\$ 130,028,620	\$ 124,262,545
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing deposits	\$ 25,896,200	\$ 29,463,030
Interest bearing deposits	81,125,401	71,810,490
Total deposits	107,021,601	101,273,520
Repurchase agreements	710,576	883,603
Accrued expenses and other liabilities	688,305	585,445
Capital lease obligations	1,187,542	1,188,128
Total liabilities	109,608,024	103,930,696
Commitments and Contingencies (Note 9)	-	-
Shareholders' Equity		
Preferred stock, no par value; 500,000 shares authorized; none issued		
Common stock, par value \$.01; 5,000,000, shares authorized; shares issued and outstanding: 2007 2,943,735; 2006 2,941,297	29,437	29,413
Additional paid-in capital	24,196,614	24,147,883
Accumulated deficit	(3,586,464)	(3,595,370)
Accumulated other comprehensive loss – net unrealized loss on available for sale securities	(218,991)	(250,077)
Total shareholders' equity	20,420,596	20,331,849
Total liabilities and shareholders' equity	\$ 130,028,620	\$ 124,262,545

See Notes to Consolidated Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months and Six Months Ended June 30, 2007 and 2006 (unaudited)

	Three Months Ended		Six Months Ended	
	2007	2006	2007	2006
Interest Income				
Interest and fees on loans	\$ 1,837,813	\$ 1,398,289	\$ 3,569,992	\$ 2,679,402
Interest on securities	62,281	77,443	130,309	156,163
Interest on federal funds sold and short-term investments	357,467	175,983	671,778	319,479
Total interest income	2,257,561	1,651,715	4,372,079	3,155,044
Interest Expense				
Interest on deposits	814,711	449,984	1,557,998	816,413
Interest on capital lease obligations	43,936	43,640	87,804	87,181
Interest on repurchase agreements	2,261	4,315	4,496	7,612
Total interest expense	860,908	497,939	1,650,298	911,206
Net interest income	1,396,653	1,153,776	2,721,781	2,243,838
Provision for Loan Losses	27,451	162,507	127,244	104,475
Net interest income after provision for loan losses	1,369,202	991,269	2,594,537	2,139,363
Noninterest Income				
Service charges and fees	142,999	132,392	281,002	218,751
Gains on sales of loans	45,286	20,250	45,286	51,022
Other noninterest income	91,552	43,940	194,391	107,262
Total noninterest income	279,837	196,582	520,679	377,035
Noninterest Expense				
Salaries and benefits	920,097	743,128	1,825,720	1,426,909
Occupancy and equipment	215,714	184,039	432,532	350,284
Professional services	173,095	155,545	258,452	257,213
Data processing and other outside services	106,667	92,470	210,578	173,443
Advertising and promotional expense	10,043	76,324	11,849	120,748
Forms, printing and supplies	20,655	32,126	39,165	64,428
FDIC Insurance	61,074	6,648	63,472	13,131
Other operating expenses	164,710	139,979	264,542	273,757
Total noninterest expense	1,672,055	1,430,259	3,106,310	2,679,913
Net (loss) income	\$ (23,016)	\$ (242,408)	\$ 8,906	\$ (163,515)
Basic (loss) income per share	\$ (0.01)	\$ (0.08)	\$ 0.00	\$ (0.06)
Diluted (loss) income per share	\$ (0.01)	\$ (0.08)	\$ 0.00	\$ (0.06)

See Notes to Consolidated Financial Statements.

3

**SOUTHERN CONNECTICUT BANCORP, INC. AND
SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS'
EQUITY
For the Six Months Ended June 30, 2007 and 2006 (unaudited)**

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance December 31, 2005	2,937,525	\$ 29,375	\$ 24,083,638	\$ (3,477,576)	\$ (338,594)	\$ 20,296,843
Comprehensive Loss:						
Net loss	-	-	-	(163,515)	-	(163,515)
Unrealized holding loss on available for sale securities	-	-	-	-	(79,290)	(79,290)
Total comprehensive loss						(242,805)
Common stock issued	1,344	14	9,529			9,543
Balance June 30, 2006	2,938,869	\$ 29,389	\$ 24,093,167	\$ (3,641,091)	\$ (417,884)	\$ 20,063,581
Balance December 31, 2006	2,941,297	\$ 29,413	\$ 24,147,883	\$ (3,595,370)	\$ (250,077)	\$ 20,331,849
Comprehensive Income:						
Net income	-	-	-	8,906	-	8,906
Unrealized holding gains on available for sale securities	-	-	-	-	31,086	31,086
Total comprehensive income						39,992
Directors fees settled in common stock	2,438	24	18,290	-	-	18,314
Restricted stock compensation	-	-	3,507	-	-	3,507
Stock option compensation	-	-	26,934	-	-	26,934
Balance June 30, 2007	2,943,735	\$ 29,437	\$ 24,196,614	\$ (3,586,464)	\$ (218,991)	\$ 20,420,596

See Notes to Consolidated Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2007 and 2006 (unaudited)

Cash Flows From Operations	2007	2006
Net income (loss)	\$ 8,906	\$ (163,515)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization and accretion of premiums and discounts on investments, net	(326)	(1,192)
Provision for loan losses	127,244	104,475
Share based compensation	30,441	-
Loans originated for sale, net of principal payments received	(151,435)	(427,369)
Proceeds from sales of loans	254,595	462,000
Gains on sales of loans	(45,286)	(51,022)
Depreciation and amortization	206,782	176,813
Increase in cash surrender value of life insurance	(20,400)	(16,500)
Changes in assets and liabilities:		
Decrease in deferred loan fees	(19,249)	(15,892)
Increase in accrued interest receivable	(28,223)	(46,901)
Increase in other assets	(116,538)	(113,103)
Increase in accrued expenses and other liabilities	121,174	223,467
Net cash provided by operating activities	367,685	131,261
 Cash Flows From Investing Activities		
Principal repayments on available for sale securities	-	2,988
Proceeds from maturities of available for sale securities	1,000,000	1,000,000
Purchases of Federal Home Loan Bank Stock	-	(6,100)
Net increase in loans receivable	(9,433,153)	(8,152,092)
Purchases of premises and equipment	(45,010)	(136,394)
Net cash used in investing activities	(8,478,163)	(7,291,598)
 Cash Flows From Financing Activities		
Net increase in demand, savings and money market deposits	3,733,912	5,593,043
Net increase in certificates of deposit	2,014,169	4,259,782
Net decrease in repurchase agreements	(173,027)	(543,293)
Principal payments on capital lease obligations	(586)	(528)
Net cash provided by financing activities	5,574,468	9,309,004
 Net (decrease) increase in cash and cash equivalents	(2,536,010)	2,148,667
 Cash and cash equivalents		
Beginning	34,809,747	16,569,287
Ending	\$ 32,273,737	\$ 18,717,954

(continued)

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the Six Months Ended June 30, 2007 and 2006 (unaudited)

	2007	2006
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 1,643,272	\$ 899,240
Income taxes	\$ -	\$ -
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Transfer of loans held for sale to loans receivable	\$ -	\$ (86,884)
Transfer of loans receivable to loans held for sale	\$ 59,309	\$ -
Accrued director's fees paid in common stock	\$ 18,314	\$ 9,543
Unrealized holding gains (losses) on available for sale securities arising during the period	\$ 31,086	\$ (79,290)