Manhattan, The City of New York, and having a capital and surplus of at least $500 million and selected by the Board of Directors, so as to be and continue to be available solely therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption from such bank or trust company, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Issuer, after which time the holders of the shares so called for redemption shall look only to the Issuer for payment of the redemption price of such shares.

(f) Status of Redeemed Shares. Shares of Designated Preferred Stock that are redeemed, repurchased or otherwise acquired by the Issuer shall revert to authorized but unissued shares of Preferred Stock *(provided* that any such cancelled shares of Designated Preferred Stock may be reissued only as shares of any series of Preferred Stock other than Designated Preferred Stock).

Section 6. Conversion. Holders of Designated Preferred Stock shares shall have no right to exchange or convert such shares into any other securities.

Section 7. Voting Rights.

(a) General. The holders of Designated Preferred Stock shall not have any voting rights except as set forth below or as otherwise from time to time required by law.

(b) Preferred Stock Directors. Whenever, at any time or times, dividends payable on the shares of Designated Preferred Stock have not been paid for an aggregate of six quarterly Dividend Periods or more, whether or not consecutive, the authorized number of directors of the Issuer shall automatically be increased by two and the holders of the Designated Preferred Stock shall have the right, with holders of shares of anyone or more other classes or series of Voting Parity Stock outstanding at the time, voting together as a class, to elect two directors (hereinafter the "Preferred Directors" and each a "Preferred Director") to fill such newly created directorships at the Issuer's next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of stockholders until all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been declared and paid in full at which time such right shall terminate with respect to the Designated Preferred Stock, except as herein or by law expressly provided, subject to revesting in the event of each and every subsequent default of the character above mentioned; *provided* that it shall be a qualification for election for any Preferred Director that the election of such Preferred Director shall not cause the Issuer to violate any corporate governance requirements of any securities exchange or other trading facility on which securities of the Issuer may then be listed or traded that listed or traded companies must have a majority of independent directors. Upon any termination of the right of the holders of shares of Designated Preferred Stock and Voting Parity Stock as a class to vote for directors as provided above, the Preferred Directors shall cease to be qualified as directors, the term of office of all Preferred Directors then in office shall terminate immediately and the authorized number of directors shall be reduced by the number of Preferred Directors elected pursuant hereto. Any Preferred Director may be removed at any time, with or without cause, and any vacancy created thereby may be filled, only by the affirmative vote of the holders a majority of the shares of Designated Preferred Stock at the time outstanding voting separately as a class together with the holders of shares of Voting Parity Stock, to the extent the voting rights of such holders described above are then exercisable. If the office of any Preferred Director becomes vacant for any reason other than removal from office as aforesaid, the remaining Preferred Director may choose a successor who shall hold office for the unexpired term in respect of which such vacancy occurred.

(c) Class Voting Rights as to Particular Matters. So long as any shares of Designated Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by the Charter, the vote or consent of the holders of at least 66 2/3% of the shares of Designated Preferred Stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) Authorization of Senior Stock. Any amendment or alteration of the Certificate of Designations for the Designated Preferred Stock or the Charter to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of capital stock of the Issuer ranking senior to Designated Preferred Stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Issuer;

(ii) Amendment of Designated Preferred Stock. Any amendment, alteration or repeal of any provision of the Certificate of Designations for the Designated Preferred Stock or the Charter (including, unless no vote on such merger or consolidation is required by Section 7(c)(iii) below, any amendment, alteration or repeal by means of a merger, consolidation or otherwise) so as to adversely affect the rights, preferences, privileges or voting powers of the Designated Preferred Stock; or

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Any consummation of a binding share exchange or reclassification involving the Designated Preferred Stock, or of a merger or consolidation of the Issuer with another corporation or other entity, unless in each case (x) the shares of Designated Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Issuer is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of Designated Preferred Stock immediately prior to such consummation, taken as a whole;

provided, however, that for all purposes of this Section 7(c), any increase in the amount of the authorized Preferred Stock, including any increase in the authorized amount of Designated Preferred Stock necessary to satisfy preemptive or similar rights granted by the Issuer to other persons prior to the Signing Date, or the creation and issuance, or an increase in the authorized or issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series of Preferred Stock, or any securities convertible into or exchangeable or exercisable for any other series of Preferred Stock, ranking equally with and/or junior to Designated Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon liquidation, dissolution or winding up of the Issuer will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and shall not require the affirmative vote or consent of, the holders of outstanding shares of the Designated Preferred Stock.

(d) Changes after Provision for Redemption. No vote or consent of the holders of Designated Preferred Stock shall be required pursuant to Section 7(c) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of the Designated Preferred Stock shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been deposited in trust for such redemption, in each case pursuant to Section 5 above.

(e) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Designated Preferred Stock (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules of the Board of Directors or any duly authorized committee of the Board of Directors, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Charter, the Bylaws, and applicable law and the rules of any national securities exchange or other trading facility on which Designated Preferred Stock is listed or traded at the time.

Section 8. Record Holders. To the fullest extent permitted by applicable law, the Issuer and the transfer agent for Designated Preferred Stock may deem and treat the record holder of any share of Designated Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Issuer nor such transfer agent shall be affected by any notice to the contrary.

Section 9. Notices. All notices or communications in respect of Designated Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Charter or Bylaws or by applicable law. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Issuer or any similar facility, such notices may be given to the holders of Designated Preferred Stock in any manner permitted by such facility.

Section 10. No Preemptive Rights. No share of Designated Preferred Stock shall have any rights of preemption whatsoever as to any securities of the Issuer, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 11. <u>Replacement</u> <u>Certificates.</u> The Issuer shall replace any mutilated certificate at the holder's expense upon surrender of that certificate to the Issuer. The Issuer shall replace certificates that become destroyed, stolen or lost at the holder's expense upon delivery to the Issuer of reasonably satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be reasonably required by the Issuer.

Section 12. <u>Other</u> <u>Rights.</u> The shares of Designated Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Charter or as provided by applicable law.

ANNEXC

FORM OF WAIVER

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20,2008.

I acknowledge that this regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) that I have with my employer or in which I participate as they relate to the period the United States holds any equity or debt securities of my employer acquired through the TARP Capital Purchase Program.

This waiver includes all claims I may have under the laws of the United States or any state related to the requirements imposed by the aforementioned regulation, including without limitation a claim for any compensation or other payments I would otherwise receive, any challenge to the process by which this regulation was adopted and any tort or constitutional claim about the effect of these regulations on my employment relationship.

ANNEXD

FORM OF OPINION

(a) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state of its incorporation.

(b) The Preferred Shares have been duly and validly authorized, and, when issued and delivered pursuant to the Agreement, the Preferred Shares will be duly and validly issued and fully paid and non-assessable, will not be issued in violation of any preemptive rights, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock issued on the Closing Date with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(c) The Warrant has been duly authorized and, when executed and delivered as contemplated by the Agreement, will constitute a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity.

(d) The shares of Warrant Preferred Stock issuable upon exercise of the Warrant have been duly authorized and reserved for issuance upon exercise of the Warrant and when so issued in accordance with the terms of the Warrant will be validly issued, fully paid and non-assessable, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(e) The Company has the corporate power and authority to execute and deliver the Agreement and the Warrant and to carry out its obligations thereunder (which includes the issuance of the Preferred Shares, Warrant and Warrant Shares).

(f) The execution, delivery and performance by the Company of the Agreement and the Warrant and the consummation of the transactions contemplated thereby have been duly authorized by all necessary corporate action on the part of the Company and its stockholders, and no further approval or authorization is required on the part of the Company.

(g) The Agreement is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity; *prOVided, however,* such counsel need express no opinion with respect to Section 4.5(h) or the severability provisions of the Agreement insofar as Section 4.5(h) is concerned.

ANNEXE

FORM OF WARRANT

[SEE ATTACHED]

ANNEXE

FORM OF WARRANT TO PURCHASE PREFERRED STOCK

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS. THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COpy OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID.

WARRANT
to purchase

____
Shares of Preferred Stock

of _

Issue Date: _

1. Definitions. Unless the context otherwise requires, when used herein the following tenns shall have the meanings indicated.

"Board ofDirectors" means the board of directors of the Company, including any duly authorized committee thereof.

"business day" means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

"Charter" means, with respect to any Person, its certificate or articles of incorporation, articles of association, or similar organizational document.

"Company" means the Person whose name, corporate or other organizational fonn and jurisdiction of organization is set forth in Item I of Schedule A hereto.

"Exchange Act" means the Securities Exchange Act of 1934) as amended) or any successor statute) and the rules and regulations promulgated thereunder.

"Exercise Price" means the amount set forth in Item 2 of Schedule A hereto.

"Expiration Time" has the meaning set forth in Section 3.

"Issue Date" means the date set forth in Item 3 of Schedule A hereto.

"Liquidation Amount" means the amount set forth in Item 4 of Schedule A hereto.

"Original Warrantholder" means the United States Department of the Treasury. Any actions specified to be taken by the Original Warrantholder hereunder may only be taken by such Person and not by any other Warrantholder.

"Person» has the meaning given to it in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act.

"Preferred Stock" means the series of perpetual preferred stock set forth in Item 5 of Schedule A hereto.

"Purchase Agreement» means the Securities Purchase Agreement - Standard Terms incorporated into the Letter Agreement, dated as of the date set forth in Item 6 of Schedule A hereto) as amended from time to time) between the Company and the United States Department of the Treasury (the *"Letter Agreement"),* including all annexes and schedules thereto.

"Regulatory Approvals" with respect to the Warrantholder) means, to the extent applicable and required to permit the Warrantho1der to exercise this Warrant for shares of Preferred Stock and to own such Preferred Stock without the Warrantholder being in violation of applicable law, rule or regulation) the receipt of any necessary approvals and authorizations of) filings and registrations with) notifications to, or expiration or termination of any applicable waiting period under) the Hart-Scott-Rodino Antitrust Improvements Act of 1976) as amended) and the rules and regulations thereunder.

"SEC) means the U.S. Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933) as amended) or any successor statute) and the rules and regulations promulgated thereunder.

"Shares» has the meaning set forth in Section 2.

"Warrantholder" has the meaning set forth in Section 2.

"Warrant" means this Warrant, issued pursuant to the Purchase Agreement.

2. <u>Number of Shares; Exercise Price.</u> This certifies that, for value received) the United States Department of the Treasury or its permitted assigns (the *"Warrantholder")* is entitled) upon the terms and subject to the conditions hereinafter set forth) to acquire from the

Company, in whole or in part, after the receipt of all applicable Regulatory Approvals, if any, up to an aggregate of the number of fully paid and nonassessable shares of Preferred Stock set forth in Item 7 of Schedule A hereto (the *"Shares")*, at a purchase price per share of Preferred Stock equal to the Exercise Price.

3. Exercise of Warrant; Term. Subject to Section 2, to the extent permitted by applicable laws and regulations, the right to purchase the Shares represented by this Warrant is exercisable, in whole or in part by the Warrantholder, at any time or from time to time after the execution and delivery of this Warrant by the Company on the date hereof, but in no event later than 5:00 p.m., New York City time on the tenth anniversary of the Issue Date (the *"Expiration Time")*, by (A) the surrender of this Warrant and Notice of Exercise annexed hereto, duly completed and executed on behalf of the Warrantholder, at the principal executive office of the Company located at the address set forth in Item 8 of Schedule A hereto (or such other office or agency of the Company in the United States as it may designate by notice in writing to the Warrantholder at the address of the Warrantholder appearing on the books of the Company), and (B) payment of the Exercise Price for the Shares thereby purchased, by having the Company withhold, from the shares of Preferred Stock that would otherwise be delivered to the Warrantholder upon such exercise, shares of Preferred Stock issuable upon exercise of the Warrant with an aggregate Liquidation Amount equal in value to the aggregate Exercise Price as to which this Warrant is so exercised.

If the Warrantholder does not exercise this Warrant in its entirety, the Warrantholder will be entitled to receive from the Company within a reasonable time, and in any event not exceeding three business days, a new warrant in substantially identical form for the purchase of that number of Shares equal to the difference between the number of Shares subject to this Warrant and the number of Shares as to which this Warrant is so exercised. Notwithstanding anything in this Warrant to the contrary, the Warrantholder hereby acknowledges and agrees that its exercise of this Warrant for Shares is subject to the condition that the Warrantholder will have first received any applicable Regulatory Approvals.

