begins after September 15,2006. Management does not believe the adoption of SFAS No. 155 will have a material impact on the Company's consolidated fmancial position and results of operations.

Iii March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets — An Amendment of FASB Statement No. 140" ("SFAS 156"). SFAS No. 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fafr value, jf practicable. The statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins aftet September 15, 2006. The Company does not believe that the adoption of SFAS No. 156 will have a significant effect on its consolidated fmancial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FAsB Statement No. I 09" (FIN 48), which clarifies the accounting for uncertainty in taxpositions, This Interpretation requires that companies recognize in their financial statements the impact of a tax position" if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN, 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded1lS an adJustment to opening retained eanungs, The Company does not believe that the adoption of FIN 48 will have a significant effect on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity operates. This Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted, The Company does not expect that the adoption of this Statement will have a materialimpact on its financial position, results of operations or cash flows.

At its September 2006 meeting, the Emerging Issues Task Force ("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 SFAS No. 106 or Accounting Principles Board Opinion ("APB"), No,)2, "Omnibus Opinion -.1967." The consensus concludes that the purchase of a split-dollar,l.ife 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 NOI, 12, if it is not part of a plan, Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007. The Company is currently assessing the fmancialstatementdmpact.ofimplementing EITF 06-04.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". This statement permits entities to choose, at specified dates, to measure eligible items at fair value; This election is referred to as the fair value option and must generally be applied on an instrument by instrument basis; is irrevocable, unless a new election occurs; and is applied only to an entire instrument, not to only specified risks, specific cash flows, or portions of an instrument. A business entity that elects the fair value option, must report any unrealized gains and losses on the items involved, in earnings at each subsequent repqrting date. The statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The effective date of SFAS No. 159 is for fiscal years beginning after November 15, 2007 unless early adoption is elected. The Company does not expect that the adoption of this Statement will have a material impact on its financial position.

(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
			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

(In thousands)				
			2006	
Equity securities				
Corporate Bonds				
U.S. Government agencies				
Mortgage-backed securities				
	$11,315	$ 12	$ 720	$ 16,667

Mortgage-backed securities are allocated based on scheduled maturities. The scheduled maturities of investments available for sale at June 30, 2007 are as follows:

(In thousands)	2007 Amortized Cost	Fair Value
Due in less than one year	$ 1,000	$ 998
Due in one to five years	3,496	3,416
Due after five through ten years	3,075	2,930
Due after ten years	6,086	5,801
	$ 13,657	$13,147

The Company sold $92,000 of equity securities in the year ended June 30, 2007. No gain or loss was recognized, In fiscal year 2006, the Company received $302,000 from the sale of a corporate bond resulting in a gross realized gain of $2,000. There were no securities sold in 2005.

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)

At June 30, 2007, the Company had 15 securities in an unrealized loss position. Unrealized losses detailed above relate primarily to investment grade corporate securities and mortgage-backed securities issued by FNMA, FHLMC and GNMA. The decline in fair value is considered temporary and is due only to interest rate fluctuations. 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 9ftime.that **individual securities** have been in a continuous unrealized loss position,atJune30,20D6"';r.·

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
		$ —	$ 6,559	$190	$ 6,559	$190
			1,903	97	1,903	97
		32	5,963	401	7,939	433
		$32	$14,425	$688	$16,401	$720

At **June 30, 2006, the Company had 17 securities in an unrealized loss** position: **Unrealized losses detailed above** relate **primarily to U.S. Government agency debt and mortgage-backed securities. The decline in fair** value 'is **considered** temporary and is due only to interest rate fluctuations. 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.

:,(3) Loans Receivable

Loans **receivable** are **summarized as follows as** of June 30:

	2007	2006
Home improvement loans	12,481	11,442
Home equity loans	4,964	4,400
Other Consumer loans	2,955	2,483
Commercial loans	52,711	34,827
Commercial leases	17,366	21,409
	225,018	**198,879**
Less:		
Deferred loan origination **fees,** net **of** costs,	240	178
Unearned interest **consumer loans**	1,147	1,245
Unearned interest commercial leases	2,480	'6,091
Purchase accounting premium, net	(198)	(224)
AUowance for loan losses	1,110	1,000
Loans receivable, net	$220,239'	**$190,589**

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 lotheir carrying values **on the books** of the acquired **entity,** before consideration ofuncollectibility. Fair values were determined through the use **of a discounted cash-flow** analysis; The premium',is being amortizedagainst **interest income using the level-yield** metho.:d;

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The total recorded investment in impairedJoans was $972;000, $244,000 and$38,OOO;at June 30, 2007, 2006 and 2005 respectively: Average recorded investment in impaired loans during 2007, 2006 and 2005 was $877;000, $169,000, and $560,000, respectively. There was an allocated allowance for; losses related"to those loans' of $200,000, $169,000, and $35,000 at)une 30, 2007, 2006 and 2005, respectively. The amount of interest that would have'been recorded on non-accrual loans at June 30, 2007, 2006 and 2005, respectively had the loans performed in :accordancc' with, their terms was approximately $41,000, S42,000and $4,000, respectively. The actual: interest income, recorded on these loans during 2007, 2006 and 2005 was $'I64,000;,$17,OOQ'and $3,000, respectively. The Company is not obligated:to lend' any additiona,J'monies pertaining 'to the aforementioned impaired 'and non-accrual loans,

Loans on which the accrual of interest has been discontinued amounted to $482,000, $244,000, and $38,000 at June 30, 2007, 2006, and 2005, respectively. The Company had no loan balances past due 90 days or more accruing interest at June 30, 2007, 2006 and 2005.

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

(In thousands)	:Z007	2006	2005
Balance at beginning of year	SI,OOO	$ 945	$ 936
Provision for losses on loans	430	65	225
Charge-offs	(476)	(186)	(332)
Recoveries	156	176	116
Balance at end of year	$1,110,	$1,000	$ 945

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, 2007 and 2006 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 ate as follows:

(In thousands)	June 30, 2007	
	Fixed rate	Floating rate
Commeroial business and lease loans	$2,910	$
Real Estate Loans'	4,894	11,648
Undisbursed lines of credit	1,743	13,166
	June 30, 2006	
Commercial business and lease loans	$9,539"	$ 100
Real Estate Loans	265	3,956
Undisbursed lines of credit	1,940"'	9,221

At June 30, 2007, the range of interest rates for fixed rate loan commitments was 6.50% -12.92%. At June 30, 2006, the range ofinterest rates for fIXed rate loan commitments was 7.00% -11.74%.

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, 2007 and 2006, Patapsco had outstanding letters of credit of $1;749,000 and $1,583,000, 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, 2007 and June 30, 2006 for guarantees under standby letters of credit issued is not material.

