GOUVERNEUR BANCORP INC
Form 10QSB
August 04, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from _______________ to ____________________

Commission file number 001-14910

GOUVERNEUR BANCORP, INC.

(Exact name of small business issuer as specified in its charter)

United States	04-3429966
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

42 Church Street, Gouverneur, New York 13642

(Address of principal executive offices)

Issuer's telephone number (315) 287-2600

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

Yes [X] No [ ]

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

Yes [ ] No [X]

Class	Outstanding at August 2, 2006
Common Stock, par value $ .01	2,292,084

Transitional Small Business Disclosure Format (check one):
Yes [ ] No [X]

GOUVERNEUR BANCORP, INC.
FORM 10-QSB

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

GOUVERNEUR BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share data) (Unaudited)

	June 30, 2006
Assets:	
Cash and due from banks	$ 2,589
Interest-bearing deposits in bank	1,907

Total cash and cash equivalents	4,496
Securities available-for-sale	10,071
Securities held-to-maturity (fair value 2006: $96: 2005: $110)	96
Loans, held for sale	2,173
Loans receivable, net of allowance for loan losses: 2006 $921: 2005 $869	101,978
Investment in Federal Home Loan Bank stock, at cost	1,609
Investment in life insurance	3,598
Premises and equipment, net	1,840
Accrued interest receivable and other assets	1,909
Total assets	$ 127,770
Liabilities:	
Deposits: Non-interest-bearing demand	$ 2,595
NOW and money market	11,888
Savings	19,887
Time	39,808
Total deposits	74,178
Advances from the Federal Home Loan Bank	31,600
Other liabilities	2,559
Total liabilities	108,337
Shareholders' Equity:	
Preferred stock, $.01 par value, 1,000,000 shares authorized; none issued	--
Common stock, $.01 par value, 9,000,000 shares authorized; 2,384,040 shares issued	24
Additional paid-in capital	4,808
Retained earnings	15,135
Treasury Stock, at cost, (shares 2006: 91,956: 2005: 98,606)	(466
Accumulated other comprehensive income	137
Unearned common stock held by Management Recognition Plan	(55
Unallocated common stock held by Employee Stock Ownership Plan	(150
Total shareholders' equity	19,433
Total liabilities and shareholders' equity	$ 127,770

See accompanying notes to consolidated financial statements.

GOUVERNEUR BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data) (Unaudited)

	Three Months Ended	Nine Mon

	June 30,		June
	2006	2005	2006
Interest income:			
Loans	$ 1,738	$ 1,500	$ 5,113
Securities-taxable	114	119	356
-non-taxable	11	12	36
Other short-term investments	14	9	23
Total interest income	1,877	1,640	5,528
Interest expense:			
Deposits	466	285	1,170
Borrowings - short term	106	103	458
Borrowings - long term	258	171	689
Total interest expense	830	559	2,317
Net interest income	1,047	1,081	3,211
Provision for loan losses	15	30	65
Net interest income after provision for loan losses	1,032	1,051	3,146
Non-interest income:			
Service charges	55	52	169
Realized gain on sales of securities - AFS	--	--	98
Realized gain (loss) on sales of loans held for sale	--	--	7
Life insurance death benefit	--	--	62
Earnings on investment in life insurance	32	30	99
Realized gain (loss) on sale of foreclosed assets, net	3	(2)	55
Other	34	34	112
Total non-interest income	124	114	602
Non-interest expenses:			
Salaries and employee benefits	476	427	1,291
Directors fees	33	36	113
Occupancy and equipment	103	98	319
Data processing	31	34	92
Postage and supplies	30	29	97
Professional fees	52	54	165
Other	116	97	334
Total non-interest expenses	841	775	2,411
Income before income tax expense	315	390	1,337
Income tax expense	106	144	447
Net income	$ 209	$ 246	$ 890

Earnings per common share - basic	$ 0.09	$ 0.11	$ 0.40
Earnings per common share - diluted	$ 0.09	$ 0.11	$ 0.39

See accompanying notes to consolidated financial statements

GOUVERNEUR BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Nine months ended June 30, 2006
(In thousands, except share data) (Unaudited)

	Common Stock	Additional paid-in capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	U s
Balance at September 30, 2005	$ 24	$ 4,739	$ 14,392	$ (499)	$ 272	$
Comprehensive income:						
Net income			890			
Change in unrealized gains on securities available for sale, net of reclassification adjustment and tax effects					(135)	
Total comprehensive income						
Cash dividends declared, $0.15 per share			(147)			
Allocation of ESOP shares, 7,266 shares		53				
Amortization of MRP		18				
Exercise of stock options, 6,650 shares		(2)		33		
Balance at June 30, 2006	$ 24	$ 4,808	$ 15,135	$ (466)	$ 137	$

GOUVERNEUR BANCORP, INC AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Nine months ended June 30, 2005
(In thousands, except share data) (Unaudited)

	Additional	Accumulated Other	Une co

	Common Stock	paid-in capital	Retained Earnings	Treasury Stock	Comprehensive Income	sto by
Balance at September 30, 2004	$ 24	$ 4,642	$ 13,632	$ (511)	$ 451	$
Comprehensive income:						
Net income			736			
Change in unrealized gain on securities available for sale, net of reclassification adjustment and tax effects					(82)	
Total comprehensive income						
Cash dividends declared, $0.14 per share			(136)			
Allocation of ESOP shares, 6,743 shares		63				
Amortization of MRP						
Exercise of stock options, 1,125 shares		2		6		
Balance at June 30, 2005	$ 24	$ 4,707	$ 14,232	$ (505)	$ 369	$

See accompanying notes to consolidated financial statements

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GOUVERNEUR BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Nine Months End June 30,	
	2006	2
Cash flows from operating activities:		
Net Income	$ 890	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	65	
Depreciation	86	
Net amortization of securities premiums and discounts	7	
Net realized gains on sales of securities - AFS	(98)	
Proceeds from sales of loans held for sale	1,232	
Net realized (gains) losses on sales of loans	(7)	
Life insurance death benefit	(62)	
Earnings on bank owned life insurance	(99)	
Allocated and earned shares of ESOP and MRP		