4. Issuance of Shares; Authorization. Certificates for Shares issued upon exercise of this Warrant will be issued in such name or names as the Warrantholder may designate and will be delivered to such named Person or Persons within a reasonable time, not to exceed three business days after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant. The Company hereby represents and warrants that any Shares issued upon the exercise of this Warrant in accordance with the provisions of Section 3 will be duly and validly authorized and issued, fully paid and nonassessable and free from all taxes, liens and charges (other than liens or charges created by the Warrantholder, income and franchise taxes incurred in connection with the exercise of the Warrant or taxes in respect of any transfer occurring contemporaneously therewith). The Company agrees that the Shares so issued will be deemed to have been issued to the Warrantholder as of the close of business on the date on which this Warrant and payment of the Exercise Price are delivered to the Company in accordance with the terms of this Warrant, notwithstanding that the stock transfer books of the Company may then be closed or certificates representing such Shares may not be actually delivered on such date. The Company will at all times reserve and keep available, out of its authorized but unissued preferred stock, solely for the purpose of providing for the exercise of this Warrant, the aggregate number of shares of Preferred Stock then issuable upon exercise of this Warrant at any

time. The Company will use reasonable best efforts to ensure that the Shares may be issued without violation of any applicable law or regulation or of any requirement of any securities exchange on which the Shares are listed or traded.

5. No Rights as Stockholders: Transfer Books. This Warrant does not entitle the Warrantholder to any voting rights or other rights as a stockholder of the Company prior to the date of exercise hereof. The Company will at no time close its transfer books against transfer of this Warrant in any manner which interferes with the timely exercise of this Warrant.

6. Charges, Taxes and Expenses. Issuance of certificates for Shares to the Warrantholder upon the exercise of this Warrant shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company.

7. Transfer/Assignment.

(A) Subject to compliance with clause (B) of this Section 7, this Warrant and all rights hereunder are transferable, in whole or in part, upon the books of the Company by the registered holder hereof in person or by duly authorized attorney, and a new warrant shall be made and delivered by the Company, of the same tenor and date as this Warrant but registered in the name of one or more transferees, upon surrender of this Warrant, duly endorsed, to the office or agency of the Company described in Section 3. All expenses (other than stock transfer taxes) and other charges payable in connection with the preparation, execution and delivery of the new warrants pursuant to this Section 7 shall be paid by the Company.

(B) The transfer of the Warrant and the Shares issued upon exercise of the Warrant are subject to the restrictions set forth in Section 4.4 of the Purchase Agreement. If and for so long as required by the Purchase Agreement, this Warrant shall contain the legends as set forth in Section 4.2(a) of the Purchase Agreement.

8. Exchange and Registry of Warrant. This Warrant is exchangeable, upon the surrender hereof by the Warrantholder to the Company, for a new warrant or warrants of like tenor and representing the right to purchase the same aggregate number of Shares. The Company shall maintain a registry showing the name and address of the Warrantholder as the registered holder of this Warrant. This Warrant may be surrendered for exchange or exercise in accordance with its terms, at the office of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

9. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in the case of any such loss, theft or destruction, upon receipt of a bond, indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company shall make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of Shares as provided for in such lost, stolen, destroyed or mutilated Warrant.

10. Saturdays. Sundays. Holidays. etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a business day, then such action may be taken or such right may be exercised on the next succeeding day that is a business day.

11. Rule 144 Information. The Company covenants that it will use its reasonable best efforts to timely file all reports and other documents required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations promulgated by the SEC thereunder (or, if the Company is not required to file such reports, it will, upon the request of any Warrantholder, make publicly available such information as necessary to permit sales pursuant to Rule 144 under the Securities Act), and it will use reasonable best efforts to take such further action as any Warrantholder may reasonably request, in each case to the extent required from time to time to enable such holder to, if permitted by the terms of this Warrant and the Purchase Agreement, sell this Warrant without registration under the Securities Act within the limitation of the exemptions provided by (A) Rule 144 under the Securities Act, as such rule may be amended from time to time, or (B) any successor rule or regulation hereafter adopted by the SEC. Upon the written request of any Warrantholder, the Company will deliver to such Warrantholder a written statement that it has complied with such requirements.

12. Adjustments and Other Rights. For so long as the Original Warrantholder holds this Warrant or any portion thereof, if any event occurs that, in the good faith judgment of the Board of Directors of the Company, would require adjustment of the Exercise Price or number of Shares into which this Warrant is exercisable in order to fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of the Purchase Agreement and this Warrant, then the Board of Directors shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of the Board of Directors, to protect such purchase rights as aforesaid.

Whenever the Exercise Price or the number of Shares into which this Warrant is exercisable shall be adjusted as provided in this Section 12, the Company shall forthwith file at the principal office of the Company a statement showing in reasonable detail the facts requiring such adjustment and the Exercise Price that shall be in effect and the number of Shares into which this Warrant shall be exercisable after such adjustment, and the Company shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each Warrantholder at the address appearing in the Company's records.

13. No Impairment. The Company will not, by amendment of its Charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrantholder.

14. Governing Law. This Warrant will be governed by and construed in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and

to be performed entirely within such State. Each of the Company and the Warrantholder agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia for any civil action, suit or proceeding arising out of or relating to this Warrant or the transactions contemplated hereby, and (b) that notice may be served upon the Company at the address in Section 17 below and upon the Warrantholder at the address for the Warrantholder set forth in the registry maintained by the Company pursuant to Section 8 hereof. To the extent permitted by applicable law, each of the Company and the Warrantholder hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to the Warrant or the transactions contemplated hereby or thereby.

15. Binding Effect. This Warrant shall be binding upon any successors or assigns of the Company.

16. Amendments. This Warrant may be amended and the observance of any term of this Warrant may be waived only with the written consent of the Company and the Warrantholder.

17. Notices. Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second business day following the date of dispatch if delivered by a recognized next day courier service. All notices hereunder shall be delivered as set forth in Item 9 of Schedule A hereto, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

18. Entire Agreement. This Warrant, the forms attached hereto and Schedule A hereto (the terms of which are incorporated by reference herein), and the Letter Agreement (including all documents incorporated therein), contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior and contemporaneous arrangements or undertakings with respect thereto.

[Remainder of page intentionally left blank]

[Form of Notice of Exercise]

Date: _

TO: **[Company]**

RE: Election to Purchase Preferred Stock

The undersigned, pursuant to the provisions set forth in the attached Warrant, hereby agrees to subscribe for and purchase the number of shares of the Preferred Stock set forth below covered by such Warrant. The undersigned, in accordance with Section 3 of the Warrant, hereby agrees to pay the aggregate Exercise Price for.such shares of Preferred Stock in the manner set forth in Section 3(B) of the Warrant. A new warrant evidencing the remaining shares of Preferred Stock covered by such Warrant, but not yet subscribed for and purchased, if any, should be issued in the name set forth below.

Number of Shares of Preferred Stock _

Aggregate Exercise Price: ____________________

Holder: _

By: ____________________

Name: _

Title: ____________________

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by a duly authorized officer.

Dated: _ _ _ _ _ _ _

COMPANY: _______________

By: _________________________
Name:
Title:

Attest:

By: _______________________________
Name:
Title:

[Signature Page to Warrant]

SCHEDULE A

Item 1
Name:
Corporate or other organizational form:
Jurisdiction of organization:

Item 2
Exercise Price:[1]

Item 3
Issue Date:

Item 4
Liquidation Amount:

Item 5
Series of Perpetual Preferred Stock:

Item 6
Date of Letter Agreement between the Company and the United States Department of the Treasury:

Item 7
Number of shares of Preferred Stock:[2]

Item 8
Company's address:

Item 9
Notice information:

$0.01 per share or such greater amount as the Charter may require as the par value of the Preferred Stock.

The initial number of shares of Preferred Stock for which this Warrant is exercisable shall include the number of shares required to effect the cashless exercise pursuant to Section 3(B) of this Warrant (e.g., such number of shares of Preferred Stock having an aggregate Liquidation Amount equal in value to the aggregate Exercise Price) such that, following exercise of this Warrant and payment of the Exercise Price in accordance with such Section 3(B), the net number of shares of Preferred Stock delivered to the Warrantholder (and rounded to the nearest whole share) would have an aggregate Liquidation Amount equal to 5% of the aggregate amount invested by the United States Department of the Treasury on the investment date.

SCHEDULE 2.2(11)

FINANCIAL STATEMENTS

United States Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-Q

(Mark One)

[x] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2008

[ ] 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: 0-28032

PATAPSCO BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	52-]95]797
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

]30] Merritt Boulevard, Dundalk, Maryland 21222-2194
(Address of principal executive offices)

(4]0) 285-1010

Issuer's telephone number, including area code

Check whether the issuer (I) 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 requ ired 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 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_

As of November 12,2008, the issuer had 1,862,559 shares of Common Stock issued and outstanding.

CONTENTS

Part I. FINANCIAL INFORMATION

Item I. Financial Statements

Patapsco Bancorp, Inc. and Subsidiary
Dundalk, Maryland

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(unaudited)

($ in thousands except for share data)

	September 30, 2008	June 30, 2008
Assets		
Cash:		
On hand and due from banks	$ 5,306	$ 4,617
Federal funds sold		2,473
Cash and Cash equivalents	5,306	7,090
Interest bearing deposits in other banks	1,047	2,103
Securities, available for sale	8,157	9,601
Loans receivable, net of allowance for loan losses of $I,836 and $1,834, respectively	232,607	227,514
Investment in securities required by law, at cost	2,872	2,649
Property and equipment, net	4,137	4,178
Goodwill and core deposit intangible	3,238	3,251
Accrued interest and other assets	5,024	4,908
Total assets	$ 262388	$ 261.294
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non interest bearing deposits	$ 11,184	$ 13,113
Interest bearing deposits	180,379	184,773
Total Deposits	191,563	197,886
Accrued expenses and other liabilities	1,718	1,717
Short-tenn Debt	10,554	
Long-tenn Debt	34,300	37,300
Subordinated Debentures	5,000	5,000
Total liabilities	243,135	24I,903
Stockholders' equity:		
Common stock $0,0I par value: authorized 4,000,000 shares: issued and outstanding 1,862,559 and 1,861,855 shares, respectively	18	18
Additional paid in capital	7,368	7,346
Obligation under Deferred Compensation	449	442
Deferred Comp contra	(78)	(78)
Retained income, substantially restricted	11,762	11,851
Accumulated other comprehensive loss, net oftaxes	(266)	(188)
Total stockholders' equity	19,253	19,391
Total liabilities and stockholders' equity	$ 262,388	$ 261,294

See accompanying notes to consolidated financial statements.

Patapsco Bancorp, Inc. and Subsidiary
Dundalk, Maryland

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

($ in thousands except for per share data)	For Three Months Ended September 30, 2008	2007
Interest income:		
Loans receivable, including fees	$ 3,990	$ 4,133
Securities, including securities required by law	140	181
Federal funds sold and other investments	15	26
Total interest income	4.145	4,340
Interest expense:		
Deposits	1,361	1,576
Short-term debt	40	65
Long-term debt	442	515
Total interest expense	1,843	2,156
Net interest income	2,302	2,184
Provision for loan losses	250	150
Net interest income after provision for loan losses	2,052	2,034
Non-interest income:		
Fees and service charges	188	182
Gain on sale of other repossessed assets	10	
Other	30	25
Total non-interest income	228	207
Non-interest expenses:		
Compensation and employee benefits	1,236	1,044
Professional fees	71	163
Equipment expense	95	87
Net occupancy expense	149	145
Advertising	7	19
Data processing	98	74
Amortization of core deposit intangible	13	13
Telephone, postage & delivery	69	67
Other	237	187
Total non-interest expense	1,975	1,799
Income before provision for income taxes	305	442
Provision for income taxes	116	263
Net Income	$ 189	$ 179
Basic earnings per share	$ 0.10	$ 0.09
Diluted earnings per share	$ 0.10	$ 0.09
Cash dividends declared per common share	$ 0.07	$ 0.07

See accompanying notes to consolidated financial statements.