(5)

As of June 30, 2007, 2006 and 2005, Patapsco was servicing loans for the benefit of others in the amount of $12,214,000, $5,710,000, and $7,067,000, 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)	June 30, 2007	2006
Beginning balance	$ 220	$ 31
New loans or draws on existing loans	64	220
Loan repayments	(18)	(31)
Change in related party classification	(143)	-
Ending balance	$123	$220

(4) Property and Equipment

(6)

Property and equipment are summarized as follows at June 30:

(In thousands)	2007	2006	Estimated Useful lives
Land	$ 152	$ 188	
Building and improvements	4,490	2,100	30 - 40 years
Leasehold improvements	238	238	3 - 10 years
Furniture, fixtures and equipment	2,999	2,738	3 - 10 years
Total, at cost	7,879	5,264	
Less accumulated depreciation	3,405	3,089	
Property and equipment, net	$ 4,474	$ 2,175	

Rent expense was $270,000, $325,000 and $105,000 in the years ended June 30, 2007, 2006 and 2005, respectively.

At June 30, 2007, the minimal rental commitments under noncancellable operating leases are as follows:

Year ended June 30,	
2008	$181,000
2009	175,000
2010	161,000
2011	161,000
2012	157,000
Thereafter	2,449,000
	$3,284,000

(5) Deposits

The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of $100,000, was approximately $23,818,000 and $19,559,000 at June 30, 2007 and 2006"respectively.

At June 30, 20()7, the scheduled maturities of certificates of deposit are as follows:

(In thousands)

Twelve months ended June 30,	
2008	$ 75,357
2009	12,098
2010	11,302
2011	8,897
2012	4,978
Thereafter	119
	$112,751

The components of interest expense are as follows:

(In thousands)	Year ended June 30,		
	2007	2006	2005
Now Checking	$ 25	$ 16	$ 37
Savings accounts	96	123	148
Money Market Accounts	737	432	300
Certificates of Deposit	4,600	2,915	2,333
Total	$5,458	$3,486	$2,818

(6) Borrowings

At June 30, 2007 and 2006, 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 $63.6 million and $57.2 million, respectively. Borrowings totaled $38.8 million and $35.1 million at June 30, 2007 and 2006 respectively. The Company is requited to maintain as collateral for its FHLB borrowings qualjfied mortgage loans. in an amount equal to 120% of the outstanding 'advances: At June 30, 2007 and 2006 the Bank has a Federal Funds acconuDodation with the Bankers Bank of Atlanta, GA of $5.1 miUion of which no amounls wereoutstanding. At June 30, 2007 and 2006, all borrowings lire at fIXed rates.

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

	2007		2006	
(In thousands)	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Under 12inonths	$ 9,700	4.81%	$ 4,250	3.11%
12 months to 24months	4,000	4.71	1,700	2.71
24 months to 36 months			4,000	4.71
36 months to 48 months	5,100			
48 months to 60 months			5,100	5.57
60 months to 120 months	20,000	4.33	20,000	4.33
	$38,800	4.65%	$35,050	4.33%

begins after September 15,2006. Management does not believe the adoption of SFAS No. 155 will have a material impact on the Company's consolidated fmancial position and results of operations.

Iii March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets — An Amendment ofFASB Statement No. 140" ("SFAS 156"). SFAS No. 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fafr value, jf practicable. The statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that beginsaftet September 15, 2006, The Company does not believe that the adoption of SFAS No. 156 will have a significant effect on its consolidated fmancial statements.

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In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity operates. This Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted, The Company does not expect that the adoption of this Statement will have a materialimpact on its financial position, results of operations or cash flows.

At its September 2006 meeting, the Emerging Issues Task Force ("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 SFAS No. 106 or Accounting Principles Board Opinion ("APB"), No,)2, "Omnibus Opinion -.1967." The consensus concludes that the purchase of a split-dollar,l.ife 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 NOI, 12, if it is not part of a plan, Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007. The Company is currently assessing the fmancialstatementdmpact.ofimplementing EITF 06-04.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". This statement permits entities to choose, at specified dates, to measure eligible items at'fair value; This election is referred to as the fair value option and must generally be applied on an instrument by instrument basis; is irrevocable, unless a new election occurs; and is applied only to an entire instrument, not to only specified risks, specific cash flows, or portions of an instrument. A business entity that elects the fair value option, must report any unrealized gains and losses on the items involved, in earnings at each subsequent repqrting date. The statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The effective date of SFAS No. 159 is for fiscal years beginning after November 15, 2007 unless early adoption is elected. The Company does not expect that the adoption of this Statement will have a material impact on its financial position.

(2) **Securities Available for Sale**

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

(In thousands)	2007			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair value
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

(In thousands)	2006			
Equity securities				
Corporate Bonds				
U.S. Government agencies				
Mortgage-backed securities				
	$11,315	$ 12	$ 720	$ 16,667

Mortgage-backed securities are allocated based on scheduled maturities. The scheduled maturities of investments available for sale at June 30, 2007 are as follows:

(In thousands)	2007 Amortized Cost	Fair Value
Due in less than one year	$ 1,000	$ 998
Due in one to five years	3,496	3,416
Due after five through ten years	3,075	2,930
Due after ten years	6,086	5,801
	$ 13,657	$13,147

The Company sold $92,000 of equity securities in the year ended June 30, 2007. No gain or loss was recognized. In fiscal year 2006, the Company received $302,000 from the sale of a corporate bond resulting in a gross realized gain of $2,000. There were no securities sold in 2005.

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.

(In Thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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)

At June 30, 2007, the Company had 15 securities in an unrealized loss position. Unrealized losses detailed above relate primarily to investment grade corporate securities and mortgage-backed securities issued by FNMA, FHLMC and GNMA. The decline in fair value is considered temporary and is due only to interest rate fluctuations. 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, 2006:

	Less than 12 Months		**12 Months** or **More**		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(In Thousands)			
		$ —	$ 6,559	$190	$ 6,559	$190
			1,903	97	1,903	97
		32	5,963	401	7,939	433
		$32	$14,425	$688	$16,401	$720

At **June 30, 2006, the Company had 17 securities in an unrealized loss** position: **Unrealized losses detailed above** relate **primarily to U.S. Government agency debt and mortgage-backed securities. The decline in fair** value is **considered** temporary and is due only to interest rate fluctuations. 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.

(3) Loans Receivable

Loans **receivable** are **summarized as follows as** of June 30:

	2007	**2006**
Home improvement loans	**12,481**	**11,442**
Home equity loans	**4,964**	**4,400**
Other Consumer loans	2,955	**2,483**
Commercial loans	**52,711**	**34,827**
Commercial leases	**17,366**	**21,409**
	225,018	**198,879**
Less:		
Deferred loan origination **fees,** net **of** costs	240	178
Unearned interest **consumer loans**	**1,147**	1,245
Unearned interest commercial leases	**2,480**	6,091
Purchase accounting premium, net	**(198)**	(224)
Allowance **for** loan losses	1,110	1,000
Loans receivable, net	$220,239	**$190,589**

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.