	119	
Net realized gain on sale of foreclosed assets	(55)	
Increase in accrued interest receivable and other assets	(48)	
Increase (decrease) in accrued interest payable and other liabilities	(485)	
Net cash provided by operating activities	1,545	
Cash flows from investing activities:		
Securities available for sale:		
Proceeds from sales	192	
Proceeds from maturities and principal reductions	1,116	
Purchases	(521)	
Securities held to maturity, proceeds from maturities	13	
(Purchases) redemptions of Federal Home Loan Bank stock	229	
Net increase in loans	(5,329)	(
Proceeds from sales of foreclosed assets	16	
Additions to premises and equipment	(379)	
Net cash used in investing activities	(4,663)	(
Cash flows from financing activities:		
Net increase in deposits	10,214	
Proceeds (repayments) from FHLB advances	(5,150)	
Exercise of stock options	31	
Cash dividends paid	(147)	
Net cash provided by financing activities	4,948	
Net increase in cash and cash equivalents	1,830	
Cash and cash equivalents - Beginning	2,666	
Cash and cash equivalents - Ending	$ 4,496	$
Non-cash investing activities:		
Additions to foreclosed assets	$ 64	$
Cash paid during the period for:		
Interest	2,319	
Income taxes	491	

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited financial statements include the accounts of Gouverneur Bancorp, Inc. (the "Company") and Gouverneur Savings and Loan Association (the "Bank"), the wholly owned and only subsidiary of the Company, as of June 30, 2006 and September 30, 2005 and for the three and nine month periods ended June 30, 2006 and 2005. All material intercompany accounts and transactions have been eliminated in this consolidation.

These statements were prepared in accordance with instructions for Form 10-QSB and, therefore, do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles in the United States of America.

In the opinion of management, all adjustments, consisting of only normal recurring adjustments or accruals, which are necessary for a fair presentation of the consolidated financial statements have been made at and for the three month and the nine month periods ended June 30, 2006 and 2005. The results of operations for the three month and nine month periods ended June 30, 2006 are not necessarily indicative of the results which may be expected for an entire fiscal year or other interim periods.

The data in the consolidated statements of condition for September 30, 2005 was derived from the Company's annual report on Form 10-KSB. That data, along with the interim financial information presented in the consolidated statements of financial condition, income, shareholders' equity and cash flows should be read in conjunction with the 2005 consolidated financial statements, including the notes thereto included in the Company's 2005 Annual Report on Form 10-KSB. Certain amounts at September 30, 2005 were reclassified to conform to the presentation of June 30, 2006.

2. Earnings Per Common Share

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding during the period. Unallocated shares held by the Company's Employee Stock Ownership Plan ("ESOP") are not included in the weighted average number of shares outstanding. Unearned shares held by the Company's Management Recognition Plan ("MRP") are not included in the weighted average number of outstanding shares. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued (for example, through the exercise of common stock options), as well as any adjustment to income that would result from the assumed issuance.

Basic and diluted earnings per share for the three-month and nine month periods ending June 30, 2006 and 2005 were computed as follows:

(In thousands, except per share data)

	Three Months Ended June 30,		Nine M J
Basic earnings per share:	2006	2005	2006
Net income	$ 209	$ 246	$ 8
Weighted average common shares outstanding	2,249	2,230	2,2
Basic earnings per share	$ 0.09	$ 0.11	$ 0.

	Three Months Ended	Nine M

Diluted earnings per share:	June 30, 2006	June 30, 2005	J 2006
Net income	$ 209	$ 246	$ 8
Weighted average common shares outstanding	2,249	2,230	2,2
Additional potentially dilutive securities from common stock options	29	33	
Diluted weighted average common shares outstanding	2,278	2,263	2,2
Diluted earnings per share	$ 0.09	$ 0.11	$ 0.

3. Comprehensive Income

Comprehensive income, presented in the consolidated statements of shareholders' equity, consists of net income and the net change for the period in after-tax unrealized gains or losses on securities available for sale. Accumulated other comprehensive income in the consolidated statements of financial condition represents the net unrealized gains or losses on securities available for sale as of the reporting dates, net of related tax effect.

A summary of the unrealized gains (losses) and reclassification adjustments of securities available for sale and the related tax effects for the three and nine month periods ended June 30, 2006 and 2005 is as follows (in thousands):

	Three Months Ended June 30,		Nine Months June 30	
	2006	2005	2006	
Unrealized holding gains (losses) arising during the period	$ (57)	$ 119	$ (127)	$
Reclassification adjustment for gains realized in net income during period	--	--	(98)	
	(57)	119	(225)	
Tax effect	23	(48)	90	
Other comprehensive income (loss), net of tax	$ (34)	$ 71	$ (135)	$

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4. Stock Option and Management Recognition Plans

The Company has a Stock Option Plan ("SOP") and the MRP for directors, officers and key employees. The Company accounts for stock options granted

under the SOP and MRP in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. The Company provides pro forma net income and pro forma earnings per share disclosures for employee stock options grants as if the fair-value-based method defined in Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", had been applied. The fair value of the shares awarded, under the MRP, measured as of the grant date, is recognized as unearned compensation (a component of shareholders' equity) and amortized to compensation expense over the vesting period.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation (in thousands, except per share data):

	Three Months Ended June 30,		Ni
	2006	2005	20
Net income, as reported	$ 209	$ 246	$
Total stock-based compensation expense determined under fair value method for all awards, net of taxes	(8)	(5)	
Reclassification adjustment for gains realized in Amounts included in determination of net income, net of taxes	6	1	
Pro forma net income	$ 207	$ 242	$
Earnings per share:			
Basic - as reported	$ 0.09	$ 0.11	$
Basic - pro forma	0.09	0.11	
Diluted - as reported	$ 0.09	$ 0.11	$
Diluted - pro forma	0.09	0.11	

5. Commitments and Contingencies

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet instruments. The Company has four standby letters of credit totaling $61,000 as of June 30, 2006.

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral and personal guarantees supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral in the event of a default, and the enforcement of personal guarantees would be sufficient to cover the

maximum potential amount of future payments required under the corresponding guarantees.

