GOUVERNEUR BANCORP INC
Form 10KSB
December 19, 2006

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

FORM 10-KSB

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

For the fiscal year ended September 30, 2006

Commission file number 001-14910

GOUVERNEUR BANCORP, INC.
(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

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share	American Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None

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 [ ].

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

Gouverneur Bancorp, Inc.'s revenues for the fiscal year ended September 30, 2006 were $8,448,000.

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average of the final closing price of such stock on December 11, 2006, was approximately $9,767,000. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of December 11, 2006, there were 2,297,759 issued and outstanding shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part II of Form 10-KSB-Annual Report to Stockholders for the fiscal year ended September 30, 2006. Part III of Form 10-KSB-Portions of Proxy Statement for 2007 Annual Meeting of Stockholders.

Transitional Small Business Disclosure Format. YES [ ] NO [X]

PART I

Item 1. Description of Business

General

Gouverneur Bancorp, Inc. ("We" or the "Company") is a corporation organized under the laws of the United States. The Company's assets consist primarily of all the outstanding capital stock of its wholly owned subsidiary, Gouverneur Savings and Loan Association (the "Bank") and its principal business is the ownership of the Bank. At September 30, 2006, 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 the issued and outstanding common stock. The Company is a savings and loan holding company registered with the Office of Thrift Supervision ("OTS") and subject to regulation under federal banking laws and regulation. In this document, references to the Company include the Bank, unless the context denotes otherwise, and references to the "Registrant" refer to the Company.

The Company's business consists of gathering deposits from the general public within its market area and investing those deposits primarily in loans, debt obligations issued by the U.S. Government and its agencies, and mortgaged-backed securities. The Company's loans are mainly residential mortgage loans secured by one-to-four family residences with the balance of the portfolio composed of commercial mortgage loans, other consumer loans (mostly automobile loans), and other non-real estate commercial loans.

The Company's revenues come principally from interest on loans and securities. The Company's primary sources of funds are deposits, borrowings from the Federal Home Loan Bank of New York ("FHLB") and proceeds from principal and interest payments on loans and securities. At September 30, 2006, the Company had $130.1 million in assets, $72.5 million in deposits, $35.3 million in borrowings from the FHLB and $19.9 million in total equity, as compared with last year's balances of $122.5 million, $64.0 million, $36.8 million and $18.7 million, respectively. Net loans increased by $8.8 million, or 9.1%, from $96.8 million on September 30, 2005 to $105.6 million on September 30, 2006.

The Company's offices are located at 42 Church Street, Gouverneur, New York 13642. Our telephone number is (315) 287-2600.

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 annual report or in any press releases, public announcements, filings with the Securities and Exchange Commission (the "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 provide, such as analysis of the adequacy of our allowance for loan losses or an analysis of the 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 about anticipated financial performance, business prospects, transactions 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 we anticipate when we make our forward-looking statements. Some of the risks and uncertainties that may affect our operations, performance, profitability and results, the interest rate sensitivity of our assets and liabilities, and the adequacy of our allowance for loan losses, include, without limitation: (i) 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; (ii) changes in the market interest rates

or changes in the speed at which market interest rates change; (iii) changes in laws and regulations affecting us; (iv) changes in competition; and (v) 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.

Market Area

The Bank, a community oriented financial institution, which was chartered in 1892, has been headquartered in the Town and Village of Gouverneur since its formation. The Bank's deposits are insured, up to the applicable limits, by the Federal Deposit Insurance Corporation ("FDIC"). Through the Bank's two full service branch offices and one lending office, the Company services a primary market area consisting of southern St. Lawrence County and northern Jefferson and Lewis Counties in New York State. The Company estimates that the population in this market area is approximately 100,000. The Company's market area is predominately rural with many small towns. The population works in diverse industries, including manufacturing, agriculture, retail trades, construction, mining, health care, education and government service.