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The total recorded investment in impairedJoans was $972;000, $244,000 and$38,OOO;at June 30, 2007, 2006 and 2005 respectively: Average recorded investment in impaired loans during 2007, 2006 and 2005 was $877;000, $169,000, and $560,000, respectively. There was an allocated allowance for; losses related"to those loans' of $200,000, $169,000, and $35,000 at)une 30, 2007, 2006 and 2005, respectively. The amount of interest that would have'been recorded on non-accrual loans at June 30, 2007, 2006 and 2005, respectively had the loans performed in :accordancc' with, their terms was approximately $41;000, S42,000and $4,000, respectively. The actual: interest income, recorded on these loans during 2007, 2006 and 2005 was $'I64,000;,$17,OOQ'and $3,000, respectively. The Company is not obligated:to lend' any additiona,J'monies pertaining 'to the aforementioned impaired 'and non-accrual loans,

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Loans on which the accrual of interest has been discontinued amounted to $482,000, $244,000, and $38,000 at June 30, 2007, 2006, and 2005, respectively. The Company had no loan balances past due 90 days or more accruing interest at June 30, 2007, 2006 and 2005.

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

(In thousands)	:Z007	2006	2005
Balance at beginning of year	SI,OOO	$ 945	$ 936
Provision for losses on loans	430	65	225
Charge-offs	(476)	(186)	(332)
Recoveries	156	176	116
Balance at end of year	$1,110,	$1,000	$ 945

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, 2007 and 2006 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 ate as follows:

(In thousands)	June 30, 2007 Fixed rate	Floating rate
Commeroial business and lease loans	$2,910	$
Real Estate Loans'	4,894	11,648
Undisbursed lines of credit	1,743	13,166
	June 30, 2006	
Commercial business and lease loans	$9,539"	$ 100
Real Estate Loans	265	3,956
Undisbursed lines of credit	1,940"'	9,221

At June 30, 2007, the range of interest rates for fixed rate loan commitments was 6.50% -12.92%. At June 30, 2006, the range ofinterest rates for fIXed rate loan commitments was 7.00% -11.74%.

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, 2007 and 2006, Patapsco had outstanding letters of credit of $1;749,000 and $1,583,000, 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, 2007 and June 30, 2006 for guarantees under standby letters of credit issued is not material.

As of June 30, 2007, 2006 and 2005, Patapsco was servicing loans for the benefit of others in the amount of $12,214,000, $5,710,000, and $7,067,000, 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,

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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)	June 30, 2007	2006
Beginning balance	$ 220	$ 31
New loans or draws on existing loans	64	220
Loan repayments	(18)	(31)
Change in related party classification	(143)	-
Ending balance	$123	$220

(4) **Property and Equipment**

Property and equipment are summarized as follows at June 30:

(In thousands)	2007	2006	Estimated Useful lives
Land	$ 152	$ 188	
Building and improvements	4,490	2,100	30 - 40 years
Leasehold improvements	238	238	3 - 10 years
Furniture, fixtures and equipment	2,999	2,738	3 - 10 years
Total, at cost	7,879	5,264	
Less accumulated depreciation	3,405	3,089	
Property and equipment, net	$ 4,474	$ 2,175	

(6)

Rent expense was $270,000, $325,000 and $105,000 in the years ended June 30, 2007, 2006 and 2005, respectively.

At June 30, 2007; the minimal rental commitments under noncancellable operating leases are as follows:

Year ended June 30,	
2008	$181,000
2009	175,000
2010	161,000
2011	161,000
2012	157,000
Thereafter	2,449,000
	$3,284,000

PATAPSCO BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

Years ended June 30, 2006 and 2005

(in thousands)	2005
Cash flows from operating activities:	
Net income	$1,346
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	271
Provision for losses on loans	225
Non-cash compensation under stock-based benefit plans	48
Income tax benefit from exercise of stock options	45
Amortization of core deposit intangible	51
Amortization of premiums and discounts, net	(5)
Income from bank-owned life insurance	(59)
Amortization of deferred loan origination fees, net of costs	(105)
Gain on sale of securities available for sale	
Gain on sale of office building	
Decrease in accrued interest and other assets	80
Increase (decrease) in accrued expenses and other liabilities	(371)
Net cash provided by operating activities	$1,526
Cash flows from investing activities:	
Proceeds from maturing time deposit investments	293
Purchase of securities available for sale	(2,006)
Proceeds from sale of securities available for sale	
Proceeds from maturing securities available for sale and principal payments on mortgage-backed securities available for sale	6,653
Loan principal disbursements, net of repayments	(9,825)
Purchase of consumer loans	
(Increase) decrease in investment required by law	83
Cash received in sale of premises and equipment	
Purchases of property and equipment	(241)
Net cash used in investing activities	$ (5,043)
Cash flows from financing activities:	
Net increase (decrease) in deposits	$ (3,627)
Net increase (decrease) in advance payments by borrowers	(127)
Proceeds from long-term borrowings	2,000
Repayments of long-term borrowings	(4,667)
Proceeds from the issuance of junior subordinated debentures	
Cash received in exercise of stock options	47
Repurchase of common stock due to ESOP put options	(105)
Dividends paid	(500)
Repurchase of preferred stock	
Net cash (used in) provided by financing activities	(6,979)
Net increase (decrease) in cash and cash equivalents	(10,496)
Cash and cash equivalents at beginning of year	18,144
Cash and cash equivalents at end of year	$ 7,648

Supplemental cash flow information:		
Interest paid	$ 4,940	$ 3,735
Income taxes paid	790	656
Non-cash equity transactions:		
Conversion of preferred shares to common - 91,297 preferred into 363,878 common and 4,345 preferred into 17,348 common in the twelve months ended June 30, 2006 and 2005, respectively.	2,281	109

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation and Summary of Significant Accounting Policie.s

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 fmance leases. The primary business of Financial is the sale of consumer investment products.

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 $2.5 million.

The Company's residential lending operations are focused in the State of Maryland, primarily the 6altimore 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 and interest bearing deposits in other financial institutions.

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-for-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, 2006 and 2005.

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 fmancial 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, 2006 and 2005, respectively.

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 collectibility 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 nonaccrual 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 collectibility 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 collectibility of the total contractual principal and interest is no longer in doubt.

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 detennined through careful evaluation of the Joan 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 Joan'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 andlor 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. There were no foreclosed real estate or other repossessed assets at either June 30, 2006 or June 30, 2005, respectively.

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.

(in thousands, except per share data)	Year ended			
	June 30, 2006		June 30, 2005	
	Basic	Diluted	Basic	Diluted
Net income	$ 1,388	$ 1,388	$ 1,346	$ 1,346
Preferred Stock Dividends	123		177	
Net Income Available to Common Stock	$ 1,265	$ 1,388	$ 1,169	$ 1,346
Weighted average common shares outstanding	1,573	1,573	1,441	1,441
Diluted securities:				
Convertible preferred stock	N/A	265	N/A	374
Stock options	N/A	81	N/A	108
Adjusted weighted average shares	1,573	1,919	1,441	1,923
Per share amount	$0.80	$0.72	$0.81	$0.70

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 I23(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 will adopt 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 will recognize 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.

Statement 123 allowed companies to account for stock-based compensation either under the new provisions of Statement 123 or under the provisions of Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, but required pro forma disclosure in the footnotes to the financial statements as if the measurement provisions of Statement 123 had been adopted. The Company accounted for its stock-based compensation in accordance with APB 25, through June 30, 2006.

Statement 123, "Accounting for Stock-Based Compensation", required the Company to make certain disclosures as if the fair value method of accounting had been applied to the Company's stock option grants made subsequent to 1994. Accordingly, no stock option based employee compensation cost is reflected in net income, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of Statement 123.