Patapsco Bancorp, Inc. and Subsidiary
Dundalk, Maryland

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

($ in thousands)

	For Three Months Ended September 30,	
	2008	2007
Net income	$ 189	$ 179
Other comprehensive income (loss), net of tax:		
Unrealized net holding gain (Joss) on securities available-for-sale, net of taxes of $(51), and $70, respectively	(78)	112
Comprehensive income	$ 111	$ 291

See accompanying notes to consolidated financial statements.

Patapsco Bancorp, Inc. and Subsidiary
Dundalk, Maryland

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

($ in thousands)	For the Three Months Ended, September 30, 2008	September 30, 2007
Cash flows from operating activities:		
Net Income	$ 189	$ 179
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and discounts, net	9	11
Amortization of deferred loan origination (fees) costs	7	(9)
Provision for loan losses	250	150
Depreciation	86	92
Amortization of core deposit intangible	13	13
Increase in cash value of life insurance	(20)	(18)
Increase in accrued interest and other assets	(39)	(60)
Non-cash compensation under stock-based benefit plan	22	20
(Decrease) increase in accrued expenses and other liabilities	(147)	67
Net cash provided by operating activities	370	445
Cash flows from investing activities:		
Net decrease in interest bearing deposits in other banks	1,056	169
Proceeds from maturity of investments and principal payments on mortgage-backed securities	1,814	1,426
Purchase of securities available for sale	(503)	
Loan principal disbursements, net of repayments	(5,356)	(1,828)
Purchase of consumer loans		(202)
Purchase of investments required by law	(234)	(157)
Redemption ofinvestments required by law	11	
Purchase of property and equipment	(45)	(8)
Net cash used in investing activities	(3.257)	(600)
Cash flows from financing activities:		
Net decrease in deposits	(5,049)	(34)
Decrease in advance payments by borrowers	(1,272)	(1,198)
Net increase in short-term borrowings	10,554	7,700
Proceeds from long-term borrowings	8,000	13,500
Payment on long-term borrowings	(11,000)	(17,700)
Cash received from exercise of stock options		40
Repurchase of common shares due to ESOP put options exercised		(659)
Dividends paid	(130)	(131)
Net cash provided by financing activities	1.103	1,518
Net increase (decrease) in cash and cash equivalents	(1,784)	1,363
Cash and cash equivalents at beginning of period	7,090	6,563
Cash and cash equivalents at end of period	$ 5,306	$ 7,926
Supplemental cash flow information:		
Interest paid on deposits and borrowed funds	$ 1,971	$ 1,993
Income taxes paid	168	100

See accompanying notes to consolidated financial statements.

Note]: Principles of Consolidation

The consolidated financial statements include the accounts of Patapsco Bancorp, Inc. (the "Company" or "Patapsco Bancorp") and its wholly-owned subsidiary, The Patapsco Bank (the "Bank"). The Patapsco Bank's wholly owned subsidiaries are Prime Business Leasing and Patapsco Financial Services, Inc. All inter-company accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Note 2: The Patapsco Bank

The Bank is regulated by The Federal Reserve Bank of Richmond (the "Federal Reserve Bank") and The State of Maryland. The primary business of the Bank is to attract deposits from individual and corporate customers and to originate residential and commercial mortgage loans, consumer loans and commercial business loans. The Bank competes with other financial and mortgage institutions in attracting and retaining deposits and originating loans.

Note 3: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions for Form 10-Q and therefore, do not include all disclosures necessary for a complete presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. However, all adjustments that are, in the opinion of management, necessary for the fair presentation of the interim financial statements have been included. Such adjustments were of a nonnal recurring nature. The results of operations for the three months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the entire year. For additional infonnation, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual report on Form IO-K for the year ended June 30, 2008.

Note 4: Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and due from banks and short-tenn investments, with an original maturity of90 days or less, which consist of federal funds sold.

Note 5: Regulatory Capital Requirements

At September 30, 2008, the Bank met each of the three minimum regulatory capital requirements. The following table summarizes the Bank's regulatory capital position at September 30, 2008.

	Actual		For Capital Adequacy Purposes		Well Capitalized Under Prompt Corrective Action Provision	
($ in thousands)	Amount	%	Amount	%	Amount	%
Total Capital (to Risk Weighted Assets)	$21,703	10.30%	$16,859	8.00%	$21,074	10.00%
Tier I Capital (to Risk Weighted Assets)	$19,867	9.43%	$ 8,430	4.00%	$12,645	6.00%
Tier I Capital (to Average Assets)	$\9,867	7.75%	$10,257	4.00%	$12,82\	5.00%

The following table summarizes the Bank's regulatory capital position at June 30, 2008.

($ in thousands)	Actual		For Capital Adequacy Purposes		Well Capitalized Under Prompt Corrective Action Provision	
	Amount	%	Amount	%	Amount	%
Total Capital (to Risk Weighted Assets)	$21 ,585	10.45%	$16,532	8.00%	$20,665	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$19,752	9.56%	$ 8,266	4.00%	$12,399	6.00%
Tier I Capital (to Average Assets)	$19,752	7.63%	$10,352	4.00%	$12,940	5.00%

Note 6: **Earnings** Per Share

The following table presents a summary of per share data and amounts for the periods indicated.

(in thousands except for per share data)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
Net Income	$189	$179
Basic EPS shares	1,921	1,905
Basic EPS	$0.10	$0.09
Dilutive shares	4	26
Diluted EPS shares	1,925	1,931
Diluted EPS	$0.10	$0.09

Note 7: Goodwill and Intangible Assets

SFAS No. 142, "Goodwill and Other Intangible Assets" requires that goodwill no longer be amortized, but rather that it be tested for impairment on an annual basis at the reporting unit level, which is either at the same level or one level below an operating segment. Other acquired intangible assets with finite lives, such as purchased customer accounts, are required to be amortized over their estimated lives. Other intangible assets are amortized using the straight-line method over estimated useful lives of 10 years. The Company periodically assesses whether events or changes in circumstances indicate that the carrying amounts of goodwill and other intangible assets may be impaired.

Note 8: Guarantees

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Generally, all letters of credit when issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Company, generally, holds collateral and/or personal guarantees supporting these commitments. The Company had $2,138,000 of standby letters of credit as of September 30, 2008 and $2,055,000 outstanding as of June 30, 2008. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payment required under the corresponding guarantees. The current amount of the liability as of September 30, 2008 and June 30, 2008 for guarantees under standby letters of credit issued is not material.

Note 9: Recent Accounting Pronouncements

FASB Statement No. 157

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15,2007, and for interim periods within those fiscal years. Effective July I, 2008, the Company adopted FASB Statement No. 157 without material impact to the consolidated financial statements.

FASB Statement No. 159

In February 2007, the Financial Accounting Standards Board issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment ofFASB Statement No. 115." FASB Statement No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. The Company adopted FASB Statement No. 159 on July I, 2008 and did not elect the fair value option for any financial assets or financial liabilities at that time.

EITF 06-1 I

In June 2007, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). E1TF 06-1 I states that an entity should recognize a realized tax benefit associated with dividends on nonvested equity shares, nonvested equity share units and outstanding equity share options charged to retained earnings as an increase in additional paid in capital. The amount recognized in additional paid in capital should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that are declared in fiscal years beginning after December 15,2007. EITF 06-11 did not have an impact on our consolidated financial statements.

EITF 06-04

At its September 2007 meeting, the EITF reached a final consensus on Issue 06·04, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under FASB Statement No, 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" or Accounting Principles Board Opinion ("APB") No. 12, "Omnibus Opinion - 1967." The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12, if it is not part of a plan. Issue 06-04 is effective for annual or interim reporting periods beginning after December IS, 2007. The Company adopted EITF 06-04 on July 1,2008, which resulted in a cumulative effect adjustment of$148,000 charge to retained earnings. In addition, the benefit expense to be recorded for the year ending June 30, 2009 will approximate $I7,000.

FASB Statement No. 141(R)

FASB statement No. 141 (R) "Business Combinations" was issued in December on007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company's fiscal year beginning after December IS, 2008. The impact to the Company is dependent upon acquisitions consummated after the effective date.

SAB 110

In December 2007, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 110 ("SAB 110"). SAB 110 amends and replaces Question 6 of Section 0.2 of Topic 14, "Share-Based Payment," of the Staff Accounting Bulletin series. Question 6 of Section 0.2 of Topic 14 expresses the views of the staff regarding the use of the "simplified" method in developing an estimate of expected term of "plain vanilla" share options and allows usage of the "simplified" method for share option grants prior to December 31,2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. SAB 110 is effective January I, 2008. The Company adopted SAB 110 without material impact to the consolidated financial statements.

FSP 157-2

In December 2007, the FASB issued FASB Staff Position (FSP) 157-2, "Effective Date of FASB Statement No. 157," that permits a one-year deferral in applying the measurement provisions of Statement No. 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of FASB Statement No. 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company has elected to defer in accordance with FSP 157-2.

FSP 142-3

In April 2008, the FASB issued FASB Staff Position ("FSP") FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under FASS Statement No. 141 R, "Business Combinations," and other GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

EITF 08-5

In September 2008, the FASB ratified EITF Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement" ("EITF 08-5"). EITF 08-5 provides guidance for measuring liabilities issued with an attached third-party credit enhancement (such as a guarantee). It clarifies that the issuer of a liability with a third-party credit enhancement should not include the effect of the credit enhancement in the fair value measurement of the liability. EITF 08-5 is effective for the first reporting period beginning after December 15, 2008. The Company is currently assessing the impact of EITF 08-5 on its consolidated financial position and results of operations.

FSP 157-3

In October 2008, the FASB issued FSP SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active" (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect our results of operations or financial condition as of and for the period ended September 30, 2008.

Note 10: Share-Based Compensation

A summary of share option activity for the three month period ended September 30, 2008 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (000s)
Outstanding at June 30, 2008	20,832	$ 6.29	3.1	$ 19
Granted				
Exercised				
Forfeited or expired	-			
Balance at September 30, 2008	20,832	$ 6.29	2.9	$ 9
Exercisable at September 30, 2008	20,832	$ 6.29		

A summary of the status of the Company's non-vested shares as of September 30, 2008 is presented below:

	Common Shares	Weighted Average Grant-Date Fair Value
Non-vested as of June 30, 2008	12,649	$ 13.71
Awards Granted, July 2008	3,250	7.10
Vested		
Forfeited	-	
Non-vested at September 30, 2008	15,899	$ 12.36

As of September 30, 2008 there was $75,000 of total unrecognized compensation costs related to non-vested share-based compensation. The cost is expected to be recognized over a weighted average period of 30 months. At grant date, vesting of the shares was "cliff' vesting at the end of either a two or three year period. Compensation expense totaling $17,000 has been recognized in the three month period ended September 30, 2008 as a result of these awards. In addition, $5,000 in compensation expense was incurred for the quarter ended September 30, 2008 associated with the issuance of restricted stock which vested immediately.

Note 11: Termination of Merger Agreement

On January 3, 2008, Patapsco Bancorp, Inc. and Bradford Bancorp, Inc. announced that they have mutually terminated the Agreement and Plan of Merger that the parties previously executed on March 19, 2007. Pursuant to the termination agreement, Bradford Mid-Tier Company has agreed to pay Patapsco Bancorp a termination fee of $2.0 million payable in the form of a promissory note. This $2.0 million was recognized as income in the quarter ended March 31, 2008. The promissory note matures on December 31, 2008 and provides for interest equal to the prime rate plus one percent. On August I, 2008, this rate increased to the prime rate plus three percent. The termination agreement also provides for a mutual release of claims in connection with the merger.

This note receivable is currently paying in accordance with the note agreement. Bradford Bancorp, Inc. filed a Registration Statement on Form S-I with the Securities and Exchange Commission on September 19, 2008 with respect to an offering of shares of common stock. In that Registration Statement, Bradford Bancorp, Inc. disclosed that if it successfully completed the offering, it would use a portion of the net offering proceeds to payoff the note receivable. Bradford Bancorp, Inc. further disclosed that if it is unable to complete the offering, it will be unable to payoff the note when it matures on December 31, 2008. If that were to occur, the note would need to be restructured.