The largest private employers in the market area are a mining company and a paper mill. Two area paper mills remain out of production with no signs of opening. A zinc mining operation did re-open this past year and currently has approximately 180 employees and expects to create another 20 jobs in the near future. This has been extremely good news since the mine is located squarely within the Bank's market area and directly benefits our community's economy. The price of zinc has been rising due to increased demand on the world market. Prices are expected to continue higher since demand exceeds current production.

Fort Drum, a major military installation, is located at the southern edge of the Company's primary market area. The market area for our Alexandria Bay and Clayton offices is dominated by tourist related businesses along the St. Lawrence River. The two largest resort hotels are year round businesses, while most others are seasonal and service the expanded spring and summer population.

Most of the full-time residents are employed in Watertown, NY, the largest city in the Company's three-county market area, with a population of about 30,000, and the county seat for Jefferson County. The New York State Department of Transportation and Jefferson County offices are both located in Watertown and are major employers. There are several small to medium sized manufacturers, including a paper mill in Watertown. Watertown provides the major retail shopping center for the three counties and also attracts shoppers from Canada who enter the United States via the Thousand Islands Bridge and travel approximately 30 miles to Watertown.

Economic and demographic conditions in the Company's market area pose significant challenges for the Company. Per capita income and median home values in our market area are below New York State and national levels. Unemployment in each of the three counties in the Company's market area is higher than statewide and national unemployment rates. Furthermore, the local population is showing little or no growth, as the 2001 Census showed less than a 1.0% increase in the area since 1990, versus the statewide increase of 5.5%. These conditions are believed to extend to communities adjoining the Company's market area as well.

Competition

The Company's principal competitors for deposits are other savings and loan associations, savings banks, commercial banks and credit unions in the Company's market area, as well as money market mutual funds, insurance companies and securities and brokerage firms, many of which are substantially larger in size than the Company. The Company's competition for loans comes principally from savings banks, savings and loan associations, commercial banks, mortgage bankers, finance companies and other intuitional lenders, many of whom operate

through the internet, as well as traditional retail offices. Direct or indirect competition for loans from nationally recognized secondary market lenders has increased in recent years, having the effect of both reducing the Company's market share and driving down the interest rates it can earn on residential mortgages. The Company's principal methods of competition include loan and deposit pricing, flexible underwriting which permits variation from secondary market underwriting requirements when believed appropriate, maintaining close ties with its local community, advertising and marketing programs, local decision making and personalized services.

The Company faces competition from other financial institutions having much greater financial and marketing resources. However, the Company believes it benefits from its community bank orientation, as well as its relatively high core deposit base. Recent acquisitions of other banks in northern New York by larger institutions may have also given the Company an edge in the competition for those local residents who prefer doing business with a local financial institution.

Lending Activities

Loan Portfolio Composition. The Company's loans consist primarily of mortgage loans secured by one-to-four family residences. At September 30, 2006, the Company had total loans of $105.7 million, an increase of $8.9 million, or 9.2%, from $96.8 million at September 30, 2005. At fiscal year end $86.4 million, or 81.8%, were one-to-four family residential mortgage loans. The increase was primarily due to the continued growth of our full service office in Alexandria Bay and our lending office in Clayton. Both of these communities border the St. Lawrence River and include up-scale vacation home properties with river frontage, in addition to traditional residential properties.

We continue to originate mortgages on vacation home properties to buyers who often live and work outside of our geographic area. These loans generally have higher values than inland residences in the region and help to diversify the risk on our portfolio, since those loans are not directly tied to the local economy. However, we have been unable to establish substantial deposit relationships with most of these seasonal home borrowers, and consequently we borrowed funds from the FHLB to support this lending activity. In Clayton, our residential mortgage loan portfolio grew $2.1 million from $12.6 million to $14.7 million, while in Alexandria Bay we increased residential mortgage loans $4.8 million, from $32.4 million to $37.2 million from September 30, 2005 to September 30, 2006. The Bank's main office in Gouverneur increased residential mortgage loans by $0.9 million from $33.6 million to $34.5 million over the same period. Total real estate loans, including commercial mortgages, increased to $93.9 million, or 88.9% of total loans this year from $85.1 million, or 87.9% last year.