(in thousands, except per share data)

	Year Ended June 30,	
	2006	2005
Net Income as reported	$ 1,388	$ 1,346
Amounts recognized as expense in fmancial statements, net of related tax effects	22	30
Deduct: Total stock option based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(28)	(57)
Proforma Net Income	$ 1,382	$ 1,319
Earnings per share:		
Basic - as reported	$0.80	$0.81
Basic - pro forma	$0.80	$0.79
Diluted - as reported	$0.72	$0.70
Diluted - pro forma	$0.72	$0.69

The Company granted no options in the years ended June 30, 2006 or June 30, 2005.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included 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

Effective July 1,2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 revised the accounting for purchased intangible assets and, in general, 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. Prior to July I. 2002, substantially all of the Company's goodwill was amortized using the straight-line method over IS years. 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.

In accordance with the provisions of SFAS No. 142, the Company continues to amortize other intangible assets over the estimated remaining life of each respective asset. Amortizable intangible assets were composed of the following:

PATAPSCO BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

(Dollars in Thousands)	June 30, 2006		June 30, 2005	
	Gross Carrying Amount	Accwnulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets, acquisition of deposit accounts	$516	$116	$516	$65
Aggregate amortization expense:				
For the year ended June 30, 2006	$51		$51	
Estimated amortization expense:				
For the year ending June 30, 2007	$51		$51	
For the year ending June 30, 2008	51		51	
For the year ending June 30, 2009	51		51	
For the year ending June 30,2010	51		51	
For the year ending June 30, 20II	51		51	

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 [mancial services to individual, business and government customers. Through its branch and automated teller 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.

Reclassification and Restatement

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. 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 $1,583,000 and $1,365,000 of standby letters of credit as of June 30, 2006 and June 30, 2005, 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, 2006 and June 30, 2005 for guarantees under standby letters of credit issued is not material.

PATAPSCO BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

Off Balance Sheet Arrangements

With the exception of the Company's standby letters of credit noted above and loan commitments detailed in note 3, the Company has no off balance sheet arrangements that have or are reasonably likely to have a current or future effect in the Company's financial condition, changes in fmancial condition, revenues or expenses, or capital resources.

New Accounting Pronouncements

EITFOJ-1

In January 2003, the FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investors" ("EITF 03.1"), and in March 2004, the EITF issued an update: EITF 03-1 addresses the meaning of other-than-temporary impainnent and its application to certain debt and equity securities. EITF 03-1 aids in the determination of impainnent of an investment and gives guidance as to the measurement of impairment loss and the recognition and disclosures of other-than-temporary investments. EITF 03-1 also provides a model to determine other-than-temporary impairment using evidence-based judgment about the recovery of the fair value up to the cost of the investment by considering the severity and duration of the impainnent in relation to the forecasted recovery of the fair value. In July 2005, FASB adopted the recommendation of its staff to nullify key parts of EITF 03-1. The staff's recommendations were to nullify the guidance on the determination of whether an investment is impaired as set forth in paragraphs 10-18 of Issue 03-1 and not to provide additional guidance on the meaning of other-than-temporary impainnent. Instead, the staff recommends entities recognize other-than-temporary impairments by applying existing accounting literature such as paragraph 16 of SFAS 115.

FASB Exposure Draft -Interpretation ofFAS 109

In July 2005, the FASB issued a proposed interpretation of FAS 109, "Accounting for Income Taxes", to clarify certain aspects of accounting for uncertain tax positions, inCluding issues related to the recognition and measurement of those tax positions. If adopted as proposed, the interpretation would be effective in the fourth quarter of 2oo5, and any adjustments required to be recorded as a result of adopting the interpretation would be reflected as a cumulative effect from a change in accounting principle. . We evaluated the provisions of the exposure draft and do not believe that its adoption will have a material impact on our Company's financial condition or results of operations.

EITFOS-6

In June 2005, the FASB's Emerging Issues Task Force (EITF) reached a consensus on Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination" ("EITF 05-6"). This guidance requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are reasonably assured at the date of the business combination or purchase. This guidance is applicable only to leasehold improvements that are purchased or acquired in reporting periods beginning after June 29, 2005.

FSPFAS 13-1

In October 2005, the FASB issued FASB Staff Position FAS 13-1 ("FSP FAS 13-1 "), which requires companies to expense rental costs associated with ground or building operating leases that are incurred during a construction period. As a result, companies that are currently capitalizing these rental costs are required to expense them beginning in its fITst reporting period beginning after December 15, 2005. FSP FAS 13-1 is effective for our Company as of the fITSt quarter of fiscal 2006. We evaluated the provisions of FSP FAS 13-1 and do not believe that its adoption will have a material impact on our Company's financial condition or results of operations.

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(2) Securities Available for Sale

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

	2006			
(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair value
Equity securities	$ 72	$ 6	$	$ 78
Corporate Bonds	2,000		97	1,903
U.S. Government agencies	6,749		190	6,559
Mortgage-backed securities	8,554	6	433	8,127
	$ 17,375	$ 12	$ 720	$ 16,667

	200S			
Equity securities	$ 62	$ 6	$	$ 68
Corporate Bonds	2,600	9	29	2,580
U.S. Government agencies	II,771	I	111	11,661
Mortgage-backed securities	10,645	68	222	10,491
	$ 25,078	$ 84	$ 362	$24,800

The equity invesnnentshave no stated maturity. Mortgage-backed securities are allocated based on scheduled maturities. The scheduled maturities of other invesnnents available for sale at June 30, 2006 are as follows:

	2006	
(In thousands)	Amortized Cost	Fair Value
Due in less than one year	$ 2,103	$ 2,072
Due in one to five years	4,497	4,348
Due after five through ten years	3,221	3,024
Due after ten years	7,482	7,145
	$ 17,303	$ 16,589

In fiscal year 2006, the Company received $30I,500 from the sale of a corporate bond resulting in a gross realized gain of $1,500. There were no gross realized losses. There were no sales of corporate, government, agency or equity securities in fiscal 2005.

The following table shows the Company's invesnnent securities gross unrealized losses and fair value, aggregated by invesnnent category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2006.

	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	$ --	$--	$ 6,559	$ 190	$ 6,559	$190
Corporate Bonds			1,903	97	1,903	97
Mortgage-backed securities	1,976	32	5,963	401	7,939	433
Total Temporarily Impaired Securities	$ 1,976	$32	$ 14,425	$ 688	$16,401	$720

The following table shows the Company's investment securities gross unrealized losses and fair value, aggregated by investment category and length oftime that individual securities have been in a continuous unrealized Joss position, at June 30, 2005.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Ia Thousands)			
U.S. Government agencies	$ 5,695	$43	$ 5,465	$ 68	$11,160	$111
Corporate Bonds	489	11	1,482	18	1,971	29
Mortgage-backed securities			7,6]5	222	7,615	222
Total Temporarily Impaired Securities	$ 6,184	$54	$ 14,562	$ 308	$20,746	$362

At June 30, 2006, the Company had 17 securities in an unrealized loss position. Unrealized losses detailed above relate primarily to U.S. Government agency debt and mortgage-backed securities. . The decline in fair value is considered temporary and is due only to interest rate fluctuations. The Company has the intent and ability to hold such investments until maturity or market price recovery. None ofthe individual unrealized losses are significant.