6. Dividend Restrictions

Cambray Mutual Holding Company ("Cambray MHC"), the Company's parent mutual holding company, held 1,311,222 shares, or 57.2%, of the Company's issued and outstanding common stock, and shareholders other than Cambray MHC held 980,862 shares or 42.8% of such stock at June 30, 2006. Cambray MHC has filed a notice with the Office of Thrift Supervision ("OTS") to waive its right to receive cash dividends during the 2006 calendar year. The Company paid a cash dividend on March 31, 2006 to all public shareholders.

Cambray MHC waived receipt of several past dividends, paid by the Company. The dividends waived are considered as a restriction on the retained earnings of the Company. As of June 30, 2006 and September 30, 2005, the aggregate retained earnings restricted for cash dividends waived were $1,311,000 and $1,114,000, respectively.

7. Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board issued Statement No. 123(R), "Share-Based Payment". Statement No. 123(R) revised Statement No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees", and its related implementation guidance. Statement No. 123(R) will require compensation costs related to share-based payment transactions to be recognized in the financial statements (with limited exceptions). The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. The statement is effective for the Company as of October 1, 2006. The Company is evaluating the impact that the adoption will have on the consolidated financial statements.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in tax positions. 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 recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements.

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

Forward-Looking Statements

When we use words or phrases like "will probably result," "we expect," "will continue," "we anticipate," "estimate," "project," "should cause" or similar expressions in this 10-QSB or in any press releases, public announcements, filings with the Securities and Exchange Commission ("SEC") or

other disclosures, we are making "forward-looking statements" as described in the Private Securities Litigation Reform Act of 1995. In addition, certain information we will provide in the future on a regular basis, such as analysis of the adequacy of our allowance for loan losses or an analysis of interest rate sensitivity of our assets and liabilities, is always based on predictions of the future. From time to time, we may also publish other forward-looking statements addressing anticipated financial performance, business prospects, and similar matters.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. We want you to know that a variety of future events could cause our actual results and experience to differ materially from what was anticipated in our forward-looking statements. Some of the risks and uncertainties that may affect our operations, performance, development and results, the interest rate sensitivity of our assets and liabilities, and the adequacy of our allowance for loan losses, include:

- Local, regional, national or global economic conditions which could cause an increase in loan delinquencies, a decrease in property values, or a change in the housing turnover rate;
- Technological factors affecting our operations;
- Changes in market interest rates or changes in the speed at which market interest rates change;
- Monetary and fiscal policies of the federal government;
- Changes in tax policies and rates by federal, state and local taxing authorities;
- Changes in laws and regulations affecting us;
- Changes in competition; and
- Changes in consumer preferences.

Please do not rely unduly on any forward-looking statements, which are valid only as of the date made. Many factors, including those described above, could affect our financial performance and could cause our actual results or circumstances for future periods to differ materially from what we anticipate or project. We have no obligation to update any forward-looking statements to reflect future events which occur after the statements are made.

General

The Company conducts no income generating activities other than holding the stock of the Bank and a loan to the ESOP used to purchase shares of Company common stock for the participants. Consequently, the net income of the Company is derived primarily from its investment in the Bank. The Bank's net income depends, to a large extent, on its net interest income, which is the difference between interest earned on its interest earning assets, such as loans and investments, and the cost of funds, consisting of interest paid on interest bearing liabilities, such as deposits and borrowings. The Bank's net income is also affected by the provision for loan losses, as well as by the amount of other income, including income from fees and service charges, net gains and losses on sales of investments and operating expenses such as salaries and employee benefits costs, net expenses on foreclosed real estate and various categories of operational expenses. External factors, such as general economic

and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities, can have a substantial effect on profitability.

The Bank has been and continues to be a community oriented financial institution offering a variety of financial services. The Bank attracts deposits from the general public and uses those deposits together with funds borrowed from the Federal Home Loan Bank of New York ("FHLB"), to make loans and other investments. Most of the loans are one to four family residential mortgages made to residents in the Bank's primary market area, southern St. Lawrence and northern Jefferson and Lewis counties in New York State. The Bank's deposit accounts are insured by the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC"), and the Bank is subject to regulation by the FDIC and the OTS.

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Recent Developments

The Bank has not yet received the proceeds of life insurance policies on former director Straw's life. We have recognized income of $62,000 as our estimate of the death benefit proceeds we will receive in excess of the surrender values of the policies. Since this matter is still unresolved and should our estimate be incorrect, an adjustment to that amount will be made when the correct amount is determined.

Critical Accounting Policies

Note 2 to the consolidated financial statements of the Company (included in Item 7 of the Annual Report on Form 10-KSB of the Company for the year ended September 30, 2005) lists significant accounting policies used in development and presentation of its financial statements. This discussion and analysis, the significant accounting policies, and other financial statement disclosures identify and address key variables and other qualitative and quantitative factors that are necessary for an understanding and evaluation of the Company's results of operations. The following accounting policy is the one identified by management to be critical to the results of operations:

Allowance for Loan Losses. The allowance for loan losses is the estimated amount considered adequate to cover credit losses inherent in the outstanding loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses charged against income. In determining the allowance for loan losses, management makes significant estimates and, accordingly, has identified this policy as probably the most critical for the Company.

Management performs a monthly evaluation of the adequacy of the allowance for loan losses. Consideration is given to a variety of factors in establishing this estimate, including, but not limited to, current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' actual or perceived financial and managerial strengths, the adequacy of the underlying collateral (if collateral dependent), the present value of future cash flows and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The analysis has two components, specific and general allocations. Collateral values discounted for market conditions and selling costs are used to establish specific allocations. The Bank's historical loan loss experience, delinquency rates and general economic conditions are used to establish general

allocations for the remainder of the portfolio.

Management monitors the adequacy of the allowance for loan losses on an ongoing basis and reports its adequacy assessment quarterly to the Board of Directors, and the Audit Committee.