The Company's portfolio of other consumer loans, for the most part auto loans, decreased by $0.1 million from last year's total of $10.5 million to $10.4 million this year, as automobile loans decreased by $0.3 million and other consumer loans increased by $0.2 million. The decrease in automobile loans was mainly due to a poor local automobile market. Consumer loans represent 9.8% of total loans this year versus 10.8% last year. The Company's ratio of net loans to total assets increased from 79.0% at September 30, 2005 to 81.2% at September 30, 2006.

Since hiring an experienced commercial lending officer in 2004 we have been able to pursue more local commercial lending opportunities and capture more of that business. At September 30, 2006 we had $7.5 million in commercial mortgages and $1.4 million in other commercial loans, as compared to $6.5 million and $1.2 million, respectively, at September 30, 2005. Additionally, we had $1.2 million of United States Department of Agriculture, or USDA loans, which were classified as held for sale at September 30, 2005, and were closed in October 2006 when the sales were completed. During the 2006 fiscal year, we booked $7,000 in gains on those sales. In fiscal 2007, we intend to continue to develop and manage the commercial lending business.

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Interest rates earned on the Company's loans are affected by the demand for loans, the supply of money available for lending and the rates offered by competitors. These factors are in turn affected by, among other things, economic conditions, monetary and budgetary policies of the federal government, and legislative tax policies.

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Loan Portfolio Composition

The following table sets forth the composition of the Company's mortgage and other loan portfolios in dollar amounts and in percentages at the dates indicated.

At September 30,			
2006	2005	2004	20

(dollars in thousands)

	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount
Real estate loans:							
Residential mortgages including home equities and construction loans	$ 86,416	81.77%	$ 78,616	81.24%	$ 63,580	79.26%	$ 48,660
Commercial mortgages	7,512	7.11%	6,472	6.69%	4,108	5.12%	3,624
Total real estate loans	93,928	88.88%	85,088	87.93%	67,688	84.38%	52,284
Other loans:							
Consumer other	10,369	9.81%	10,489	10.84%	8,909	11.11%	9,234
Commercial other	1,382	1.31%	1,188	1.23%	3,618	4.51%	3,378
Total other loans ...	11,751	11.12%	11,677	12.07%	12,527	15.62%	12,612
Total loans	105,679	100.00%	96,765	100.00%	80,215	100.00%	64,896
Deferred loan costs (fees), Net	911		844		699		497
Allowance for loan losses	(948)		(869)		(755)		(655
Loans, net	$ 105,642		$ 96,740		$ 80,159		$ 64,738

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Residential Mortgage Loans

Residential - First lien. Approximately 54% of the Company's residential mortgage loan portfolio is first lien, fixed-rate mortgage loans with terms up to 25 years, but predominantly for 15 to 20 years. The Company also offers adjustable-rate mortgage loans. The adjustable-rate residential mortgage portfolio was $35.6 million at year-end, or 41.2% of the Company's $86.4 million in residential mortgage loans, compared to September 30, 2005 when $31.2 million, or 39.7% of the $78.6 million in residential loans were adjustable rate loans. Customer preference has strongly favored fixed rate mortgage loans. We have been able to add more adjustable rate loans with our 5/1 ARM loan in which the rate is fixed for the first five years of the term and thereafter adjusts annually. While we have decided not to compete with the secondary fixed rate mortgage market, we have been able to compete with the adjustable rate market and increase our residential mortgage loan portfolio.

When underwriting residential mortgage loan applications, the Company considers the income and assets of the borrower, the borrower's prior credit history and the value of the collateral security for the loan. In light of the nature of the local market and competitive considerations, the Company occasionally waives adverse credit information related to the borrower if the loan is generally considered to be sound. The Company believes it has adopted prudent policies and procedures for underwriting and generally experiences a declination rate between twenty-five and thirty percent on all residential mortgage applications.