(3) Loans Receivable

Loans receivable are summarized as follows as of lune 30:

(In lhousands)	2006	2005
Real estate secured by first mortgage:		
Residential	$ 80,693	$ 74,600
Commercial	29,712	25,109
Construction, net ofJoans in process	13,913	5,520
	124,318	105,229
Home improvement loans	11,442	7,910
Home equity loans	4,400	5,205
Other Consumer loans	2,483	2,40]
Commercial loans	34,827	28,102
Commercial leases	2],409	18,969
	198,879	167,816
Less:		
Deferred loan origination fees, net of costs	178	99
Uneamed interest consumer loans	1,245	503
Uneamed interest commercial leases	6,091	5,446
Purchase accounting premium, net	(224)	(271)
Allowance for loan losses	1,000	945
Loans receivable, net	$ 190,589	$ **161,094**

A substantial portion of the Company's loans receivable are mortgage loans secured by residential real estate properties. Loans are extended only after evaluation by management of customers' creditworthiness and other relevant factors on a case-by-case basis. On first mortgage loans, the Company does not lend more than 95% of the appraised value of an owner occupied residential property and in instances where the Company lends more than 80% of the appraised value, private mortgage insurance is required. For investor loans on residential property (not owner occupied) the Company generally does not lend more than 80% of the appraised value. Lease financing receivables represent fmance leases with no residuals on equipment used in the operation of the customer's business. Terms are typically from 3 to 5 years.

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 $244,000 and $38,000 at June 30, 2006 and 2005 respectively. Average recorded investment in impaired loans during 2006 and 2005 was $169,000 and $560,000, respectively. There was an allocated allowance for losses related to those loans of $169,000 and $35,000 at June 30, 2006 and 2005, respectively. The amount of interest that would have been recorded on non-accrual loans at June 30, 2006 and 2005, respectively had the loans performed in accordance with their terms was approximately $42,000 and $ 4,000, respectively. The actual interest income recorded on these loans during 2006 and 2005 was $17,000 and $3,000, respectively. The Company is not obligated to lend any additional monies pertaining to the aforementioned impaired and non-accrual loans. All impaired loans were on non-accrual status.

Loans on which the accrual of interest has been discontinued amounted to $244,000 and $38,000 at June 30, 2006 and 2005, respectively. The Company had no loan balances past due 90 days or more accruing interest at June 30, 2006 and 2005.

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

(In thousands)	2006	2005
Balance at beginning of year	$ 945	$ 936
Provision for losses on loans	65	225
Charge-offs	(186)	(332)
Recoveries	176	116
Balance at end of year	$ 1,000	$ 945

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, 2006 and 2005 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, 2006	
(In thousands)	Fixed rate	Floating rate
Commercial business and lease loans	$ 9,539	$ 100
Real Estate Loans	265	3,956
Undisbursed lines of credit	1,940	9,221
	June 30, 2005	
Commercial business and lease loans	$ 3,336	$ 2,595
Real Estate Loans	1,949	1,120
Undisbursed lines of credit		9,799

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, 2006 and June 30, 2005, Patapsco had outstanding letters of credit of $1,583,000 and $1,365,000, respectively.

As of June 30, 2006 and 2005, Patapsco was servicing loans for the benefit of others in the amount of $5,710,000 and $7,067,000, 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.

At June 30, 2006 and 2005, the Company's loans outstanding to directors and executive officers totaled $220,000 and $31,000, respectively. New loans and draws on existing lines of credit totaled $220,000 and payments totaled $31,000.

(4) Property and Equipment

Properly and equipment are summarized as follows at June 30:

(In thousands)	2006	2005	Estimated Useful lives
Land	$ 188	$ 249	
Building and improvements	2,100	1,446	30 - 40 years
Leasehold improvements	238	238	3-10 years
Furniture, fixtures and equipment	2,738	2,606	3-10 years
Total, at cost	5,264	4,539	
Less accumulated depreciation	3,089	2,954	
Property and equipment, net	$ 2,175	$ 1,585	

Rent expense was $325,000 and $105,000 in the years ended June 30, 2006 and June 30, 2005, respectively.

At June 30, 2006, the minimal rental commitments under noncancellable operating leases are as follows:

Year ended June 30,	
2007	$207,000
2008	]64,000
2009	155,000
20]0	155,000
2011	155,000
	$836,000

(5) Deposits

The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of $100,000, was approximately $19,559,000 and $13,450,000 in 2006 and 2005, respectively.

At June 30, 2006, the scheduled maturities of certificates of deposit are as follows:

(In Ihousands)	
2007	$ 42,285
2008	15,368
2009	6,871
2010	11,510
20))	9,144
Thereafter	901
	$ 86,079

r

(6) Borrowings

At June 30, 2006 and 2005, the Company has an agreement under a blanket-t1oatinglien with the Federal Home Loan Bank of Atlanta providing the Company a line of credit 0[$57.2 and $51.1 million, respectively. Borrowings totaled $35.1 million and $20.2 million at June 30, 2006 and 2005, respectively. The Company is required to maintain as collateral for its FHLB borrowings qualified mortgage loans in an amount equal to 120% of the outstanding advances. At June 30, 2006, and 2005 the Bank has a FederalFunds accommodation with the Bankers Bank of Atlanta, GA of $5.1 million and $5.1 million, respectively. At June 30, 2006, all borrowings are at fixed .rates.

At June 30, the scheduled maturities ofborrowings are as follows:

	2006		2005	
(In thousands)	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Under 12 months	$ 4,250	3.11%	$ 3,350	4.24%
12 months to 24months	1,700	2.71	5,950	3.00
24 months to 36 months	4,000	4.71		
36 months to 48 months			4,000	4.71
48 months to 60 months	5,100	5.57		
60 months to 120 months	20,000	4.33	6,933	5.55
	$35,050	4.33%	$ 20,233	4.42%

The borrowings from the Federal Home Loan Bank of Atlanta with conversion or call features at June 30, 2006, are detailed below:

Balance	Rate	Maturi1;y	Call\Conversion feature
$5,100,000	5.57%	11/17/10	Callable every three months
3,000,000	3.79	07/22/15	Callable on 07/22/08 and every three months thereafter
6,000,000	4.24	11/18/15	Callable on 11118/08 and every three months thereafter
11,000,000	4.53	04122113	Callable on 04/22/07 and every three months thereafter

The borrowings from the Federal Home Loan Bank of Atlanta with conversion or call features at June 30, 2005, are detailed below:

Balance		Maturity	Call\Conversion feature .
$ 5,100,000	5.57%	11/17110	Callable every three months
2,100,000	5.74	11/17/05	Callable every three months

(7) Junior Subordinated Debentures

On October 31, 2005, Patapsco Statutory Trust I, a Connecticut statutory business trust and an unconsolidated wholly-owned subsidiary ofthe 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 LIBOR 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 ofthe 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, 20I0, at par. The capital securities must be redeemed upon fmal 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)	2006	200S
Current:		
Federal	$727	$474
State	]58	123
	885	597
Deferred:		
Federal	(51)	133
State	(11)	29
	(62)	]62
	$823	$759