Note 12: Fair Value Measurements

Effective July 1,2008, the Company adopted SFAS No. 157 - "Fair Value Measurements" ("SFAS No. I57"). This statement defined the concept of fair value, established a framework for measuring fair value in GAAP, and expands disclosure about fair value measurements. SFAS No. 157 applies only to fair value measurements required or permitted under current accounting pronouncements, but does not require any new fair value measurements. Under FASB Staff Position No. 157-2, portions of SFAS No. 157 have been deferred until years beginning after November IS, 2008 for all nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value in the financial statement on a recurring basis. Therefore, the Company has partially adopted the provisions of SFAS No. 157. Fair value is defined as the price to sell an asset or to transfer a liability in an orderly transaction between willing market participants as of the measurement date. The statement also expands disclosures about financial instruments that are measured at fair value and eliminates the use of large position discounts for financial instruments quoted in active markets. The disclosure's emphasis is on the inputs used to measure fair value and the effect on the measurement on earnings for the period. The adoption of SFAS No. 157 did not have any effect on the Company's financial position or results of operations.

The Company has an established and documented process for determining fair values. Fair value is based on quoted market prices, when available. If listed prices or quotes are not available, fair value is based on fair value models that use market participant or independently sourced market data, which include discount rate, interest rate yield curves, prepayment speeds, bond ratings, credit risk, loss severities, default rates, and expected cash flow assumptions. In addition, valuation adjustments may be made in the determination of fair value. These fair value adjustments may include amounts to reflect counterparty credit quality, creditworthiness, liquidity, and other unobservable inputs that are applied consistently over time. These adjustments are estimated and therefore, subject to managements' judgment, and at times, may be necessary to mitigate the possibility of error or revision in the model-based estimate of the fair value provided by the model. The Company has various controls in place to ensure that the valuations are appropriate, including review and approval of the valuation models, benchmarking, comparison to similar products, and reviews of actual cash settlements. The methods described above may produce fair value calcuJations that may not be indicative of the net realizable value or reflective of future fair values. While the Company believes its valuation methods are consistent with other financial institutions, the use of different methods or assumptions to determine fair values could result in different estimates of fair value.

SFAS No. 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based on the inputs used to value the particular asset or liability at the measurement date. The three levels are defined as follows:

- Level I - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 -- inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted process of identical or similar assets or liabilities in markets that are not active, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - inputs to the valuation methodology 'are unobservable and significant to the fair value measurement.

Each financial instrument's level assignment within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement for that particular category.

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of each instrument under the valuation hierarchy.

Securities Available for Sale
Fair values of investment securities are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and are generally classified within Level 2 of the valuation hierarchy.

The following table presents the financial instruments measured at fair value on a recurring basis as of September 30, 2008 on the Condensed Consolidated Statement of Condition utilizing the SFAS No. 157 hierarchy discussed on the previous pages:

	At September 30, 2008			
($ in thousands)	Total	Level I	Level 2	**Level 3**
Securities available for sale	S 8,157	$ -	$ 8,157	**$ -**

Nonrecurring fair value changes

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These instruments are not measured at fair value on an ongoing basis, but are subject to fair value in certain circumstances, such as when there is evidence of impairment that may require write downs. The write-downs for the Company's more significant assets or liabilities measured on a non-recurring basis are based on the lower of amortized cost or estimated fair value.

Impaired Loans

The Company considers loans to be impaired when it becomes probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement. All non-accrual loans are considered impaired. The measurement of impaired loans is based on the present value of the expected cash flows discounted at the historical effective interest rate, the market price of the loan, or the fair value of the underlying asset.

Foreclosed Assets

Once an asset is determined to be uncollectible, the underlying collateral is repossessed and reclassified to other assets owned, These assets are carried at lower of cost or fair value ofthe collateral, less cost to sell.

Impaired loans are classified as Level 3 within the valuation hierarchy.

	At September 30, 3008	
($ in thousands)	**Level 1**	**Level 2**
Impaired Loans		

	Impaired Loans
($ in thousands)	
Balance at June 30,2008	$ 2,655
Total net gains for the year	
Net transfers inlout of Level 3	
Balance at September 30, 2008	$ 2,655
Net realized gains included in net income for the year to date relating to assets and liabilities held at September 3D, 2008	$

Note 13: Reclassification

Certain prior period amounts have been reclassified to conform to the current period's presentation.

Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Company's results of operations depend primarily on its level of net interest income, which is the difference between interest earned on interest-earning assets, consisting primarily of loans, investment securities, mortgage-backed securities and other investments, and the interest paid on interest-bearing liabilities, consisting primarily of deposits and advances from the Federal Home Loan Bank of Atlanta. The net interest income earned on interest-earning assets ("net interest margin") and the ratio of interest-earning assets to interest-bearing liabilities have a significant impact on net interest income. The Company's net interest margin is affected by regulatory, economic and competitive factors that influence interest rates, loan and deposit flows. The Company, like other financial institutions, is subject to interest rate risk to the degree that its interest-earning assets mature or reprice at different times, or on a different basis, than its interest-bearing liabilities. The Company's results of operations are also significantly impacted by the amount of its non-interest income, including loan fees and service charges, and levels of non-interest expense, which consists principally of compensation and employee benefits, insurance premiums, professional fees, equipment expense, occupancy costs, advertising, data processing and other operating expenses.

The Company's operating results are significantly affected by general economic and competitive conditions, in particular, changes in market interest rates, government policies and actions taken by regulatory authorities. Lending activities are influenced by general economic conditions, competition among lenders, the level of interest rates and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market rates of interest, primarily on competing investments, account maturities and the level of personal income and savings in the Company's market area.

Forward-Looking Statements

When used in this Form IO-Q, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of J995. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market area, and competition that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and follow general practices within the industry in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. These estimates, assumptions and judgments are necessary when financial instruments are required to be recorded at fair value or when the decline in the value of an asset carried on the balance sheet at historic cost requires an impairment write-down or a valuation reserve to be established.

The allowance for loan losses ("allowance") represents an amount, that in the judgment of management, will be adequate to absorb probable losses on outstanding loans and leases that may become uncollectible. The allowance represents an estimate made based upon two principles of accounting: (I) Statement of Financial Accounting Standards ("SFAS") No.5 "Accounting for Contingencies", that requires losses to be accrued when their occurrence is probable and estimable, and (2) SFAS No. 114"Accounting by Creditors for Impairment of a Loan", that requires losses be accrued when it is probable that the lender will not collect all principal and interest due under the original terms of the loan. The adequacy of the allowance is determined through careful evaluation of the loan portfolio. This determination is inherently subjective and requires significant estimates, including estimated losses on pools of homogeneous loans based on historical loss experience and consideration of the current economic environment that may be subject to change. Loans and leases deemed uncollectible are charged against the allowance and recoveries of previously charged-off amounts are credited to it. The level of the allowance is adjusted through the provision for loan losses that is recorded as a current period expense.

The methodology for assessing the appropriateness of the allowance includes a specific allowance, a formula allowance and a nonspecific allowance. The specific allowance is for risk rated credits on an individual basis. The formula allowance reflects historical losses by credit category. The nonspecific allowance captures losses whose impact on the portfolio have occurred but 'have yet to be recognized in either the specific allowance or the formula allowance. The factors used in determining the nonspecific allowance include trends in delinquencies, trends in volumes and terms of loans, the size of loans relative to the allowance, concentration of credits, the quality of the risk identification system and credit administration and local and national economic trends.

In accordance with the provisions of Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan, as amended by Statement I18, Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures (collectively referred to as "Statement 114"), the Company determines and recognizes impairment of certain loans. A loan is determined to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan is not considered impaired during a period of delay in payment if the Company expects to collect all amounts due, including past-due interest. The Company generally considers a period of delay in payment to include delinquency up to and including 90 days. Statement I14 requires that impairment in a loan be measured at the present value of its expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Statement 114 is generally applicable for all loans except large groups or smaller-balance homogeneous loans that are evaluated collectively for impairment, including residential first and second mortgage loans and consumer installment loans. Impaired loans are therefore generally comprised of commercial mortgage, real estate development, and certain restructured residential loans. In addition, impaired loans are generally loans which management has placed in non-accrual status since loans are placed in non-accrual status on the earlier of the date that management determines that the collection of principal *andlor* interest is in doubt or the date that principal or interest is 90 days or more past-due.

Management believes that the allowance is adequate. However, its determination requires significant judgment, and estimates of the probable losses in the Joan and lease portfolio can vary significantly from amounts that actually occur.

Comparison of Financial Condition at September 30,2008 and June 30, 2008

Patapsco Bancorp's assets increased by $1 . 1 million, or 0.4% to $262.4 million at September 30, 2008 from $261.3 million at June 30, 2008. Net loans grew by $5.1 million or 2.2% to $232.6 million at September 30, 2008 from $227.5 million at June 30, 2008. Growth in commercial business loans of $1.6 million, residential mortgage loans of $3.3 million, commercial real estate loans of $3.2 million, commercial leases of $0.2 million and consumer loans of $0.6 million, offset a decrease in construction loans of $3.8 million. Securities available for sale decreased by $1.4 million to $8.2 million at September 30, 2008 from $9.6 million at June 30, 2008 as maturities of $1.5 million and amortization of the mortgage-backed securities of $0.4 million were replaced by new purchases of investment securities 0[$0.5 million.

Interest-bearing deposits decreased $4.4 million, or 2.4%, to $180.4 million at September 30, 2008 from $184.8 million at June 30, 2008. Noninterest-bearing deposits decreased $1.9 million, or 14.7%, to $11.2 million at September 30, 2008 from $13.1 million at June 30, 2008. Short-term borrowings increased to $10.6 million at September 30, 2008 funding loans and maturities of long-term borrowings from the Federal Home Loan Bank of Atlanta which decreased by $3.0 million to $34.3 million at September 30, 2008 from $37.3 million at June 30, 2008.

The $138,000 decrease in stockholders' equity resulted from dividends declared on common stock of $130,000, a decrease in the market value of available for sales securities, net of tax, of $78,000 and the adoption of Emerging Issues Task Force ("EITF") Issue 06-04, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" amounting to a $148,000 charge, partially offset by net income for the quarter of $I89,000.

Comparison of Operating Results for the Quarter Ended September 30, 2008 and September 30,2007

Net Income, Patapsco Bancorp's net income increased by $10,000 or 5.6%, to $189,000 for the quarter ended September 30, 2008 from $179,000 for the quarter ended September 30, 2007. The increase in Patapsco Bancorp's net income during the three-month period was due to higher net interest income and a lower effective tax rate which more than offset a higher Joan Joss provision and operating expenses.

Net Interest Income. Patapsco Bancorp's net interest income increased by $118,000, or 5.4%, to $2.3 million for the quarter ended September 30, 2008 compared to $2.2 million for the same quarter in 2007. The increase in net interest income during the comparable three-month period was primarily due to growth in average earning assets of $4.8 million or 2.0% to $244.9 million for the current quarter. In addition, the net interest margin increased 10 basis points to 3.74% in the quarter ended September 30, 2008 from 3.64% in the quarter ended September 30,2007. The improvement in the net interest margin was driven by a 67 basis point decline the average rate paid on interest bearing liabilities which more than offset the 54 basis point decrease in the yield on earning assets.

Interest Income. Total interest income decreased by $195,000, or 4.5%, to $4.1 million for the quarter ended September 30, 2008 from $4.3 million for the quarter ended September 30, 2007. Higher average balances of interest earning assets were more than offset by lower yields. The yield on earning assets decreased by 54 basis points to 6.69% in the quarter ended September 30, 2008 compared to 7.23% in the quarter ended September 30, 2007 due to the impact of lower short term interest rates in the current quarter on the prime based products within the Company's loan portfolio.