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Average Balances, Interest Rates and Yields

The following table presents for the periods indicated, the average interest-earning assets and average interest-bearing liabilities by principal categories, the interest income or expense for each category, and the resultant average yields earned or rates paid. No tax equivalent adjustments were made. All average balances are daily average balances. Non-interest-bearing checking accounts are included in the tables as a component of non-interest-bearing liabilities.

	For the three months Ended June 30			
	2006			
	(Dollars in thousands)			
	Average Balance	Interest	Yield/ Cost (6)	Average Balance
Loans, net (1)	$ 103,946	$ 1,738	6.71%	$ 90,698
Securities (2)	11,364	125	4.41%	12,922
Other short-term investments	1,196	14	4.70%	1,331
Total interest-earning assets	116,506	1,877	6.46%	104,951
Non-interest-earning assets	8,854			8,686
Total assets	$ 125,360			$ 113,637
Savings and club accounts (3)	$ 20,045	51	1.02%	$ 20,240
Time certificates	37,690	380	4.04%	29,635
NOW and money market accounts	11,589	35	1.21%	11,443
Borrowings	32,400	364	4.51%	30,211
Total interest-bearing liabilities	101,724	830	3.27%	91,529
Non-interest-bearing liabilities	4,311			3,699
Total liabilities	106,035			95,228
Shareholders' equity	19,325			18,409
Total liabilities and shareholders' equity	$ 125,360			$ 113,637
Net interest income/spread (4)		$ 1,047	3.19%	
Net earning assets/net				

interest margin (5)	$ 14,782		3.60%	$ 13,422
Ratio of average interest-earning Assets to average interest-bearing liabilities	1.15x			1.15x

Notes appear on following page

Average Balances, Interest Rates and Yields (continued)

	For the nine months Ended June 30, 2006			
	(Dollars in thousands)			
	Average Balance	Interest	Yield/ Cost (6)	Average Balance
Loans, net (1)	$ 102,516	$ 5,113	6.67%	$ 87,339
Securities (2)	11,817	392	4.44%	13,490
Other short-term investments	605	23	5.08%	1,406
Total interest-earning assets	114,938	5,528	6.43%	102,235
Non-interest-earning assets	8,759			8,614
Total assets	$ 123,697			$ 110,849
Savings and club accounts (3)	$ 19,811	151	1.02%	$ 19,991
Time certificates	33,370	918	3.68%	29,498
NOW and money market accounts	11,788	101	1.15%	11,735
Borrowings	35,395	1,147	4.33%	27,968
Total interest-bearing liabilities	100,364	2,317	3.09%	89,192
Non-interest-bearing liabilities	4,264			3,383
Total liabilities	104,628			92,575
Shareholders' equity	19,069			18,274
Total liabilities and shareholders' equity	$ 123,697			$ 110,849
Net interest income/spread (4)		$ 3,211	3.34%	
Net earning assets/net interest margin (5)	$ 14,574		3.74%	$ 13,043

Ratio of average interest-earning assets to average interest-bearing liabilities	1.15x	1.15x

(1) Shown net of the allowance for loan losses. Average loan balances include non-accrual loans and loan held for sale. Interest is recognized on non-accrual loans only as and when received.
(2) Securities are included at amortized cost, with net unrealized gains or losses on securities available for sale included as a component of non-earning assets. Securities include FHLB stock.
(3) Includes advance payments by borrowers for taxes and insurance (mortgage escrow deposits).
(4) The spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(5) The net interest margin, also known as the net yield on average interest-earning assets, represents net interest income as a percentage of average interest-earning assets.
(6) Yields are not computed on a tax equivalent basis.

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Rate Volume Analysis of Net Interest Income

One method of analyzing net interest income is to consider how changes in average balances and average rates from one period to the next affect net interest income. The following table shows changes in the dollar amount of interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It shows the amount of the change in interest income or expense caused by either changes in outstanding balances ("Volume") or changes in interest rates ("Rate"). The effect of a change in volume is measured by multiplying the average rate during the first period by the volume change between the two periods. The effect of a change in interest rates is calculated by multiplying the change in rate between the two periods by the average volume during the first period. Changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Three months ended June 30,			Nine months
	2006 vs. 2005			2006
	Increase (Decrease) Due To:			Increase (D
	Volume	Rate	Total	Volume
			(Dollars in thousands)	
Interest-earning assets:				
Loans	$ 220	$ 18	$ 238	$ 757
Securities	(16)	10	(6)	(33)
Other short-term investments	(1)	6	5	(13)
Total interest-earning assets	203	34	237	711

Interest-bearing liabilities:					
Savings and club accounts	(1)	(1)	(2)	--	
Time certificates	64	114	178	83	
NOW and money market accounts	--	5	5	--	
Borrowings	21	69	90	221	
Total interest-bearing liabilities	84	187	271	304	
Net change in net interest income	$ 119	$ (153)	$ (34)	$ 407	$

Comparison of Financial Condition at June 30, 2006 and September 30, 2005.

During the nine months from September 30, 2005 through June 30, 2006, total assets increased $5.3 million, or 4.33%, from $122.5 million to $127.8 million. Net loans increased by $5.3 million, or 5.48%, from $96.7 million to $102.0 million during the same period. The increase in loans resulted from increases of $4.9 million in residential real estate loans, $0.5 million in commercial real estate loans, and $0.2 million in other commercial loans, combined with a decrease of $0.3 million in other consumer loans. The decrease in other consumer loans was the result of a decrease in automobile loans.

Borrowed funds from FHLB, consisting of advances and security repurchase obligations, were $31.6 million on June 30, 2006, down from $36.8 million at September 30, 2005. The decrease of $5.2 million in borrowed funds was the result of purchasing brokered deposits through the Promontory Interfinancial Network's Certificate of Deposit Account Registry Service(R) (or "CDARS"). This program provides an alternative funding source along with FHLB borrowings for loan growth when local deposit growth is not sufficient by itself at prices that

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are similar to the costs of FHLB borrowings. Deposits increased $10.2 million, or 15.9%, during the nine months from $64.0 million to $74.2 million. Increases in demand deposits, savings and time deposits of $0.6 million, $0.8 million and $8.9 million, respectively, more than offset a decrease of $0.1 million in NOW and money market accounts. Deposits purchased from the CDARS program accounted for $6.9 million of the increase in time deposits.