The Company obtains independent appraisals on all residential first mortgage loans and attorneys' opinions of title are required at closing. Current surveys are generally not required because the Company believes that the cost of obtaining a survey in the local market is not justified by the minimal risks involved. In most cases, the Company accepts the attorney's title opinion rather than requiring title insurance on residential mortgage loans. This practice has not resulted in losses. Private mortgage insurance is required on loans with a loan to value ratio in excess of 85%. We require real estate tax escrows on first-lien mortgage loans.

Although fixed-rate mortgage loans may adversely affect the Company's net interest income in periods of rising interest rates, the Company originates such loans to satisfy customer demand. Such loans are generally originated at higher interest rates than those offered on adjustable rate mortgage loans originated. Therefore, during periods of level or declining interest rates, these loans tend to provide higher yields than adjustable loans. Since we hold in our portfolio all of the fixed rate mortgage loans we originate, we price them higher than fixed rate mortgage loans sold in the secondary market. Selling the loans in the secondary market eliminates the interest rate risk and credit risk associated with those loans. We retain those risks and price the loans accordingly. This pricing policy makes the adjustable rate loans more attractive to the customer and has helped to increase the size of that portfolio, as it increased from 39.7% of the residential mortgage portfolio at September 30, 2005 to 41.2% at September 30, 2006. Fixed-rate residential mortgage loans originated by the Company generally include due-on-sale clauses permitting the Company to demand payment in full if the borrower sells the property without the Company's consent. Due-on-sale clauses are an important means of adjusting the rates of the Company's fixed-rate mortgage loan portfolio, and the Company has generally exercised its rights under these clauses.

Adjustable rate mortgage loans are offered with interest rates that adjust annually based on the one-year treasury bill index, plus 2.75%. Most of these loans have initial five-year periods with a fixed interest rate, after which the rate adjusts annually. Interest rate adjustments are generally limited to 2% per year for one-year adjustable loans. There is normally a lifetime maximum interest rate adjustment, measured from the initial interest rate, of 6%. Credit risks on adjustable rate loans are somewhat greater than on fixed-rate loans primarily because, as interest rates rise, so do borrowers' payments, increasing the potential for default.

The Company has enrolled in FHLB's Mortgage Partnership Funding program. This is a secondary market program similar to the Federal Home Loan Mortgage Corporation ("Freddie Mac") and Federal National Mortgage Association ("Fannie Mae") secondary market programs. We are under no obligation to sell existing mortgages, and have not sold any loans to date. However, we do want to position the Company to compete with other lenders in our market area and may use this program to offer longer-term lower rate mortgages and to provide a source of funds to originate additional loans. Management intends to continue to emphasize the origination of mortgage loans secured by one-to-four family residences while at the same time seeking to expand the Company's portfolio of other loan types.

Home Equity Loans. The Company offers a home equity line of credit secured by a residential one-to-four family mortgage, usually a second lien. The Company has sought to increase its volume of these revolving credit loans because the adjustable rates help improve the interest rate sensitivity of the Company's assets. These loans, which are offered at prime rate, provide for an initial advance period of ten years, during which the borrower pays 1/240th of the outstanding principal balance, plus interest, each month, and can borrow, repay, and re-borrow the principal balance. This is followed by a repayment period of ten years, during which the balance of the loan is repaid in principal and interest installments.

The Company also offers home equity junior mortgage loans that are fully advanced at closing and repayable in monthly principal and interest installments over a period generally not to exceed 10 years.

The maximum loan to value ratio, including prior liens, is 80% for junior mortgage loans. At September 30, 2006, the Company had $6.8 million in outstanding advances on home equity lines of credit, $3.6 million of unused home equity lines of credit and $0.1 million in regular amortizing home equity loans, as compared to $7.2 million, $3.2 million and $0.1 million, respectively, at September 30, 2005.