Interest income on loans receivable decreased by $143,000, or 3.5%, to $4.0 million for the quarter ended September 30, 2008 from $4.1 million for the quarter ended September 30, 2007. The decrease in interest income on loans receivable during the three-month period was due to a 62 basis point decline in the yield earned on the loan portfolio due to the reason stated above. The decrease in yield more than offset the impact of the $9.0 million, or 4.1%, growth in average loan balances to $230.6 million during the three months ended September 30,2008 from $221.6 million for the same period in 2007.

Interest income on investment securities, including investments required by Jaw, decreased by $41,000 or 22.7% as the average balance decreased $3.5 million. Interest income on federal funds sold and other investments decreased $11,000 or 42.3% to $15,000, as average balances outstanding decreased $0.7 million and the yield declined 84 basis points consistent with the decline in short term market rates.

Interest Expense. Total interest expense decreased by $313,000, or 14.5%, to $1.8 million for the quarter ended September 30, 2008 from $2.2 million for the quarter ended September 30, 2007 due to lower rates paid on interest-bearing liabilities. Interest expense on deposits decreased by $215,000 or 13.6% to $1.4 million from $1.6 million due to lower rates paid on deposits. While the competitive environment for deposits remained intense during the current quarter the repricing of maturing higher rate certificates of deposit drove overall deposit rates lower. Average deposit volumes grew $4.3 million or 2.4% to $182.1 million for the quarter ended September 30, 2008 versus $177.7 million for the previous year's corresponding quarter.

Interest expense on short-term borrowings decreased $25,000, or 38.5%, to $40,000 at September 30, 20008 from $65,000 due to the lower short term market rates. Interest expense on long-term borrowings decreased $73,000, or 14.2%, due to the repricing of maturing FHLB advances at lower rates.

Average Balance, Interest and Average Yields and Rates

The following table sets forth certain information relating to the Company's average interest-earning assets and interest-bearing liabilities and reflects the average yield on assets and cost of liabilities for the periods and at the dates indicated. Dividing income or expense by the average daily balance of assets or liabilities, respectively, derives such yields and costs for the periods presented. Average balances are derived from daily balances.

The table also presents information for the periods indicated with respect to the Company's net interest margin, which is net interest income divided by the average balance of interest earning assets. This in an important indicator of commercial bank profitability. The net interest margin is affected by yields on interest-eaming assets, the costs of interest-bearing liabilities and the relative amounts of interest earning assets and interest bearing liabilities. Another indicator of the Company's net interest income is the interest rate spread, or the difference between the average yield on interest earning assets and the average rate paid on interest bearing liabilities.

	Three Months Ended September 30,					
	2008			2007		
	Average Balance	Interest	Average Yield! Cost	Average Balance	Interest	Average Yield! Cost
	(Dollars in thousands)					
Interest-earning assets:						
Loans receivable (I)	$ 230,635	$ 3,990	6.84%	$ 221,625	$4,133	7.46%
Investment and mortgage-backed securities(2)	11,665	140	4.79	15,179	181	4.77
Short-term investments and other interest-earning assets	2,574	15	2.30	3,314	26	3.14
Total interest-earning assets	244,874	4,145	6.69	240,118	4,340	7.23
Non-interest-earning assets	16,199			14,339		
Total assets	$ 261073			$ 254457		
Interest-bearing liabilities:						
Deposits (3)	$ 182,058	1,361	2.97	$ 177,734	1,576	3.55
Short-term borrowings	5,932	40	2.63	4,750	65	5.45
Long-term borrowings	39,550	442	4.38	39.712	515	5.18
Total interest-bearing liabilities	227,540	1.843	321	222,196	2,156	3.88
Non-interest-bearing liabilities	14,126			13,499		
Total liabilities	241,666			235,795		
Total Equity	19.407			18,762		
Total liabilities and equity	$ 261.073			$ 254.457		
Net interest income		$ 2 302			$ 2,184	
Net interest margin			374 %			3.64%
Interest rate spread			3.48%			3.35%
Ratio of average interest-earning assets to average interest-bearing liabilities			107.62 %			10807 %

(1) Includes nonaccrualloans.
(2) Includes investments required by law
(3) Includes interest bearing escrow accounts

Provision for Loan Losses. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by management to provide for loan losses. The components of the allowance for loan losses represent an estimation done pursuant to either Statement of Financial Accounting Standards ("SFAS") No.5, "Accounting for Contingencies," or SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." The adequacy' of the allowance for loan losses is determined through a continuous review of the loan and lease portfolio and considers factors such as prior loss experience, type of collateral, industry standards, amount and type of past due loans in Patapsco Bancorp's loan portfolio, current economic conditions, both national and local, and other factors unique to particular loans and leases in the portfolio. Patapsco Bancorp's management periodically monitors and adjusts its allowance for loan losses based upon its analysis of the loan portfolio.

The provision for loan losses was $250,000 in the quarter ended September 30, 2008, compared to $150,000 for the quarter ended September 30, 2007. The increase in the provision is primarily due to higher net charge-offs in the commercial leasing and consumer loan portfolios. Patapsco Bancorp's allowance for loan losses as a percentage of total loans outstanding was relatively flat during the quarter at 0.78% of total loans as of September 30, 2008 versus 0.80% at June 30, 2008. Patapsco Bancorp's allowance for loan losses as a percentage of nonperforming loans was 69.2% at September 30, 2008 as compared to 72.4% at June 30, 2008. Patapsco Bancorp has concluded, after analyzing the nonperforming loan portfolio and the factors mentioned above, that the allowance is adequate.

The following table shows the activity in the allowance for loan losses.

($ in thousands)	Three Months Ended September 30 2008	2007
Allowance for loan losses, beginning of period	$ 1,834	$ 1,110
Provision for loan losses	250	150
Loans Charged Off:		
Consumer	188	49
Real Estate	0	
Commercial Loan	0	
Commercial Lease	79	78
Total Charge-Offs	267	127
Recoveries:		
Consumer	14	12
Real Estate	0	
Commercial Loan	I	2
Commercial Lease	4	6
Total Recoveries	19	20
Allowance for loan losses, end of period	$ 1836	$ J 153
Ratio of net charge-offs (annualized) to average loans outstanding during the period	043%	0.19%
Ratio of allowance to nonperforming loans...........	6915%	195.70%

The following table sets forth information with respect to the Company's non-performing assets at the dates indicated.

($ in thousands)	September 30, 2008	June 30, 2008
Loans accounted for on a non-accrual basis (1)		
Real Estate:		
Residential	$ 116	$ 81
Commercial		
Construction	1,998	1,989
Consumer	23	6
Commercial Loan/Lease	518	457
Total	2,655	2,533
Accruing loans that are contractually past due 90 days or more		
Total		
Total non-performing loans	$ 2,655	$ 2.533
Nonperforming loans to total loans	1.13%	1.10%
Troubled debt restructuring	$ 1,550	$ 1,550
Other non-performing assets (2)	$	$ 7

(I) Noriaccrual status denotes loans on which, in the opinion of management, the collection of additional interest is unlikely. Payments received on a nonaccrual loan are either applied to the outstanding principal balance or recorded as interest income, depending on management's assessment of the collectability of the loan.

(2) Other nonperforming assets represent property acquired by Patapseo Bancorp through foreclosure or repossession.

At September 30, 2008, nonaccrual10ans included two land acquisition and development loans totaling $1 .5 million, not including a commitment to fund an additional $200,000, a residential construction loan with a balance of $505,000, two home equity line of credit loans totaling $116,000, six commercial equipment leases totaling $69,000 and three consumer loans with a balance of $23,000. Additionally, there were five commercial loans totaling $449,000, of which one loan totals $35,000 and is 75% SBA guaranteed. Two additional commercial business loans were written down to their SBA guaranteed amount of$209,000.

During the twelve months ended June 30, 2008, the Company modified the terms of one real estate construction loan in the amount of $1.55 million in a troubled debt restructuring. The original terms were modified to defer a portion of interest to the end of the loan term in order to lessen the near term cash requirements of the borrowers' obligations. The Company currently expects to collect all principal and interest of this loan based on the modified loan terms.

The Company accepted a $2 million note receivable from Bradford Bancorp, Inc. as payment 'for the merger termination fee. See Note 11, "Termination of Merger Agreement," to the consolidated financial statements. This note receivable is currently paying in accordance with the note agreement. Bradford Bancorp, Inc. filed a Registration Statement on Form Sol with the Securities and Exchange Commission on September 19, 2008 with respect to an offering of shares of common stock. In that Registration Statement, Bradford Bancorp, Inc. disclosed that if it successfully completed the offering, it would use a portion of the net offering proceeds to payoff the note receivable. Bradford Bancorp, Inc. further disclosed that if it is unable to complete the offering, it will be unable to payoff the note when it matures on December 31, 2008. If that were to occur, the note would need to be restructured.

Noninterest Income. Patapsco Bancorp's non interest income consists of deposit fees, service charges, income from bank owned life insurance ('BOll") and gains. Total noninterest income increased by $21,000, or 10. I%, to $228,000 for the quarter ended September 30, 2008 from $207,000 for the quarter ended September 30, 2007. The increase was primarily a result of gain on sale of repossessed property.

Noninterest Expenses. Total non interest expenses increased by $176,000, or 9.8%, to $1.98 million for the quarter ended September 30, 2008 from $1.80 million for the quarter ended September 30,2007. Compensation costs increased $192,000 or 18% as staffing returned to normal levels in the current quarter. In the prior year's quarter, open positions were not filled in anticipation ofthe merger with Bradford Bancorp, Inc. Increased equipment, data processing and other expenses were partially offset by decreases in professional fees and advertising expense. For the quarter ended September 30, 2007, professional fees included $109,000 of merger related legal and accounting fees.

The Company anticipates a significant increase in the cost of federal deposit insurance from current levels of five to seven basis points. The FDIC has recently proposed to increase the assessment rate for the most highly rated institutions to between 12 and 14 basis points for the quarter ended March 31, 2009 and to between 10 and 14 basis points thereafter. Assessment rates could be further increased if an institution's FHLB advances exceed 15% of deposits.

Income Taxes. Income **tax** expense was $116,000 (or 38.0% of pre-tax income) and $263,000 (or 59.5% of **pre-tax** income) for the periods ended September 30, 2008 and 2007, respectively. The large decrease in the effective tax rate is a result of the non-deductibility of the aforementioned merger-related professional fees for the prior year's quarter.

Liquidity and Capital Resources

An important component of the Company's asset/liability structure is the level of liquidity available to meet the needs of customers and creditors. The Company's Asset/Liability Management Committee has established general guidelines for the maintenance of prudent levels of liquidity. The Committee continually monitors the amount and source of available liquidity, the time to acquire it and its cost. Management of the Company seeks to maintain a relatively high level of liquidity in order to retain flexibility in terms of investment opportunities and deposit pricing. Because liquid assets generally provide lower rates of return, the Company's relatively high liquidity will, to a certain extent, result in lower rates ofreturn on assets.

The Company's most liquid assets are cash on hand, interest-bearing deposits and Federal funds sold, which are short-term, highly liquid investments with original maturities of less than three months that are readily convertible to known amounts of cash. The levels of these assets are dependent on the Company's operating, financing and investing activities during any given period. At September 30, 2008, the Company's cash on hand and interest-bearing deposits totaled $6.4 million. In addition. the Company has approximately $8.2 million of investment securities classified as available-for-sale. none of which are pledged.

The Company anticipates that it will have sufficient funds available to meet its current loan commitments of $30.8 million and unused lines of credit of $11.7 million. Certificates of deposit that are scheduled to mature in less than one year at September 30, 2008 totaled $75.2 million. Historically, a high percentage of maturing deposits have remained with the Company.

The Company, as the holding company for the Bank, has an annual cash requirement of approximately $845,000 for the payment of common dividends, as well as, interest payments on the $5.0 million in subordinated debentures. The only source of funds for the holding company is dividends from the Bank. The amount of dividends that can be paid to the holding company from the bank is limited by the earnings of the bank. At September 30, 2008 the holding company had cash on hand and interest bearing deposits of $155,000.