Shareholders' equity increased by $758,000 during the first nine months of this fiscal year, as net income of $890,000 combined with $119,000 from the allocation of ESOP and MRP shares and $31,000 from the exercise of stock options, more than offset the payment of a cash dividend of $147,000 to our shareholders and a decrease of $135,000 in the unrealized gains, net of taxes, in the available-for-sale securities portfolio. Treasury stock was used to supply 6,650 shares needed when five directors exercised some of their vested stock options.

At June 30, 2006, non-performing assets were 0.36% of total assets, up from 0.33% at September 30, 2005. Non-performing loans were 0.39% of total loans at June 30, 2006 and September 30, 2005. A summary of the Company's non-performing assets and related ratios follows (dollars in thousands):

Non-performing assets	June 30, 2006	September 30, 2005

Non-accrual loans		
Residential mortgages And home equity loans	$ 136	$ 115
Commercial mortgages	250	275
Consumer other	17	3
Commercial other	--	--
Total non-accrual loans	403	393
Restructured commercial mortgage	--	--
Restructured commercial other	--	--
Total non-performing loans	403	393
Foreclosed real estate	43	--
Other repossessed assets	11	6
Total non-performing assets	$ 457	$ 399
Non-performing loans to total loans	0.39%	0.39%
Non-performing assets to total assets	0.36%	0.33%

The Company had no loans more than 90 days delinquent and accruing at June 30, 2006 or September 30, 2005.

Two residential mortgages totaling $81,000 in non-accrual loans are in foreclosure, while the third loan in this category in the amount of $55,000 is being settled in an estate. The one commercial mortgage loan in non-accrual is in foreclosure proceedings.

Management believes that these non-performing loans are adequately secured by collateral. Further, management is not aware of any factors common to these loans, which caused their non-performance or any developments that suggest an upward trend in delinquencies. Accordingly, while we will continue to monitor asset quality, management has determined that a $52,000 increase in the loan loss allowance to $921,000 at June 30, 2006, is appropriate for the increase in the size of the loan portfolio during the nine months ended June 30, 2006.

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Comparison of Results of Operations for the Three Months Ended June 30, 2006 and 2005.

General. Our net income for the three months ended June 30, 2006 was $209,000, a decrease of $37,000, or 15.04%, from last year's net income of $246,000 for the same period. The decrease in net income was the result of the combination of the following factors:

1. net interest income decreased by $34,000 as interest income increased $237,000, mainly due to the growth in loans, and interest expense increased $271,000,

2. non-interest income grew by $10,000 over last year's period,

3. the provision for loan losses decreased by $15,000 for the third

quarter of this fiscal year versus last fiscal year,

4. non-interest expense increased by $66,000 in the three month period this year compared to last year's period and

5. income taxes decreased $38,000.

Basic earnings per share were $0.09 for this year's quarter versus $0.11 in last year's quarter, while diluted earnings per share were $0.09 and $0.11, respectively.

Interest Income. Interest income increased $237,000, or 14.45%, from $1,640,000 for the three months ended June 30, 2005 to $1,877,000 for the three months ended June 30, 2006. An increase of 19 basis points (0.19%) in the average interest rate earned on our interest-earning assets resulted in an increase of $34,000 in interest income, while an $11.6 million increase in the average balance of interest-earning assets resulted in an increase of $203,000 in interest income.

Interest income on loans increased by $238,000, or 15.87%. The yield on loans was 6.71% for the three month periods ending June 30, 2006, an increase of 8 basis points (0.08%), resulting in an increase of $18,000 in interest income, while an increase of $13.2 million in the average balance of loans from $90.7 million to $103.9 million resulted in an increase of $220,000 in interest income.

Interest income on securities and other short-term investments decreased by $1,000, or 0.71% for the quarter ended June 30, 2006 versus the quarter ended June 30, 2005. An increase in the yields on our securities portfolio of 34 basis points, or 0.34% from 4.07% in last year's quarter to 4.41% in this year's quarter resulted in an increase of $10,000 in interest income while a decrease of $1.5 million in the average balance of securities over the same period reduced interest income by $16,000. A 199 basis point, or 1.99% increase in the average interest rate earned on other short-term investments increased interest income by $6,000, while a decrease of $0.1 million in the average balance of other short-term investments decreased interest income by $1,000.

Interest Expense. Interest expense increased $271,000, or 48.48%, in the third quarter of fiscal 2006 versus fiscal 2005. An increase of 82 basis points (0.82%) in the average rate we paid on interest-bearing liabilities from 2.45% last year to 3.27% this year resulted in an increase of $187,000 in interest expense, while an increase of $10.2 million from $91.5 million to $101.7 million in the average balance of interest-bearing liabilities resulted in an $84,000 increase in interest expense.

Interest expense decreased $2,000, or 3.77%, on savings and club accounts as a decrease in the average rate paid of 3 basis points (0.03%) from 1.05% in last year's quarter to 1.02% in this year's quarter decreased interest expense by $1,000, while a decrease of $0.2 million in the average balance from $20.2 million last year to $20.0 million this year decreased interest expense by

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$1,000. Interest expense increased on NOW and money accounts, time deposits and borrowed funds by $5,000, $178,000 and $90,000, respectively. The average rate we paid on NOW and money market accounts increased by 16 basis points, or 0.16%, resulting in a $5,000 increase in interest expense, while an increase of $0.2 million in the average balance of NOW and money market accounts resulted in no change in interest expense. An increase of 131 basis points, or 1.31%, in the average rate we paid on time deposits increased interest expense by $114,000, while an increase in the average balance of time deposits of $8.1 million

resulted in an increase of $64,000 in interest expense. The cost of our borrowed funds increased by 87 basis points, or 0.87%, resulting in an increase of $69,000 in interest expense, while an increase in the average balance of borrowed funds of $2.2 million resulted in an increase of $21,000 in interest expense.

Net Interest Income. Our net interest income decreased by $34,000 for the three month period ending June 30, 2006 as compared to the three month period ending June 30, 2005, as interest income increased by $237,000 and interest expense increased by $271,000, as described above.