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

(In thousands)	2006	200S
Unrealized losses on securities available for sale	$274	$107
Allowance for losses on loans	386	365
Deferred compensation	265	277
Other	]	
Total deferred tax assets	926	749
Purchase accounting adjustment	(237)	(263)
Federal Home Loan Bank stock dividends	(164)	(164)
Depreciation	(92)	(] 12)
Other		(7)
Total deferred tax liabilities	(493)	(546)
Net deferred tax assets	$433	$203

A reconciliation of the income tax provision and the amount computed by multiplying income before income taxes by the statutory Federal income tax rate of 34% is as follows for the years ended June 30:

(In thousands)	2006	200S
Tax at statutory rate	$752	$716
State income taxes, net of Federal income tax benefit	95	97
Other	(24)	(54)
Income tax provision	$823	$759

The Company has qualified under provisions of the Internal Revenue Code which permit it to deduct from taxable income a provision for bad debts based on actual bad debt experience. Therefore, the provision for bad debts deducted from taxable income for Federal income tax purposes was based on the experience method.

(9) Regulatory Matters

The Federal Deposit Insurance Corporation (FOlC) insures deposits of account holders up to $100,000. Patapsco pays an annual premium to provide for this insurance. Patapsco is also a member of the Federal HomeLoan Bank System and is required to maintain an investment in the stock of the Federal Home Loan Bank of Atlanta (FHLBA) equal to at least 4.50% of the outstanding borrowings from the FHLBA plus the lesser of 0.20% of total assets or $25 million. The investment in the FHLBA stock is reported in the balance sheet as investment securities required by law. Purchases and sales of stock are made directly with Patapsco at par value.

Pursuant to regulations of the Federal Reserve Board, all FDIC-insured depository institutions must maintain average daily reserves against their transaction accounts. No reserves are required to be maintained on the first $7.0 million of transaction accounts, reserves equal to 3% must be maintained on the next $47.6 million of transaction accounts, and a reserve of 10% must be maintained against all remaining transaction accounts. These reserve requirements are subject to adjustments by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or in a non-interest bearing account at a Federal Reserve Bank, the effect of the reserve requirement is to reduce the amount of the institution's interest-eaming assets. At June 30, 2006 and 2005, the Bank met its reserve requirements of$628,OOO and $574,000, respectively.

The Company, as the holding company for the Bank, has an annual cash requirement of approximately $800,000 for the payment of common stock dividends and debt service on the subordinated debentures. The only source of internal funds for the holding company is dividends from the Bank. The amount of dividends that can be paid to the Company from the Bank is limited by the retained eamings of the Bank in the current calendar year and the prior two calendar years. However, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. The full amount of dividends that the Bank may pay the Company according to the regulation is $3.5 million. However, this level of dividend would result in the Bank meeting the minimum capital requirements but not meeting the level of capital to remain well capitalized. This level of dividend would also restrict the ability of the Bank to grow.

On February 27,2006. The Board of Governors of the Federal Reserve System (Board) announced the approval of a final rule that expands the definition of a small bank holding company under the Board's Small Bank Holding Company Policy Statement and the Board's risk based and leverage capital guidelines for bank holding companies. The Company has been informed by the Federal Reserve Bank of Richmond that it meets the expanded criteria for defmition as a small bank holding company. One result of this rule change is that the Company is now exempt from the Board's consolidated risk-based and leverage capital adequacy guidelines for Bank Holding Companies. The Bank's regulatory capital guidelines remain unchanged.

Patapsco is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Patapsco must meet specific capital guidelines that involve quantitative measures of Patapsco's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Patapsco's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. In addition, the Bank must maintain minimum capital and other requirements of regulatory authorities when declaring or paying dividends. The Bank has complied with such capital requirements.

Quantitative measures established by regulation to ensure capital adequacy require Patapsco to maintain minimum amounts and ratios (as defined in the regulations and as set forth in the table below, as defined) of total and Tier I capital (as defined) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defmed). Management believes, as of June 30, 2006 and 2005, that Patapsco meets all capital adequacy requirements to which they are subject.

As of June 30, 2006, the most recent notification from banking regulators categorized Patapsco as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well or adequately capitalized Patapsco must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in tables below. There are no conditions or events since that notification that management believes have changed the institution's category.

At June 30, 2006, the Bank exceeded all regulatory minimum capital requirements. The table below presents certain information relating to the Bank's regulatory comoliance at June 30. 2006.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Total Capital (to Risk Weighted Assets) .	$18,144	11.25 %	$12,904	8.00%	$ 16,130	10.00%
Tier I Capital (10 Risk Weighled Assets) .	17,144	10.63%	6,452	4.00%	9,678	6.00%
Tier I Capital (10 Average Assets) .	17,144	7.66%	8,958	4.00%	11,197	5.00%

At June 30, 2005, the Bank exceeded all regulatory minimum capital requirements. The table below presents certain infonnation relating to the Bank's regulatory compliance at June 30, 2005.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompl Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Total Capital (10 Risk Weighted Assets) ; .	$16,732	12.05%	$11,113	8.00%	$ 13,891	10.00%
Tier I Capital (to Risk Weighted Assets) ..	15,787	11.37%	5,556	4.00%	8,335	6.00%
Tier I Capital (to Average Assets) ..	15,787	7.87%	8,021	4.00%	10,026	5.00%

(10) Stockholders' Equity and Related Matters

In 1995, the Bank converted from a federally chartered mutual savings association to a capital stock savings bank.

Simultaneously, the Bank consummated the fonnation of a holding company, Patapsco Bancorp, Inc., of which the Bank is a wholly-owned subsidiary. In connection with the Conversion, the Company publicly issued 362,553 shares of its common stock.

Federal regulations required that, upon conversion from mutual to stock fonn of ownership, a "liquidation account" be established by restricting a portion of net worth for the benefit of eligible savings account holders who maintain their savings accounts with Patapsco after conversion. In the event of complete liquidation (and only in such event), each savings account holder who continues to maintain his savings account shall be entitled to receive a distribution from the liquidation account after payment to all creditors, but before any liquidation distribution with respect to capital stock. This account will be proportionately reduced for any subsequent reduction in the eligible holders' savings accounts. At conversion the liquidation account totaled approximately $6,088,000. In addition to the foregoing, certain bad debt reserves of approximately $2,561,000 deducted from income for federal income tax purposes and included in retained earnings of Patapsco, are not available for the payment of cash dividends or other distributions to stockholders without payment of taxes at the then-current tax rate by Patapsco, on the amount removed from the reserves for such distributions. The unrecorded deferred income tax liability on the above amount was approximately $989,000.

In November 2000, as part of the acquisition of Northfield Bancorp, the Company issued 109,235 shares of Series A Noncumulative, Convertible Perpetual Preferred Stock. Each share of the preferred stock earned dividends at the rate of 7.5% of the liquidation preference of $25.00 per share, payable when declared by the Board of Directors. If Patapsco Bancorp failed to pay dividends to holders of Patapsco Bancorp Preferred stock for a given quarter, then during that quarter, no dividends could be paid on Patapsco Bancorp Common Stock.