The Bank had $70.3 million in borrowing capacity with the Federal Home Loan Bank of Atlanta, with $43.8 million in borrowings outstanding, at September 30,2008. These borrowings are secured by the Bank's stock in the Federal Home Loan Bank of Atlanta and other eligible assets. In addition, the Bank has a $5.1 million line of credit, none of which was outstanding at September 30, 2008, with The Silverton Bank of Atlanta, Georgia.

Contingencies and Off-Balance Sheet Items

The Company is party to financial instruments with off-balance sheet risk including commitments to extend credit under both new facilities and under existing lines of credit. Commitments to fund loans typically expire after 60 days, commercial lines of credit are subject to annual reviews and home equity lines of credit are generally for a term of 20 years. These instruments contain, to varying degrees, credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

Off-balance sheet financial instruments whose contract amounts represent credit and interest rate risk are summarized as follows:

	September 30, 2008	June 30, 2008
	($ in thousands)	
Commitments to originate new loans	$30,806	$20,087
Undisbursed lines of credit	11,738	11,787
Financial standby letters of credit	2,138	2,055

As discussed in Note 5 - Regulatory Capital Requirements, the Bank exceeded all regulatory minimum capital requirements.

Recent Developments

The Company is considering participation in the Capital Purchase Program (the "CPP") established by the United States Department for the Treasury under the Emergency Economic Stabilization Act (the "EESA"), pursuant to which the Treasury Department may purchase 5% perpetual Senior Preferred Stock of the Company, and warrants to purchase common stock. If the Company determines to participate, and is permitted to participate, in the CPP, it estimates that the maximum amount of Senior Preferred Stock which it would be eligible to issue is approximately $6.3 million.

The Federal Deposit Insurance Corporation ("FDIC") insures deposits at FDIC insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. Current economic conditions have increased expectations for bank failures, in which case the FDIC would take control of failed banks and ensure payment of deposits up to insured limits using the resources of the Deposit Insurance Fund. In such case, the FDIC may increase premium assessments to maintain adequate funding of the Deposit Insurance Fund, including requiring riskier institutions to pay a larger share of the premiums. An increase in premium assessment would increase the Company's expenses. The EESA included a provision for an increase in the amount of deposits insured by FDIC to $250,000 until December 2009. On October 14, 2008, the FDIC announced a new program - the Temporary Liquidity Guarantee Program that provides unlimited deposit insurance on funds in noninterest-bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000, All eligible institutions will be covered under the program for the first 30 days without incurring any costs. After the initial period, participating institutions will be assessed a 10 basis point surcharge on the additional insured deposits. Companies have the option to opt out of this program. The Company has chosen to not opt out. The incremental cost to the Company will beimmaterial.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

This item is not applicable as the Company is a smaller reporting company.

Item 4T. Controls and Procedures

Disclosure Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes to Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2008 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings
None.

Item I.A. Risk Factors
This item is not applicable as the Company is a smaller reporting company.

Item 2. Unregistered sales of equity securities and use of proceeds
None.

Item 3. Defaults Upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security-Holders
None

Item 5. Other Information
None

Item 6, Exhibits

(a) Exhibits

The following exhibits are filed herewith:

Exhibit Number	Title
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	Certification of Chief Executive Officer pursuantto 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.c. Section 1350

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PATAPSCO BANCORP, INC.

Date: November 14,2008

/s/ Michael J. Dee
Michael 1. Dee
President and Chief Executive Officer

/s/ William C. Wiedel, Jr.
William C. Wiedel, Jr.
Senior Vice President and Chief Financial Officer

Certification

I, Michael J. Dee, certify that:

I. I have reviewed this Quarterly Report on Form 10-Q of Patapsco Bancorp, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e» and internal control over financial reporting (as defined in Exchange Act Rules 13a-1 S(f) and 15d-15(f) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end ofthe period covered by this report, based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2008

/s/ Michael J. Dee
Michael J. Dee
President and Chief Executive Officer

Certification

I, William C. Wiedel, Jr, certify that:

I. I have reviewed this Quarterly Report on Form 10-Q ofPatapsco Bancorp, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules l3a-15(e) and 15d-15(e» and internal control over financial reporting (as defined in Exchange Act Rules I 3a-15(f) and 15d-15(f» for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying ofticer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small registrant's internal control over financial reporting.

Date: November 14,2008

/s/ William C. Wiedel. Jr.
William C. Wiedel, Jr.
Senior Vice President and Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO 18. U.S.c. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

The undersigned executive officers of the Registrant hereby certify that this Quarterly Report on Form IO-Q for the quarter ended September 30, 2008 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations ofthe Registrant.

By: /s/ Michael J. Dee
Name: Michael J. Dee
Title: President and Chief Executive Officer

/s/ William C. Wiedel, Jr.
Name: William C. Wiedel, Jr.
Title: Senior Vice President and Chief Financial Officer

November 14,2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Patapsco Bancorp, Inc.
Dundalk, Maryland

We have audited the accompanying consolidated statements of financial condition of Patapsco Bancorp, Inc. and subsidiaries as of June 30, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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, thp financial position of Patapsco Bancorp, Inc. and subsidiaries as of June 30, 2008 and 2007 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Baltimore, Maryland
September 26, 2008

PATAPSCO BANCORP, INC, AND SUBSIDIARIES
Consolidated Statements of Financial Condition

June 30, 2008 and 2007

(dollars in thousands except jar per share data)	2008	2007
Assets		
Cash on hand and due from banks	$ 4,617	$ 4,308
Federal funds sold	2,473	2,255
Total Cash and Cash Equivalents	7,090	6,563
Interest bearing deposits in other financial institutions	2,103	907
Securities available for sale	9,601	13,147
Loans receivable, net of allowance for loan losses of $1,834 and $1,110, respectively	227,514	220,239
Investment securities required by law, at cost	2,649	2,599
Property and equipment, net	4,178	4,474
Goodwill and other intangible assets	3,251	3,303
Accrued interest and other assets	4,908	4,226
Total Assets	$ 261,294	$ 255,458
Liabilities **and** Stockholders' Equity		
Deposits:		
Non-interest bearing deposits	$ 13,113	$ 12,703
Interest bearing deposits	184,773	178,371
Total Deposits	197,886	191,074
Junior subordinated debentures	5,000	5,000
Long-term debt	37,300	38,800
Accrued expenses and other liabilities	1,717	1,668
Total liabilities	241,903	236,542
Temporary equity - ESOP shares subject to put option		935
Stockholders' equity		
Common stock $0.01 par value; authorized 4,000,000 shares; issued and outstanding 1,861,855 shares at June 30, 2008 and 1,864,985 shares at June 30, 2007	18	18
Additional paid-in capital	7,346	6,937
Obligation under deferred compensation	442	423
Deferred compensation contra	(78)	(78)
Retained earnings, substantially restricted	11,851	10,994
Accumulated other comprehensive loss, net of taxes	(188)	(313)
Total Stockholders' Equity - Permanent	19,391	17,981
Total Stockholders' Equity - including Temporary Equity	19,391	18,916
Total Liabilities and Stockholders' Equity	$261,294	$255,458

See accompanying notes to consolidated financial statements.

PATAPSCO BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Income
Years Ended June 30, 2008 and 2007

(in thousands except/or per share data)	2008	2007
Interest Income:		
Loans receivable	$16,320	$15,461
Investment securities	662	802
Federal funds sold and other investments	209	163
Total Interest Income	17,191	16,426
Interest Expense:		
Deposits	6,285	5,458
Interest on short-term debt	188	37
Interest on long-term debt and junior subordinated debentures	2,092	2,008
Total Interest Expense	8,565	7,503
Net interest income	8,626	8,923
Provision for loan losses	1,920	430
Net interest income after provision for loan losses	6,706	8,493
Non-Interest Income:		
Fees and service charges	706	730
Merger termination fee	2,000	
Other	113	136
Total Non-Interest Income	2,819	866
Non-Interest Expenses:		
Compensation and employee benefits	4,206	4,382
Professional fees	646	591
Equipment expenses	325	331
Net occupancy costs	565	565
Advertising	33	110
Data processing	318	304
Amortization of core deposit intangible	51	51
Telephone, postage and delivery	252	250
Other	977	863
Total Non-Interest Expenses	7,373	7,447
Income Before Income Taxes	2,152	1,912
Income tax provision	775	727
Net Income	$ 1,377	$ 1,185
Basic earnings per share	$ 0.72	$ 0.62
Diluted earnings per share	$ 0.71	$ 0.61
Cash dividends declared per common share	$ 0.28	$ 0.27

See accompanying notes to consolidated financial statements.

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2008 and 2007

(in thousands)	2008	2007
Cash flows from operating activities:		
Net income	$ 1,377	$ 1,185
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	352	316
Provision for losses on loans	1,920	430
Non-cash compensation under stock-based benefit plans	63	116
Income tax benefit from exercise of stock options	(47)	48
Amortization of core deposit intangible	51	51
Amortization of premiums and discounts, net	47	42
Income from bank-owned life insurance	(75)	(68)
Amortization of deferred loan origination fees, net of costs	(21)	(34)
Gain on sale of office building		(14)
Loss on sale of repossessed asset		9
Increase in accrued interest and other assets	(660)	(165)
Tennination fee earned, not collected	(2,000)	
(Decrease) increase in accrued expenses and other liabilities	50	156
Net cash provided by operating activities	$ 1,057	$ 2,072
Cash flows from investing activities:		
(Increase)/decrease in int-bearing deposits in other financial institutions	(1,196)	61
Proceeds from maturing time deposit investments		600
Purchase of securities available for sale	(977)	(20)
Proceeds from sale of securities available for sale		92
Proceeds from maturing securities available for sale and principal payments on mortgage-backed securities available for sale	4,695	3,612
Loan principal disbursements, net of repayments	(6,632)	(28,498)
Purchase of consumer loans	(577)	(1,577)
Proceeds from sale of repossessed asset		15
Increase in investment required by law	(50)	(183)
Cash received in sale of premises and equipment		50
Purchases of property and equipment	(56)	(2,651)
Net cash used in investing activities	(4,793)	$(28,499)
Cash flows from financing activities:		
Net increase in deposits	$ 6,796	$ 22,905
Net increase (decrease) in advance payments by borrowers	32	(43)
Proceeds from long-term borrowings	19,200	8,000
Repayments of long-term borrowings	(20,700)	(4,250)
Cash received in exercise of stock options	114	338
Repurchase of common stock due to ESOP put options	(659)	(690)
Dividends paid	(520)	(490)
Net cash provided by financing activities	4,263	25,770
Net increase (decrease) in cash and cash equivalents	527	(657)
Cash and cash equivalents at beginning of year	6,563	7,220
Cash and cash equivalents at end of year	$ 7,090	$ 6,563

Supplemental cash flow information:

Interest paid	$ 8,371	$ 7,351
Income taxes paid	1,535	837

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation and Summary of Significant Accounting Policies

Description of Business

Patapsco Bancorp, Inc. (the Company) is the holding company of The Patapsco Bank (Patapsco). Patapsco owns 100% of Prime Business Leasing, Inc. (Prime Leasing) and Patapsco Financial Services, Inc. (Financial). The primary business of Patapsco is to attract deposits from individual and corporate customers and to originate residential and commercial mortgage loans, commercial loans and consumer loans, primarily in the Greater Baltimore Metropolitan area. Patapsco is subject to competition from other financial and mortgage institutions in attracting and retaining deposits and in making loans. Patapsco is subject to the regulations of certain agencies of the federal government and undergoes periodic examination by those agencies. The primary business of Prime Leasing is the origination and servicing of commercial finance leases. The primary business of Financial is the sale of consumer investment products.

Termination of Merger Agreement

On January 3, 2008, Patapsco Bancorp, Inc. and Bradford Bancorp, Inc. announced that they have mutually terminated the Agreement and Plan of Merger that the parties previously executed on March 19,2007. Pursuant to the termination agreement, Bradford Mid-Tier Company has agreed to pay Patapsco Bancorp a termination fee of $2.0 million payable in the form of a promissory note. This $2.0 million was recognized as income in the quarter ended March 31, 2008. The promissory note matures on December 31, 2008 and provides for interest equal to the prime rate plus one percent. On August 1,2008, this rate will increase to the prime rate plus three percent. The termination agreement also provides for a mutual release of claims in connection with the merger.