Starting in June 2004, the Federal Reserve has raised short term interest rates in seventeen increments of 25 basis points each, a total 425 basis points (4.25%). During this period, long term interest rates have increased very little as evidenced by the fact that the average ten-year treasury rate was 4.73% in June 2004 and 5.11% in June 2006. The flattened yield curve (in which the spread between the two-year and ten-year treasuries is less than 20 basis points), has negatively affected our third quarter net interest income as compared to the same period last year, because we have had to raise our deposit rates in response to our competition and pay higher rates on our borrowings, without a similar increase in our loan yields. During previous periods in this interest rate environment, we have been able to compensate for the compressed spread by growing the volume of our loan portfolio. However, that strategy depends on having an initial spread high enough to absorb future rate increases to the liabilities allocated to the new loans throughout the life of the loans. Since the initial spreads have been reduced to unacceptable levels, we have raised loan rates and effectively reduced loan demand and can no longer grow loans at the pace necessary to offset the reduced margin. Therefore, a continuation of the Federal Reserve's current approach to short term interest rates will depress the Company's net interest income and earnings in future periods.

Our interest rate spread (the difference between the average rate we earn and the average rate we pay) decreased by 63 basis points, or 0.63%, from 3.82% in last year's quarter to 3.19% in this year's quarter. Also, net interest margin decreased by 73 basis points (0.73%) to 3.60% in the third fiscal quarter of 2006, down from 4.13% in the corresponding quarter of 2005.

Average capital represented 16.6% of average interest-earning assets for the quarter ended June 30, 2006, while it represented 17.5% of average interest-earning assets for the same quarter last year. The decrease in the capital ratio, which reflects an increase in leverage, reflects that our growth in interest-earning assets from the last fiscal year has been greater than our equity growth for the same period. Our ratio of average interest-earning assets to average interest-bearing liabilities was 1.15 times in both 2005 and 2006.

Provision for Loan Losses. The provision for loan losses results from our analysis of the adequacy of the allowance for loan losses. If we believe that the allowance should be higher, then we increase it, with a charge to provision for loan losses, which is an expense on our income statement. In determining the appropriate provision for loan losses, management considers the level of and trend in non-performing loans, the level of and trend in net loan charge-offs, the dollar amount and mix of the loan portfolio, as well as general economic conditions and real estate trends in the Company's market area, which can impact the inherent risk of loss in the Company's portfolio. Furthermore, the OTS may disagree with our judgments regarding the risks in our loan portfolio and could require us to increase the allowance in the future.

For the three months ended June 30, 2006, we provided $15,000 for loan losses, compared to $30,000 in the same quarter last year. At June 30, 2006 and 2005, the ratio of our loan loss allowance to total loans was 0.88% and 0.87%, respectively. On March 31, 2006, the allowance was $893,000, or 0.89% of total loans, and we determined at the end of the third quarter that the appropriate

level for the allowance was $921,000. We had charge-offs during the quarter of $1,000 and recoveries of $14,000, so a $15,000 provision was necessary to reach the desired level for the allowance.

Our level of non-accruing loans, loans 90 days and still accruing and restructured loans was $403,000, or 0.39% of total loans at June 30, 2006 compared to $402,000, or 0.40% of total loans at March 31, 2006. There was a slight decrease in the ratio of the loan loss allowance to total loans from 0.89% at March 31, 2006 to 0.88% at June 30, 2006.

Non-interest Income. Our non-interest income was $10,000 higher in the 2006 quarter versus the 2005 quarter. Realized gain on the sale of foreclosed assets accounted for half of that increase.

Non-interest Expenses. Our non-interest expenses increased by $66,000 from the 2005 fiscal quarter to this year's quarter. This increase was primarily due to increased costs of $49,000 for salaries and employee benefits, of which $37,000 represents an adjustment to accrued compensation expense to reflect an increased estimate of annual employee bonuses, and $19,000 in other non-interest expenses. A timing difference in the payment of membership fees to the AMEX was responsible for $17,000 of the increase as the payment was made in the second quarter of last fiscal year versus the third quarter of this fiscal year.

A recent pronouncement by the SEC has delayed the Company's required compliance with Section 404 of the Sarbanes-Oxley Act of 2002 to September 30, 2007. Section 404 requires the management of public companies to assess and report on the effectiveness of their internal controls over financial reporting. Based upon information we have received from our independent auditors and the experience of companies who, because of their market capitalization, have been required to comply with Section 404 earlier than we, we anticipate that our internal and external audit and related fees will increase as we put in place the systems, policies and procedures necessary to comply with Section 404. While we cannot quantify the compliance costs at this time, we expect that such costs will materially and permanently increase our non-interest expense.

In May 2006, the SEC and the Public Company Accounting Oversight Board separately announced a series of steps they intend to take to improve the implementation of the Sarbanes-Oxley Section 404 internal control requirements. The announcements effectively communicate that the SEC will not exempt smaller, public companies from the requirements of Section 404, as was recommended by the SEC's Advisory Committee on Smaller Public Companies.

The SEC's planned actions include a "short" further postponement of the effective date for implementation of Section 404 for non-accelerated filers. The announcement did not specify a new effective date, but indicated that the additional postponement period would be short and that all filers would be required to comply with the management assessment requirements of Section 404 for fiscal years beginning on or after December 16, 2006. If that date is approved, our required compliance would be delayed to September 30, 2008.

At June 30, 2006 and 2005 we had thirty-three full-time and one part-time employees.

Income tax expense. Our income tax expense decreased by $38,000, or 19.4%, from $144,000 for the third quarter of fiscal 2005 to $106,000 for the same quarter of fiscal 2006. The decreased expense was the result of lower income before income tax of $75,000, or 19.2%, from $390,000 for the first nine months last fiscal year to $315,000 for the first nine months of this fiscal year. Our

effective tax rate was 33.7% for the three months ended June 30, 2006 compared to 36.9% for the same period in 2005.

Comparison of Results of Operations for the Nine Months Ended June 30, 2006 and 2005.