Construction Loans. The company offers residential single-family construction loans primarily to persons who intend to occupy the property upon completion of construction. The loans automatically convert to regular amortizing loans after construction is complete. Proceeds of the construction loan are advanced in stages as construction is completed. The loans generally provide for a construction period of not more than twelve months during which the borrower pays interest only. In recognition of the risks involved in such loans, the Company carefully monitors the construction through regular inspections. At September 30, 2006, the Company had $3.5 million of outstanding construction loans. Construction loan levels tend to increase during the summer because of the seasonal nature of residential construction, but even during the summer these loans generally do not represent more than 3% of the Company's loan portfolio. Occasionally, the Company makes construction loans for purposes other than the construction of the borrower's residence, when appropriate opportunities arise.

Commercial Mortgage Loans

The Company has been offering commercial mortgage loans to diversify risk and obtain the higher yield normally associated with this type of loan as compared with residential mortgage loans. This portfolio involves greater risk, more complex underwriting and more administration than residential real estate loans.

The Company offers commercial mortgage loans with loan-to value ratios up to 70%. The Company offers both fixed and adjustable rate commercial mortgage loans, with 71.1% of the Company's commercial mortgage loan balances at September 30, 2006 having fixed interest rates, an increase from last year's 60.3%. However, a number of the loans are five-year balloon mortgages. This results in a weighted average life for the fixed rate portfolio of approximately 8.8 years.

The Company generally requires a debt service coverage ratio of at least 120% and the personal guarantee of the principals of the borrower as additional security. The Company also requires an appraisal by an independent appraiser.

Loans secured by commercial properties generally involve a greater degree of risk than one-to-four family residential mortgage loans. Because payments on such loans are often dependent on successful operation or management of the properties, repayment may be subject to a greater extent to adverse conditions in the real estate market or the economy. We feel that the additional risk associated with this type of lending is acceptable since the Bank's strong capital position is more than sufficient to absorb losses, and because we seek to minimize these risks through our underwriting policies. The Company evaluates the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the underlying property. The factors considered by the Company include net operating income; the debt coverage ratio (the ratio of cash net income plus interest to debt service); and the loan to value ratio. When evaluating the borrower, the Company considers the financial resources and income level of the borrower, the borrower's experience in owning or managing similar property and the Company's lending experience with the borrower. The Company's policy requires borrowers to present evidence of the ability to repay the loan without having to resort to the sale of the mortgaged property.

Other Consumer Loans

Automobile Loans. The Company has tried to increase its level of automobile loans in order to increase the interest rate sensitivity of its assets and expand its customer base. Auto loans are originated both through direct contact between the Company and the borrower and indirectly through auto dealers who refer the borrowers to the Company. However, the Company underwrites the loans itself and the loan is originated in the name of the Company. The dealer is paid a flat fee for each successful referral.

The Company offers auto loans for both new and used cars. The loans have fixed rates with maturities of not more than five and a half years. At September 30, 2006, the Company had $6.8 million of auto loans, 4.2% lower than the level one year earlier. This was mainly due to a poor local automobile market. Principal is repaid quickly on auto loans because the maximum term is 66 months. That makes it necessary to add new loans to maintain portfolio level. Auto loans are offered in amounts up to 100% of the purchase price of the car. The Company evaluates the credit and repayment ability of the borrower as well as the value of the collateral in determining whether to approve a loan.

Other Consumer Loans. The Company also makes fixed-rate consumer loans either unsecured or secured by savings accounts or other consumer assets. Consumer loans generally have terms not exceeding five years. Other consumer loans, not including automobile loans, totaled $3.5 million at September 30, 2006, up $0.1 million from $3.4 million at September 30, 2005. Other consumer loans generally have higher interest rates than mortgage loans. The shorter terms to maturity are helpful in managing the Company's interest rate risk. Applications for these loans are evaluated based upon the borrower's ability to repay and the value of any collateral.

Other Commercial Loans

The Company offers commercial non-mortgage loans to local businesses for working capital, machinery and equipment purchases, expansion, and other business purposes. These loans generally have higher yields than mortgages loans, and include installment equipment financing with terms that generally do not exceed seven years, short-term working capital loans, and commercial lines of credit with annual reviews. The Company had $1.4 million of such loans on September 30, 2006, compared to $1.2 million on September 30, 2005.