This note receivable is currently paying in accordance with the note agreement. Bradford Bancorp, Inc. filed a Registration Statement on Form S-1 with the Securities and Exchange Commission on September 19, 2008 with respect to an offering of shares of common stock. In that Registration Statement, Bradford Bancorp, Inc. disclosed that if it successfully completed the offering, it would use a portion of the net offering proceeds to payoff the note receivable. Bradford Bancorp, Inc. further disclosed that if it is unable to complete the offering, it will be unable to payoff the note when it matures on December 31, 2008. If that were to occur, the note would need to be restructured.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Patapsco, Prime Leasing and Financial. All significant intercompany accounts and transactions have been eliminated in consolidation.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and income and expenses for the periods then ended. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses.

Management believes that the allowance for loan losses is adequate. While management uses and considers available information in making the required estimates, additional provisions for losses may be necessary based on changes in economic conditions, particularly in Baltimore and the State of Maryland. In addition, various regulatory agencies, as an integral part of their examination process, periodically review Patapsco's allowance for loan losses. Such agencies may require Patapsco to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Significant Concentrations of Credit Risk

Most of the Company's activities are with customers in the Greater Baltimore Metropolitan Area. Note 2 discusses the types of securities the Company invests in. Note 3 discuses the types of lending that the Company engages in. The Company's largest lending relationship is $2.7 million.

The Company's residential lending operations are focused in the State of Maryland, primarily the Baltimore Metropolitan area. While residential lending is generally considered to involve less risk than other forms of lending, payment experience on these loans is dependent to some extent on economic and market conditions in the Company's primary lending area.

Cash and Cash Equivalents

Cash equivalents include short-term investments, with an original maturity of 90 days or less, which consist of federal funds sold.

Securities

Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. As the Company does not engage in securities trading, the balance of its debt and equity securities are classified as available-far-sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of tax effects. All of the Company's securities are classified as available-for sale at June 30, 2008 and 2007.

If a decline in value of an individual security classified as held-to-maturity or available-for-sale is judged to be other than temporary, the cost basis of that security is reduced to its fair value and the amount of the write-down is included in earnings. Fair value is determined based on bid prices published in financial newspapers or bid quotations received from securities dealers. In estimating other-than-temporary impairment losses, management considers the length of time and extent to which fair value has been less than cost, the financial condition and near term prospects of the issuer and the intent and ability of the Company to hold the securities until the earlier of market price recovery or maturity. For purposes of computing realized gains or losses on the sales of securities, cost is determined using the specific identification method. Premiums and discounts on securities are amortized over the term of the security using the interest method.

Investments Securities Required by Law

Investment securities required by law represent Federal Reserve Bank of Richmond and Federal Home Loan Bank of Atlanta stock, which are considered restricted as to marketability.

Loans Held For Sale

Loans held for sale are carried at the lower of aggregate cost or fair value. Fair value is determined based on outstanding investor commitments or, in the absence of such commitments, based on current investor yield requirements. Gains and losses on loan sales are determined using the specific identification method. There were no loans held for sale at June 30, 2008 and 2007.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further coJlectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonacerual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The Company accounts for loans in accordance with SFAS No. 15 "Accounting by Debtor and Creditors for Troubled Debt Restructurings," when due to a deterioration in a borrower's financial position, the Company grants concessions that would not otherwise be considered. Troubled debt restructured loans are tested for impairment under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan". Interest income is recognized on these loans using the accrual method of accounting, provided they are performing in accordance with their restructured terms and are considered collectible.

Loan Fees

Loan origination fees are deferred and amortized to income over the contractual lives of the related loans using the interest method. Certain incremental direct loan origination costs are deferred and recognized over the contractual lives of the related loans using the interest method as a reduction of the loan yield. Deferred fees and costs are combined where applicable and the' net amount is amortized.

Allowance for Loan Losses

The allowance for loan losses ("allowance") represents an amount, that in the judgment of management, will be adequate to absorb probable losses on outstanding loans and leases that may become uncollectible. The allowance represents an estimate made based upon two principles of accounting: (1) Statement of Financial Accounting Standards ("SFAS") No.5 "Accounting for Contingencies", that requires losses to be accrued when their occurrence is probable and estimable, and (2) SFAS No. 114 "Accounting by Creditors for Impairment of a Loan", that requires losses be accrued when it is probable that the lender will not collect all principal and interest due under the original term of the loan. The adequacy of the allowance is determined through careful evaluation of the loan portfolio. This determination is inherently subjective and requires significant estimates, including estimated losses on pools of homogeneous loans based on historical loss experience and consideration of the current economic environment that may be subject to change. Loans and leases deemed uncollectible are charged against the allowance and recoveries of previously charged-off amounts are credited to it. The level of the allowance is adjusted through the provision for loan losses that is recorded as a current period expense.

The methodology for assessing the appropriateness of the allowance includes a specific allowance, a formula allowance and a nonspecific allowance. The specific allowance is for risk rated credits on an individual basis. The formula allowance reflects historical losses by credit category. The nonspecific allowance captures losses whose impact on the portfolio have occurred but have yet to be recognized in either the specific allowance or the formula allowance. The factors used in determining the nonspecific allowance include trends in delinquencies, trends in volumes and terms of loans, the size of loans relative to the allowance, concentration of credits, the quality of the risk identification system and credit administration and local and national economic trends.

A loan is determined to be impaired when, based on current information and events, it is probable that Patapsco will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan is not considered impaired during a period of insignificant delay in payment if Patapsco expects to collect all amounts due, including past-due interest. Patapsco generally considers a period of insignificant delay in payment to include delinquency up to and including 90 days. Impairment is measured through a comparison of the loan's carrying amount to the present value of its expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller-balance homogeneous loans are evaluated collectively for impairment. Accordingly, the Company does not separately identify individual residential first and second mortgage loans and consumer installment loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Impaired loans are therefore generally comprised of commercial mortgage, real estate development, and certain restructured residential loans. In addition, impaired loans are generally loans which management has placed in nonaccrual status since loans are placed in nonaccrual status on the earlier of the date that management determines that the collection of principal and/or interest is in doubt or the date that principal or interest is 90 days or more past-due.

Patapsco recognized interest income for impaired loans consistent with its method for nonaccrual loans. Specifically, interest payments received are recognized as interest income or, if the ultimate collectibility of principal is in doubt, are applied to principal.

Property and Equipment

Land is carried at cost. Property and equipment are stated at cost less accumulated depreciation computed by use of the straight-line method over the estimated useful lives of the related assets. Additions and betterments are capitalized and costs of repairs and maintenance are expensed when incurred. The related costs and accumulated depreciation are eliminated from the accounts when an asset is sold or retired and the resultant gain or loss is credited or charged to income.

Foreclosed Real Estate and Other Repossessed Assets

Foreclosed real estate and other repossessed assets are initially recorded at the estimated fair value, net of estimated selling costs, and subsequently at the lower of carrying cost or fair value less estimated costs to sell. Costs relating to holding such property are charged against income in the current period, while costs relating to improving such real estate are capitalized until a salable condition is reached. At June 30, 2008 and 2007, the Company had other repossessed assets of $7,000 and $5,000. respecti vely.

Deferred Income Taxes

Deferred income taxes are recognized, with certain exceptions. for temporary differences between the financial reporting basis and income tax basis of assets and liabilities based on enacted tax rates expected to be in effect when such amounts are realized or settled. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based on consideration of available evidence, including tax planning strategies and other factors. The effects of changes in tax laws or rates on deferred tax assets and liabilities are recognized in the period that includes the enactment date.

Earnings per Share of Common Stock

Basic earnings per share amounts are based on the weighted average shares of common stock outstanding. Diluted earnings per share assume the conversion. exercise or issuance of all potential common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. No adjustments were made to net income (numerator) for all periods presented.

	Year Ended			
(in thousands, except per share data)	June 30, 2008		June 30, 2007	
	Basic	Diluted	Basic	Diluted
Net income	$1,377	$1,377	$1,185	$t,185
Weighted average common shares outstanding	1,914	1,914	t,906	1,906
Diluted securities:				
Stock options		16		48
Adjusted weighted average shares	1,914	1,930	1,906	1,954
Per share amount	$0.72	$0.71	$0.62	$0.61

Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123 (revised), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). SFAS 123(R) requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides services in exchange for the award. The Company adopted effective July 1, 2006, the new standard using the modified prospective method. Under the modified prospective method, companies are required to record compensation cost for new and modified awards over the related vesting period of such awards prospectively, and to record compensation cost prospectively on the non-vested portion, at the date of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards. No change to prior periods presented is permitted under the modified prospective method. The Company recognized a pre-tax expense of approximately $5,600 in the quarter ending September 30, 2006 for the expense related to the final scheduled vesting of all outstanding stock option awards. Any additional impact of adopting the new accounting standard will be detennined by share-based payments granted in future periods.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be incIoded in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the statement of financial condition, such items, along with net income are components of comprehensive income.

Goodwill and Intangible Assets

Goodwill is not amortized, but rather is tested for impairment on an annual basis at the reporting unit level, which is either at the same level or one level below an operating segment. Other acquired intangible assets with finite lives, such as purchased customer accounts, are required to be amortized over their estimated lives which for the Company is 10 years. The Company periodically assesses whether events or changes in circumstances indicate that the carrying amounts of goodwill and other intangible assets may be impaired.

Intangible assets were composed of the following:

(Dollars in Thousands)	June 30, 2008		June 30, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	$2,954	$ -	$2,954	$ -
Amortizable intangible assets, acquisition of deposit accounts	$ 516	$ 219	$ 516	$ 168

Amortization expense was $51,000 for each year presented and is expected to be $51,000 annually until the year ended June 30, 2014 when the amortization expense will be $42,000.

Advertising Costs

The Company expenses advertising costs as they are incurred.

Segment Reporting

The Company acts as an independent community financial services provider, and offers traditional banking and related financial services to individual, business and government customers. Through its branch and automated teHer machine networks, the Bank offers a full array of commercial and retail financial services, including taking of time, savings and demand deposits; the making of commercial, consumer and mortgage loans; and the providing of other financial services.

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail, and mortgage operations of the Bank. As such, discrete financial information is not available and segment reporting would not be meaningful.

Reclassiticadon

Certain prior year's amounts have been reclassified to conform to the current year's presentation.

Guarantees

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. GeneraHy, all letters of credit, when issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Company, generally, holds collateral andlor personal guarantees supporting these commitments. The Company had $2,055,000 and $1,749,000 of standby letters of credit as of June 30, 2008 and June 30, 2007, respectively. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of June 30, 2008 and June 30, 2007 for guarantees under standby letters of credit issued is not material.

OfT Balance Sheet Arrangements

In the ordinary course of business, the Company has entered into commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when funded.

New Accounting Pronouncements

FASB Statement No. 141(R)

FASB statement No. 141 (R) "Business Combinations" was issued in December of 2007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolIing interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. The impact to the Company is dependent upon acquisitions consummated after the effective date.

SAB lID

Staff Accounting Bulletin No. 110 (SAB 110) amends and replaces Question 6 of Section D.2 of Topic 14, "Share-Based Payment," of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the "simplified" method in developing an estimate of expected term of "plain vanilla" share options and allows usage of the "simplified" method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. SAB 110 is effective January 1, 2008.

FSP 157-2

In December 2007, the FASB issued FASB Staff Position (FSP) 157-2, "Effective Date of FASB Statement No. 157," that permits a one-year deferral in applying the measurement provisions of Statement No. 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annualIy). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of Statement 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, which the adoption of FSP 157-2 will have on the Company's operating income or net earnings.

EITF06-11

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-II, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). EITF 06-II states that an entity should recognize a realized tax benefit associated with dividends on nonvested equity shares, nonvested equity share units and outstanding equity share options charged to retained earnings as an increase in additional paid in capital. The amount recognized in additional paid in capital should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The Company expects that EITF 06-11 will not have an impact on its consolidated financial statements.