The holders had the right to convert the preferred shares into common shares of Patapsco Bancorp, Inc. at any time. The Company could redeem the shares on or after November 2005. When issued, the preferred stock was convertible into common stock at a one to one basis. Due to three 10% stock dividends and a three for one stock split in the form of a 200% stock dividend paid to common shareholders since the issuance of the preferred shares, the conversion ratio changed to I to 3.993. One share of preferred stock was convertible into 3.993 shares of common stock.

On January 19,2006, the Company issued a press release announcing that the Board of Directors had voted to call for redemption of all outstanding shares of Series A Non-cumulative, Perpetual Convertible Preferred Stock, par value $0.01 per share (the "Series A Preferred Stock"), that have not been converted into common stock at the election of the holders and remained outstanding on or prior to the close of business on March 31, 2006 (the "Redemption Date"). All shares of Series A Preferred Stock not converted into shares of Patapsco Bancorp, Inc. common stock prior to the close of business on the Redemption Date were automatically redeemed at the face value of $25 per share.

Shareholders eJected to convert a total of 82,435 of the 85,051 outstanding preferred shares into Company common stock. The remaining 2,616 shares were redeemed at $25 per share for a total of $65,000. As a result, the Company's common stock outstanding increased by 329,164 shares and shareholders' equity decreased by $65,000.

(11) Benefit Plans

Employee Stock Ownership Plan

Patapsco has established an Employee Stock Ownership Plan (ESOP) for its employees. On April 1,1996 the ESOP acquired 113,891 shares of the Company's common stock in connection with Patapsco's conversion to a capital stock form of organization. The ESOP purchased an additional 28,721 shares as a result of the retum of capital distribution paid by the Company in June 1997. The ESOP holds the common stock in a trust for allocation among participating employees.

All ESOP shares contain a "Put Option" which requires the Company to repurchase the share at the then fair market value subject to the availability of retained earnings. The "Put Option" may be exercised within 60 days of distribution of the shares and then again within 60 days after the fair market value determination date of the next plan year. The current fair market value of 103,278 shares that have been aIlocated contain a "Put Option" of $1,121,000. This amount is included in temporary equity in accordance with SEC Accounting Series Release No. 268.

For the years ended June 30, 2006 and 2005 compensation expense recognized related to the ESOP and Patapsco's contribution to the ESOP was $0 and $0, respectively. The ESOP shares have been fully allocated and the Company has applied to the Internal Revenue Service for termination of the Plan.

2004 Stock Incentive Plan

In October 2004, the shareholders' of the Company approved the 2004 Stock Incentive Plan. Underthis plan, 90,000 shares of common stock are available for issuance under a variety of awards. An additional 40,146 shares were made available for issuance to settle past deferred compensation obligations. This new plan replaced the Director's retirement plan that became effective in September 1995. At the time of adoption, the directors had the option to reallocate their deferred compensation assets.

As of June 30, 2006, there are 51,525 deferred shares under this plan of which 12,906 are issued and outstanding. These deferred shares are allocated in lieu of cash compensation to Directors of the Company. These shares are included in shares outstanding for the purposes of computing earnings per share. As of June 30, 2006, no other share awards have been made under this plan.

Compensation expense recognized in connection with these plans during the years ended June 30, 2006 and 2005 was $17,400 and $80,700, respectively.

Stock Options.

The Company's 1996 Stock Options and Incentive Plan (Plan) was approved by the stockholders at the 1996 annual meeting. The Plan provides for the granting of options to acquire common stock to directors and key employees. Option prices are equal or greater than the estimated fair market value of the common stock at the date of the grant. In October 1996 the Company granted options to purchase 137,862 shares at $4.60 per share.

The Company's 2000 Stock Option and Incentive Plan was approved by the stockholders at the 2000 annual meeting. The Plan provides for the granting of options to acquire common stock to directors arid key employees. Option prices are equal or greater than the estimated fair market value of the common stock at the date of the grant.

The Plan provides for one-fifth of the options granted to be exercisable on each of the first five anniversaries of the date of grant. Under this plan, in August 2001 the Company granted options to purchase 99,975 shares at $6.29 per share.

The following table summarizes the status of and changes in the Company's stock option plans during the past two years.

	Options	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, June 30, 2004	197,898	$ 5.40	140,116	$ 5.40
Granted				
Exercised	(22,635)	4.60		
Cancelled				
Outstanding, June 30, 2005	175,263	5.40	139,723	5.51
Granted				
Exercised	(36,353)	5.07		
Cancelled	(415)	6.29		
Outstanding, June 30, 2006	138,495	$ 5.62	122,877	$ 5.62

The following table summarizes information about stock options outstanding at Jooe 30, 2006.

Exercise Price	Number Outstanding	Remaining Contractual Life	Number Exercisable
$4.60	40,384	0.30 years	40,384
4.86	16,981	3.89 years	16,981
6.29	81,130	5.17 years	65,512
	138,495	3.59 years	122,877

401(K) Retirement SaVings Plan

The Company has a 401(k) Retirement Savings Plan. Employees may contribute a percentage of their saiary subject to limitations established by the Internal Revenue Service. The Company is obligated to contribute 3% of each employee's salary, whether or not the employee contributes their own money. All employees who have completed six months of service with the Company and are 21 years old are eligible to participate. The Company's contribution to this plan was $73,000 and $67,000 for the years ended June 30, 2006 and 2005, respectively. Additionally, since the ESOP is fully allocated, the Compensation Committee of the Board of Directors has approved a discretionary profit sharing component to the 40IK plan. The accrual for this component of the plan for the years ended Jooe 30, 2006 and 2005 was $108,000 and $31,000. respectively.

(I2) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments* (SFAS 107) requires the Company to disclose estimated fair values for certain on- and off-balance sheet financial instruments. Fair value estimates, methods, and assumptions are set forth below for the Company's fmancial instruments as of June 30, 2006 and 2005.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for

a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The carrying amount and estimated fair value of financial instruments is summarized as follows at June 30:

	2006		2005	
(In thol/sands)	Carrying amount	Fair value	Carrying amount	Fair value
Assets:				
Cash and interest-bearing deposits	$ 5,807	$ 5,807	$ 6,240	$ 6,240
Federal funds sold	2,381	2,381	1,408	1,408
Time deposits at other financial institutions	605	605	619	605
Investment securities available for sale	16,667	16,667	24,800	24,800
Loans receivable, net	190,589	186,882	161,094	163,414
Investment securities required by law	2,416	2,416	1,677	1,677
Accrued interest receivable	929	929	792	792
Liabilities:				
Deposits	166,833	159,977	164,320	164,016
Advance payments by borrowers for taxes, insurance and ground rents	1,405	1,405	1,399	1,399
Long-term debt	40,050	39,044	20,233	20,670
Accrued interest payable	334	334	321	321
Off balance sheet instruments:				
Commitments to extend credit				

Cash and Due/rom Banks, Interest Bearings Deposits with Banks and Federal Funds Sold

The statement of financial condition carrying amounts for cash and due from banks, interest bearing deposits with banks and federal funds sold approximate the estimated fair values of such assets.