Applications for these loans are generally evaluated based up the borrower's ability to repay the loan from ongoing operations. The loans normally present greater risks than mortgage loans because the collateral, if any, is often rapidly depreciable, easier to conceal and of limited value to other companies. Furthermore, changes in economic conditions and other factors outside the control of the Company, and often outside the control of the commercial borrowers, can often have a substantial effect on delinquencies. Therefore, the Company monitors these accounts on an ongoing basis after making the loan to be able to address any credit problems promptly if they occur.

Origination of loans. Loan originations come from a number of sources. Residential loan originations develop from depositors, retail customers, telephone inquiries, advertising, the efforts of the Company's loan officers, and referrals from other borrowers, real estate brokers and builders. The Company originates loans through its own efforts and does not use mortgage brokers, mortgage bankers or other non-employee fee paid loan finders except for the referral of auto loans from local dealers.

All of the Company's lending is subject to its written, nondiscriminatory underwriting standards and to loan origination procedures prescribed by the Company's Board of Directors. Loan officers have individual authority to make secured and unsecured loans up to amounts set by the Board. Residential loans in excess of $250,000, ($200,000 for non-residential loans), up to $400,000 require loan committee approval. Loans exceeding $400,000 must be approved by the Executive Committee of the Board of Directors.

Under federal law and applicable OTS regulations, the Bank may not lend more than 15% of the Bank's capital to any one borrower, with additional loans up to 10% of capital being permitted if the additional loans are secured by readily marketable collateral. At September 30, 2006, the Company's largest loan was a commercial mortgage loan located in the Company's market area with a loan balance of $2,400,000. This customer also had the largest loan relationship with the Company, combining all loans to a single borrower or related group of borrowers, at $2,475,000, below the Bank's regulatory loan limit to one borrower of $2.9 million. At September 30, 2006, both loans for this customer were current and performing in accordance with their terms.

The Company has not purchased loan servicing rights but may engage in such activities in the future.

The following table shows the contractual maturity of the Company's loan portfolio at September 30, 2006. Loans are shown as due based on their contractual terms to maturity. Adjustable rate loans are shown as maturing when the final loan payment is due without regard to rate adjustments. The table does not show the effects of loan amortization, possible prepayments or enforcement of due-on-sale clauses. Non-performing loans are shown as being due based upon their contractual maturity without regard to acceleration due to default.

	Residential mortgage	Commercial mortgage	Consumer other	Commercial other	Total
			(in thousands)		
Amount due:					
Within 1 year	$ 2,852	$ 269	$ 503	$ 87	$ 3,711
1 to 2 years	286	18	933	39	1,276
2 to 3 years	445	4	2,186	157	2,792

3 to 5 years	3,013	4,519	6,015	983	14,530
5 to 10 years	9,301	1,684	731	73	11,789
over 10 years	70,519	1,018	1	43	71,581
Total loans	$ 86,416	$ 7,512	$ 10,369	$ 1,382	$ 105,679

The following table shows, as of September 30, 2006, the amount of loans due after September 30, 2007, and whether they have fixed interest rates or adjustable interest rates.

	Fixed Rates	Adjustable Rates	Total
		(In thousands)	
Residential mortgage	$ 47,932	$ 35,632	$ 83,564
Commercial mortgage	5,342	1,901	7,243
Consumer other	9,519	347	9,866
Commercial other	1,118	177	1,295
Total	$ 63,911	$ 38,057	$ 101,968

Asset Quality

Delinquency Procedures. When a borrower fails to make a required payment on a mortgage loan, the Company attempts to cure the deficiency by contacting the borrower. Late notices are sent when a payment is more than fifteen days past due and a late charge is generally assessed at that time. The Company attempts to contact personally any borrower who is more than 30 days past due. When a mortgage loan is 90 days past due, the Company sends a 30 days notice of acceleration and if the loan is not brought current by the end of that period, the loan is turned over to an attorney for collection, with foreclosure generally commenced within 30 to 60 days thereafter. A foreclosure action, if the default is not cured, generally leads to a judicial sale of the mortgaged real estate. If the borrower files a bankruptcy petition, the judicial sale is delayed and the foreclosure action cannot be continued until the Company obtains relief from the automatic stay provided by the bankruptcy code. The Company has experienced losses due to delays caused by borrower bankruptcy filings.