FSP FAS 142-3

In April 2008, the FASB issues FASB Staff Position ("FSP") FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142"). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, and other GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15,2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

FASB Statement No. 157

In September 2006, the Financial Accounting Standards Board issued FASB No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value ullder Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. Effective July 1,2008, the Company adopted FASB Statement No. 157 without material impact to the consolidated financial statements.

FASB Statement No. 159

In February 2007, the Financial Accounting Standards Board issued FASB No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." *SFAS* No. 159

permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. The Company adopted SPAS No. 159 on July 1,2008 and did not elect the fair value option for any financial assets or financial liabilities at that time.

(2) Securities Available for Sale

Investment securities, classified as available for sale, are summarized as follows as of June 30:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		2008		
Corporate Bonds	$ 2,977	$ -	$ 60	$ 2,917
U.S. Government agencies	1,500	1		1,501
Mortgage-backed securities	5,434	9	260	5,183
	$ 9,911	$10	$ 320	$ 9,601
		2007		
Corporate Bonds	$ 2,000	$ -	$ 87	$ 1,913
U.S. Government agencies	4,746		70	4,676
Mortgage-backed securities	6,911	5	358	6,558
	$13,657	$ 5	$ 515	$13,147

The scheduled maturities of investments available for sale at June 30, 2008 are as follows:

(In thousands)	2008 Amortized Cost	Fair Value
Due in less than one year	$ 1,500	$ 1,499
Due in one to five years	1,000	991
Due after five through ten years	3,899	3,403
Due after ten years	3,512	3,708
	$ 9,911	$ 9,601

There were no sales of securities in fiscal 2008. The Company sold $92,000 of equity securities in the year ended June 30, 2007. No gain or loss was recognized.

The following table shows the Company's investment securities gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2008.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
Corporate Bonds	$ 974	$ (3)	$ 1,943	$ (57)	$ 2,917	$ (60)
Mortgage-backed securities	790	(12)	3,697	(248)	4,487	(260)
Total Temporarily Impaired Securities	$1,764	$ (15)	$ 5,640	$ (305)	$7,404	$ (320)

At June 30, 2008, the Company had 9 securities in an unrealized loss position. Unrealized losses detailed above relate primarily to U.S. Government agency mortgage-backed securities issued by FNMA, FHLMC, and GNMA. The decline in fair value is considered temporary and is primarily due to interest rate fluctuations and the reduced liquidity in mortgage-backed securities issued by FNMA and FHLMC. The Company has the intent and ability to hold such investments until maturity or market price recovery. None of the individual unrealized losses are significant.

The following table shows the Company's investment securities gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2007.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
U.S. Government agencies	$	$	$ 4,676	$ (70)	$ 4,676	$ (70)
Corporate Bonds			1,913	(87)	1,913	(87)
Mortgage-backed securities	1,097	(13)	5,319	(345)	6,416	(358)
Total Temporarily Impaired Securities	$ 1,097	$ (13)	$ 11,908	$ (502)	$ 13,005	$ (515)

(3) Loans Receivable

Loans receivable are summarized as follows as of June 30:

(In /hourondr)	2008	2007
Real estate secured by first mortgage:		
Residential	$ 69,953	$ 74,332
Commercial	41,316	36,302
Construction, net of loans in process	29,878	23,907
	141,147	134,541
Home improvement loans	12,688	12,481
Home equity loans	5,341	4,964
Other consumer loans	.2,893	2,955
Commercial loans	53,453	52,711
Commercial leases	17,714	17,366
	233,236	225,018
Less:		
Deferred loan origination fees, net of costs	201	240
Unearned interest-consumcr loans	1,068	1,147
Unearned interest-commercialleases	2,779	2,480
Purchase accounting premium, net	(160)	(198)
Allowance for loan losses	1,834	1,110
Loans receivable, net	$227,514	$220,239

The purchase accounting premium results from the April 2004 acquisition of Parkville Federal Savings Bank. The purchase premium was determined by comparing the fair values of the loans purchased to their carrying values on the books of the acquired entity, before consideration of uncollectibility. Fair values were determined through the use of a discounted cash-flow analysis. The premium is being amortized against interest income using the level-yield method.

The total recorded investment in impaired loans was $4,083,000 and $482,000 at June 30, 2008 and 2007 respectively. The recorded investment in the impaired loans at June 30, 2008 June 30, 2007 which have a related allowance for losses was $166,000 and $482,000, respectively. Average recorded investment in impaired loans during 2008 and 2007 was $1,749,000 and $389,000, respectively. There was an allocated allowance for losses related to those loans of $66,000 and $200,000 at June 30, 2008 and 2007, respectively. The amount of interest that would have been recorded on non-accrual loans at June 30, 2008 and 2007, respectively had the loans performed in accordance with their terms was approximately $197,000 and $41,000, respectively. The Company is obligated to lend additional monies totaling $288,000 pertaining to the aforementioned impaired and non-accrual loans at June 30,2008.

Loans on which the accrual of interest has been discontinued amounted to $2,533,000 and $482.000 at June 30. 2008 and 2007, respectively. The Company had no loan balances past due 90 days or more accruing interest at June 30.2008 and 2007.

The activity in the allowance for loan losses is summarized as follows for the years ended June 30:

(In thousands)	2008	2007
Balance at beginning of year	$ 1,110	$ 1,000
Provision for losses on loans	1,920	430
Charge-offs	(1,289)	(476)
Recoveries	93	156
Balance at end of year	$ 1,834	$ 1,110

Commitments to extend credit are agreements to lend to customers, provided that terms and conditions of the commitment are met Commitments are generally funded from loan principal repayments, excess liquidity and savings deposits. Since certain of the commitments may expire without being drawn upon. the total commitment amounts do not necessarily represent future cash requirements.

Substantially all of the Company's outstanding commitments at June 30, 2008 and 2007 are for loans, which would be secured by various forms of collateral with values in excess of the commitment amounts. The Company's exposure to credit loss under these contracts in the event of non-performance by the other parties, assuming that the collateral proves to be of no value. is represented by the commitment amounts.

Outstanding commitments to extend credit are as follows:

	June 30,2008	
(In thousands)	Fixed rate	Floating rate
Commercial business and lease loans	$ 6.222	$ 0
Real estate loans	2.356	11,509
Undisbursed lines of credit	1,524	10,263
	10,102	21,772

	June 30, 2007	
Commercial business and lease loans	$ 2.910	$ O
Real estate loans	4,894	11,648
Undisbursed lines of credit	1,743	13,166
	9,547	24,814

Standby letters of credit are conditional commitments issued by Patapsco to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Patapsco holds collateral supporting those commitments for which collateral is deemed necessary.

As of June 30, 2008 and June 30, 2007, Patapsco had outstanding letters of credit of $2,055,000 and $1,749,000, respectively.

As of June 30, 2008 and 2007, Patapsco was servicing loans for the benefit of others in the amount of $20,668,000 and $12,214,000, respectively. These balances represent commercial and commercial real estate participations sold.

No servicing assets or liabilities have been recognized on these transactions as the Company has determined that the benefits of servicing are just adequate to compensate the servicer for its servicing responsibilities.

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, officers, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms including interest rates and collateral, as those prevailing at the time for comparable transactions with others. The following table presents a summary of the activity of loans receivable from related parties:

(in thousands)	At June 30, 2008	At June 30, 2007
Beginning balance	$ 123	$ 220
New loans or draws on existing loans	325	64
Loan repayments	(125)	(18)
Change in related party classification		(143)
Ending balance	$ 323	$ 123

(4) Property and Equipment

Property and equipment are summarized as follows at June 30:

(In thousands)	2008	2007	Estimated Useful lives
Land	$ 152	$ 152	
Building and improvements	4,507	4,490	30 - 40 years
Leasehold improvements	238	238	3 - 10 years
Furniture, fixtures and equipment	3,038	2,999	3 - 10 years
Total, at cost	7,935	7,879	
Less accumulated depreciation	3,757	3,405	
Property and equipment, net	$ 4,178	$ 4,474	

Rent expense was $219,000 and $270,000 in the years ended June 30, 2008 and June 30, 2007, respectively.

At June 30, 2008, the minimal rental commitments under noncancellable operating leases are as follows:

Year ending June 30,	
2009	$ 180,000
2010	163,000
2011	161,000
2012	157,000
2013	155,000
Thereafter	2.306,000
	$3 122000

PATAPSCO BANCORP, INC. AND SUBSIDIARffiS
Notes to Consolidated Financial Statements
June 30, 2008 and 2007

(5) Deposits

The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of $100,000, was approximately $27,922,000 and $23,818,000 at June 30, 2008 and 2007, respectively.

At June 30, 2008, the scheduled maturities of certificates of deposit are as follows:

(In thousands)

Twelve months ending June 30,	
2009	$ 89,526
2010	13,615
2011	9,325
2012	4,551
2013	1,137
Thereafter	350
	$ 118,504

(6) Borrowings

At June 30, 2008 and 2007, the Company has an agreement under a blanket-floating lien with the Federal Home Loan Bank of Atlanta providing the Company a line of credit of $50.5 million and $63.6 million, respectively. Borrowings totaled $37.3 million and $38.8 million at June 30, 2008 and 2007, respectively. The Company is required to maintain as collateral for its FHLB borrowings qualified mortgage loans in an amount equal to 133% of the outstanding advances. At June 30, 2008, and 2007 the Bank has a Federal Funds accommodation with the Silverton Bank of Atlanta, GA of $5.1 million. As of June 30, 2008 and 2007, there were no balances outstanding on this line. At June 30, 2008 and 2007, all borrowings are at fixed rates.

At June 30, the scheduled maturities of borrowings are as follows:

(In thousands)	2008		2007	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Under 12 months	$17,500	4.95%	$9,700	4.81%
12 months to 24 months	5,700	2.53	4,000	4.71
24 months to 36 months	5,100	5.57		
36 months to 48 months			5,100	5.57
48 months to 60 months				
60 months to 120 months	9,000	4.09	20,000	4.33
	$37,300	4.46%	$ 38,800	4.65%

The borrowings from the Federal Home Loan Bank of Atlanta with conversion or call features at June 30, 2008 are detailed below:

Balance		Maturity	Call\Conversion feature
$ 3,000,000	5.26%	04/21/2009	Callable on 07/22/08 and every three months thereafter
5,100,000	5.57	11117/2010	Callable every three months
6,000,000	4.24	11118/2015	Callable on 11118/08 and every three months thereafter

(7) Junior Subordinated Debentures

On October 31, 2005, Patapsco Statutory Trust I, a Connecticut statutory business trust and an unconsolidated wholly-owned subsidiary of the Company, issued $5 million of capital trust pass-through securities to investors. The interest rate is fixed for the first seven years at 6.465%. Thereafter, the interest rate adjusts on a quarterly basis at the rate of the three month UBOR plus 1.48%. Patapsco Statutory Trust I purchased $5,155,000 of junior subordinated deferrable interest debentures from Patapsco Bancorp. The debentures are the sole asset of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. Patapsco Bancorp has also fully and unconditionally guaranteed the obligations of the Trust under the capital securities. The capital securities are redeemable by Patapsco Bancorp on or after October 31, 2010, at par. The capital securities must be redeemed upon final maturity of the subordinated debentures on December 31, 2035. The funds are available to make capital contributions to the Bank and for other corporate purposes.

(8) Income Taxes

The provision for income taxes is composed of the following for the years ended June 30:

(In thousands)	2008	2007
Current:		
Federal	$1,012	$645
State	195	172
Total Current Income Tax Expense	1,207	817
Deferred:		
Federal	(342)	(74)
State	(90)	(16)
Total Deferred Income Tax Expense/(Benefit)	(432)	(90)
Total Income Tax Expense	$775	$727

The net deferred tax assets consist of the following at June 30:

(In thousands)	2008	2007
Unrealized losses on securities available for sale	$122	$197
Allowance for losses on loans and leases	723	429
Reserve for uncollectable interest	66	1
Deferred compensation	288	242
Other	8	4
Total deferred tax assets	1,207	873
Purchase accounting adjustment	(198)	(219)
Federal Home Loan Bank stock dividends	(168)	(164)
Depreciation	(37)	(42)
Other		(1)
Total deferred tax liabilities	(403)	(426)
Net deferred tax assets	$804	$447