General. Our net income for the nine months ended June 30, 2006 was $890,000, an increase of $154,000 from last year's $736,000, or 20.9%. The following operating results combined to produce the increase:

1. net interest income increased by $64,000 as interest income increased $826,000 and interest expense increased $762,000,

2. provision for loan losses decreased by $35,000,

3. non-interest income improved by $166,000 ($62,000 of which derives from life insurance income related to the death of Director Straw and $48,000 is from realized gains on the sale of foreclosed assets),

4. non-interest expenses increased $89,000 and

5. income taxes increased by $22,000 as a result of the increase in pre-tax income.

Basic earnings per common share and diluted earnings per common share were $0.40 and $0.39, respectively, for the first nine months of this fiscal year and both were $0.33 for the first nine months of the last fiscal year.

Interest Income. Interest income increased by $826,000, or 17.57%, from $4,702,000 for the nine months ended June 30, 2005 to $5,528,000 for the nine months ended June 30, 2006. Average interest-earning assets increased $12.7 million, or 12.43%, from $102.2 million for the first nine months of fiscal year 2005 to $114.9 million for the same period this year. The increase was the result of a $15.2 million increase in the average balance of loans from $87.3 million in fiscal 2006 to $102.5 million in fiscal 2006, partially offset by decreases in securities and other investments of $2.5 million from $14.9 million last year to $12.4 million this year.

The average interest rate we earned on our interest-earning assets was 28 basis points (0.28%) higher in the first nine months this year than last year as the average rate rose from 6.15% last year to 6.43% this year. The average rate earned on loans increased 9 basis points (0.09%) from 6.58% last year to 6.67% this year, while the average rate earned on securities increased by 65 basis points, or 0.65%, from 3.79% last year to 4.44% this year, and the average rate on other short-term investments, primarily FHLB deposits, increased by 280 basis points (2.80%) from 2.28% to 5.08%.

The increase in the average interest rate earned on loans resulted in an increase of $60,000 in interest income, while the increase in the average balance of loans increased interest income by $757,000, totaling an $817,000 increase in interest income for the loan portfolio.

For securities and other short-term investments, an increase in interest rates earned resulted in an increase in interest income of $55,000, while a decrease in the average balances decreased interest income by $46,000 resulting in a net increase of $9,000 in interest income.

Overall, the increases in the average interest rates increased interest income by $115,000, while the increase in the volume of interest-earning assets

produced a $711,000 increase in interest income, for a total increase of $826,000 in interest income.

Interest Expense. Interest expense increased by $762,000 from $1,555,000 for the first nine months of 2005 to $2,317,000 for the first nine months of 2006 as a result of both interest rate increases and an increase in average interest-bearing liabilities. An increase of 76 basis points (0.76%) in the average rate we paid on interest-bearing liabilities from 2.33% in 2005 to 3.09% in 2006 increased interest expense by $458,000, while an increase in the average balance of interest-bearing liabilities of $11.2 million, from $89.2 million at June 30, 2005 to $100.4 million at June 30, 2006, resulted in additional interest expense of $304,000.

Interest expense increased on NOW and money market accounts, time deposits and borrowings by $21,000, $339,000 and $406,000, respectively, while it decreased $4,000 on savings and club accounts for the nine months ending June 30, 2006 versus the nine months ending June 30, 2005. These changes were comprised of the following components:

1. the average rate we paid on savings and club accounts decreased by 2 basis points (0.02%) from 1.04% to 1.02%, resulting in a decrease of $4,000 in interest expense, while a decrease of $0.1 million in the average balance of these accounts, from $20.0 million to $19.9 million, resulted in no change in interest expense,

2. the average rate we paid on NOW and money market accounts increased by 24 basis points (0.24%) from 0.91% to 1.15%, resulting in an increase of $21,000 in interest expense, while an increase of $0.1 million, from $11.7 million to $11.8 million in the average balance of these accounts resulted in no change in interest expense, and

3. the average interest rate on time deposits increased 106 basis points (1.06%) from 2.62% to 3.68%, resulting in a $256,000 increase in interest expense, while a $3.9 million increase in the average balance of time deposits, from $29.5 million to $33.4 million, increased interest expense by $83,000.

4. an increase of 79 basis points (0.79%), from 3.54% to 4.33% on the average rate we paid on borrowed funds increased interest expense by $185,000, while an increase of $7.4 million in the average amount of those borrowings, from $28.0 million to $35.4 million, increased interest expense by $221,000 and resulted in a total increase of $406,000.

Net Interest Income. The net effect of the increases in interest income and interest expense was a $64,000 increase in net interest income from the first nine months of the 2005 fiscal year to the first nine months of the 2006 fiscal year. Our interest rate spread (the difference between the average rate we earn and the average rate we pay) decreased by 48 basis points (0.48%) from 3.82% last year to 3.34% this year. Net interest margin decreased by 38 basis points from 4.12% for the first nine months of fiscal 2005, to 3.74% for the first nine months of fiscal 2006.

Average capital represented 16.6% of average interest-earning assets for the nine months ended June 30, 2006, while it represented 17.8% of average interest-earning assets for the same period in 2005. Our ratio of average interest-earning assets to average interest-bearing liabilities was 1.15 times in both 2006 and 2005.

Provision for Loan Losses. Year to date, we had charge-offs of $41,000 and recoveries of $28,000. We provided $65,000 for loan losses for the first nine months of this fiscal year as compared to $100,000 for the first nine months of the past fiscal year. At June 30, 2006 and 2005 the ratio of our loan loss allowance to total loans was 0.88% and 0.87%, respectively. As disclosed in the comparison of financial condition discussion, our level of non-accruing loans, loans 90 days and still accruing and restructured loans was $403,000, or 0.39% of total loans at June 30, 2006 compared to $393,000, or 0.39% of total loans at September 30, 2005. Management feels that these loans are adequately secured and do not require any adjustment to the allowance for loan losses.

Non-interest Income. Our non-interest income was $166,000 higher for the first nine months of this year versus the same period last year. The increase resulted in most part from $62,000 in death benefit income on life insurance policies, as well as realized gains on the sale of foreclosed assets, which increased by $48,000, realized gains on sales of loans held for sale, which increased by $24,000 from a $17,000 loss last year to a $7,000 gain this year and service charges which increased by $26,000.