Time deposits at otherfinancial institutions

The fair value of these time deposits was calculated by discounting the scheduled cash flows at current market rates.

Securities

The fair value of securities is based on quoted market values.

Loans Receivable

Loans receivable were segmented into portfolios with similar financial characteristics. Loans were also segmented by type such as residential and nonresidential, construction and land, second mortgage loans, commercial, and consumer. Each loan category was further segmented by fixed and adjustable rate interest terms.

The fair value of loans was calculated by discounting anticipated cash flows based on weighted average contractual maturity, weighted average coupon and current loan origination rates.

Accrued Interest Receivable

The carrying amount of accrued interest receivable approximates its fair value.

Securities required by Law

The carrying amount of securities required by law approximates its fair value.

Deposits

Under SFAS 107. the fair value of deposits with no stated maturity. such as non-interest bearing deposits. interest bearing NOW accounts and statement savings accounts, is equal to the carrying amounts. The fair value of cenificates of deposit was based on the discounted value of contractual cash flows. The discount rate for cenificates of deposit was estimated using the rate currently offered for deposits of similar remaining maturities.

Long-Term Debt

The fair value of long-term debt was based on the discounted value of contractual cash flows, using rates currently available.

Accrued Interest Payable

The carrying amount of accrued interest payable approximates its fair value.

Advance Payments by Borrowersfor Taxes, Insurance and Ground Rents

The carrying amount of advance payments by borrowers for taxes, insurance and ground rents approximates its fair value.

Off-Balance Sheet Financial Instruments and Standby Letters of Credit

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business, including mongage loan commitments, undisbursed lines of credit on commercial business loans and standby letters of credit. These instruments involve, to various degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The fair values of such commitments are immaterial.

The disclosure of fair value amounts does not include the fair values of any intangibles, including core deposit intangibles. Core deposit intangibles represent the value attributable to total deposits based on an expected duration of customer relationships.

(13) Condensed Financial Information (Parent Company Only)

Summarized financial information for the Company is as follows as of and for the years ended June 30:

(In thousands)

Statements of Financial Condition	2006	200S
Cash	$ 2,834	$ 412
Investment securities	78	68
Equity in net assets of the bank	20,422	19,131
Other assets	271	103
Total Assets	$ 23,605	$ 19,714
Accrued expenses and other liabilities	317	294
Long-term debt		1,833
Subordinated Debentures	5,000	
Stockholders' equity	18,288	17,587
Total Liabilities & Stockholders Equity	$ 23,605	$ 19,714

PATAPSCO BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

(In thousands)

Statements or Income	2006	2005
Total Revenue	$ 10	$ 13
Interest Expense	252	93
Non-interest Income	1	
Non-interest Expense	(2)	28
Loss before equity in net income of subsidiary and income taxes	(239)	(108)
Net income of subsidiary	1,527	1,417
Income before income tax provision	1,288	1,309
Income tax provision (benefit)	(100)	(37)
Net income	$ 1,388	$ 1,346

(In thousands)

Statements or Cash Flows	2006	2005
Operating activities;		
Net income	$ 1,388	$ 1,346
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in net income of subsidiary	(1,527)	(1,417)
Increase in other assets	(189)	
Increase (decrease) in accrued expenses and other liabilities	81	(19)
Net cash used in operating activities	(247)	(90)
Investing activities:		
Purchase of investment securities	(10)	(7)
Dividends received from subsidiary		200
Net cash (used in) provided by investing activities	(10)	193
Financing activities:		
Net increase (decrease) in borrowings	3,167	(167)
Options exercised	121	47
Repurchase of common slock pursuant to ESOP put option	(23)	(105)
Redemption of preferred stock	(65)	
Cash dividend paid	(521)	(500)
Net cash provided by (used in) fmancing activities	2,679	(725)
(Decrease) increase in cash and cash equivalents	2,422	(622)
Cash and cash equivalents, beginning of year	412	1,034
Cash and cash equivalents, end of year	$ 2,834	$ 412

SCHEDULE A

ADDITIONAL TERMS AND CONDITIONS

Company Information:

Name of the Company: Patapsco Bancorp, Inc.

Corporate or other organizational form: Corporation

Jurisdiction of Organization: Maryland

Appropriate Federal Banking Agency: Board of Governors of the Federal Reserve System

Notice Information:

Patapsco Bancorp, Inc.
1301 Merritt Blvd.
Dundalk, Maryland 21222

Attention: Michael 1. Dee, President and Chief Executive Officer
Facsimile: [redacted]

Terms of the Purchase:

Series of Preferred Stock Purchased: Fixed Rate Cumulative Perpetual Preferred Stock, Series A

Per Share Liquidation Preference of Preferred Stock: $1,000

Number of Shares of Preferred Stock Purchased: 6,000

Dividend Payment Dates on the Preferred Stock: February 15, May 15, August 15 and November 15

Number of Warrant Shares: 300.003

Number of Net Warrant Shares (after net settlement): 300

Exercise Price of the Warrant: $0.01

Purchase Price: $6,000,000

Closing:

Location of Closing: Telephonic

Time of Closing: To be determined by parties

Date of Closing: December 19,2008

Wire Information for

ABA Number: [redacted]
Bank: [redacted]
Account Name: [redacted]
Account Number: [redacted]

Beneficiary: [redacted]

Contact for Confirmation of Wire **Information:**

[redacted]

Phone: [redacted]

E-mail: [redacted]

SCHEDULED

CAPITALIZATION

Capitalization Date: November 30, 2008

Common Stock

Par value: $0.01

Total Authorized: 4,000,000

Outstanding: 1,862,559

Subject to warrants, options, convertible securities, etc.: 80,491

Reserved for benefit plans and other issuances: 50,446

Remaining authorized but unissued: 2,006,504

Shares issued after Capitalization Date (other than pursuant to warrants, options, convertible securities, etc. as set forth above): 0

Preferred Stock

Par value: $0.01

Total Authorized: 1,000,000

Outstanding (by series): 0

Reserved for issuance: 0

Remaining authorized but unissued: 1,000,000

Holders of 5% or more of any class of capital stock	Primary Address
(1) Jeffrey L. Gendell Tontine Financial Partners, L.P. Tontine Management, L.L.C. Tontine Overseas Associates, L.L.C.	55 Railroad Avenue, 3rd Floor Greenwich, CT 06839

SCHEDULEC

LITIGATION

List any exceptions to the representation and warranty III Section 2.2(1) of the Securities Purchase Agreement - Standard Terms.

If none, please so indicate by checking the box: ☒.

SCHEDULED

COMPLIANCE WITH LAWS

List any exceptions to the representation and warranty in the second sentence of Section 2.2(m) of the Securities Purchase Agreement - Standard Terms.

Ifnone, please so indicate by checking the box: ☒.

List any exceptions to the representation and warranty in the last sentence of Section 2.2(m) of the Securities Purchase Agreement - Standard Terms.

If none, please so indicate by checking the box: ☒.

SCHEDULEE

REGULATORY AGREEMENTS

List any exceptions to the representation and warranty in Section 2.2(s) of the Securities Purchase Agreement - Standard Terms.

Ifnone, please so indicate by checking the box: ☒.