Non-interest Expense. Non-interest expenses increased by $89,000 for the first nine months of fiscal 2006 compared to fiscal 2005. Increases in salaries & benefits, directors fees, occupancy and equipment cost, postage and supplies and professional fees of $28,000, $14,000, $34,000, $17,000 and $7,000 respectively, partially offset by a decrease of $12,000 in data processing costs, accounted for most of the increase.

Income tax expense. Our income tax expense year-to-date increased by $22,000, or 5.2%, from $425,000 last year to $447,000 this year. The increased expense was the result of higher income before income tax of $176,000, or 15.2%, from $1,161,000 for the first nine months last fiscal year to $1,337,000 for the first nine months of this fiscal year. Our effective tax rate was 33.4% for the nine months ended June 30, 2006 compared to 36.6% for the same period in 2005. The effective rate was reduced in part because the death benefit from life insurance is non-taxable.

Liquidity and Capital Resources

Our primary sources of funds are deposits, borrowings from the Federal Home Loan Bank, and proceeds from the principal and interest payments on loans and securities. Scheduled maturities and principal payments on loans and securities are predictable sources of funds. We can also control the funds available from borrowings to a certain extent. However, general economic conditions and interest rate conditions can cause increases or decreases in deposit outflows and loan pre-payments, which can also affect the level of funds we have available for investment.

In general, we manage our liquidity by maintaining a sufficient level of short-term investments so funds are readily available for investment in loans when needed. During the nine months ended June 30, 2006, we increased our cash and cash equivalents by $1,830,000. We have originated $22.8 million of new loans. However, loans, net, after payments, charge-offs and transfers to foreclosed real estate, increased by $5.3 million over this period.

Deposits increased by $10.2 million during the nine months ended June 30, 2006. Deposits purchased from the CDARS program accounted for $6.9 million of this increase. In addition to factors within our control, such as our deposit pricing strategies and our marketing efforts, deposit flows are affected by the level of general market interest rates, the availability of alternate investment opportunities, general economic conditions, and other factors outside our

control. We decreased our borrowings by $5.2 million during this same period.

We monitor our liquidity regularly. Excess liquidity is invested in overnight federal funds sold and other short-term investments. If we need additional funds, we can borrow those funds, although the cost of borrowing money is normally higher than the average cost of deposits. As a member of the Federal Home Loan Bank of New York, the Bank can arrange to borrow an additional $18.1 million against our one to four family first mortgage portfolio. Our borrowing potential has increased since our last report for two reasons; 1)we were approved to a 35% of total assets borrowing limit at FHLB and 2)we have replaced some borrowings with brokered deposits. We have used borrowed funds to help us leverage capital we received from our stock sale, but have not needed borrowings to cover liquidity shortfalls. In addition to borrowings, we believe that, if we need to do so, we can attract additional deposits by increasing the rates we offer.

We measure liquidity on a monthly basis and want to maintain a liquidity ratio of between 5% and 15%. At June 30, 2006, the ratio was 6.04% as compared to 8.10% on June 30, 2005.

Off Balance Sheet Arrangements

The Company's financial statements do not reflect off-balance sheet arrangements that are made in the normal course of business. These off-balance sheet arrangements consist of unfunded loans.

We had $3.9 million in outstanding commitments to make loans at June 30, 2006, along with $4.3 million of unused home equity, commercial and overdraft lines of credit. We also have a commitment to sell the $2.2 million guaranteed portion of a USDA guaranteed loan we originated. We are awaiting final USDA approval for the sale. We anticipate that we will have enough liquid funds to meet our current loan commitments, purchase commitments and to fund draws on the lines of credit through the normal turnover of our loan and securities portfolios. At June 30, 2006, we had $31.8 million of time certificates scheduled to mature within one year. We anticipate that we can retain

substantially all of those deposits if we need to do so to fund loans and other investments as part of our efforts to grow and leverage our capital.

Capital Resources

The OTS has minimum capital ratio requirements applying to the Bank, but there are no comparable minimum capital requirements that apply to the Company as a savings and loan holding company. At June 30, 2006, the Bank exceeded all regulatory capital requirements of the OTS applicable to it, with Tier I capital of $19.2 million, or 14.9% of average assets and with total risk-based capital of $20.0 million, or 27.1% of risk-weighted assets. The Bank also had tangible capital of $19.2 million, or 14.9% of average tangible assets. The Bank was classified as "well capitalized" at June 30, 2006 under OTS regulations.

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The term "disclosure controls and procedures" is defined in Rule 13a-14(c) of the Securities Exchange Act of 1934, or (the "Exchange Act"). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Our Chief Executive Officer and our Chief Financial Officer have evaluated the

effectiveness of our disclosure controls and procedures as of June 30, 2006, and they have concluded as of that date, our disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

(b) Changes in Internal Controls. There were no significant changes to our internal controls or in the other factors that could significantly affect our internal controls during the quarter ended June 30, 2006, including any corrective actions with regard to significant deficiencies and material weakness.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company and the Bank are subject to legal actions, which involve claims for monetary relief. Management, based on the advice of counsel, does not believe that any currently known legal actions, individually or in the aggregate, will have a material effect on the Company's consolidated financial condition or results of operations.

Item 6. Exhibits

31.1 Certification of Principal Executive Officer pursuant to Rule 13a - 14(a)/15d - 14(a)

31.2 Certification of Principal Financial Officer pursuant to Rule 13a - 14(a)/15d - 14(a)

32.1 Certification of Principal Executive Officer pursuant to Section 1350

32.2 Certification of Principal Financial Officer pursuant to Section 1350

SIGNATURES

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

Gouverneur Bancorp, Inc.

Date: August 4, 2006

By: /s/ RICHARD F. BENNETT

Richard F. Bennett
President and Chief Executive Officer
(principal executive officer and officer duly authorized to sign on behalf of the registrant)

By: /s/ ROBERT J. TWYMAN

Robert J. Twyman
Vice President and Chief Financial Officer
(principal financial officer duly authorized to sign on behalf of the

registrant)