If the Company acquires the mortgaged property at foreclosure sale or accepts a voluntary deed in lieu of foreclosure, the acquired property is then classified as foreclosed real estate. At September 30, 2006, the Company had no foreclosed real estate. The Company seeks to dispose of these properties through real estate brokers. Due to adverse local economic conditions in the residential housing market, the disposition of foreclosed real estate can take six months or more. When real estate is acquired in full or partial satisfaction of a loan, it is initially recorded at the fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Write-downs from the unpaid loan balance to fair value at the time of foreclosure are charged to the allowance

for loan losses. Subsequent revenue and expenses from operations and changes in the valuation allowance are charged to other expense. The Company is permitted to finance sales of foreclosed real estate by "loans to facilitate", which may involve a lower down payment or a longer repayment term or other more favorable features than generally would be granted under the Company's underwriting guidelines. At September 30, 2006, the Company had fifteen "loans to facilitate," totaling $386,000, of which two loans totaling $61,000 were not current in accordance with their terms.

Late notices are sent on all consumer loans when a payment is more than 10 days past due. When an automobile loan becomes 60 days past due, the Company seeks to repossess the collateral. If the default is not cured, then upon repossession the Company sells the automobile as soon as practicable by public notice and auction. The remaining balance of the loan is fully charged off when the loan is 120 days past due. When other types of non-mortgage loans become past due, the Company takes measures to cure defaults through contacts with the borrower and takes appropriate action, depending upon the borrower and the collateral, to obtain repayment of the loan. The Company had one repossessed asset in the amount of $11,000 at September 30, 2006.

The following table sets forth the Company's loan delinquencies by type, by amount and by percentage of each loan category at September 30, 2006.

	Loans Delinquent For:					
	60-89 Days			90 Days or More (1)		
				(Dollars in thousands)		
	No.	Amount	Percent of loan category	No.	Amount	Percent of loan category
Residential mortgage	16	$ 603	0.70%	11	$ 411	0.47%
Commercial mortgage	--	--	0.00%	1	247	3.29%
Consumer other	4	19	0.18%	7	22	0.21%
Commercial other	--	--	0.00%	--	--	0.00%
Total	20	$ 622	0.59%	19	$ 680	0.64%

(1) These loans are included as non-accrual loans in the following table on non-performing assets.

The following table presents information with respect to the Company's non-performing assets (which generally include loans that are delinquent for 90 days or more, restructured loans and foreclosed real estate) at the dates indicated.

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	At September 30,			
	2006	2005	2004	2003
	(Dollars in thousands)			
Non-accrual loans:				

Residential mortgage	$ 183	$ 115	$ 247	$ 198	$
Commercial mortgage	275	--	83	41	
Consumer other	22	3	5	85	
Commercial other	--	--	--	112	
Total non-accrual loans	452	393	252	478	
Restructured commercial mortgage	--	--	104	225	
Restructured commercial other	--	--	24	--	
Residential mortgage loans over 90 days delinquent and still accruing	228	--	--	--	
Total non-performing loans	680	393	380	703	
Foreclosed real estate	--	--	53	92	
Other repossessed assets	11	6	9	29	
Total non-performing assets	$ 691	$ 399	$ 442	$ 824	$
Non-performing loans as a percent of total loans	0.64%	0.39%	0.47%	1.08%	
Non-performing assets as a percent of total assets	0.53%	0.33%	0.42%	0.92%	
Allowance for loan losses as a percent of non-performing loans	139.41%	221.12%	198.68%	93.17%	

The Company had six residential mortgage loans totaling $228,000 which were more than 90 days delinquent and accruing interest at September 30, 2006, but no such loans at September 30, 2005, 2004, 2003 or 2002.

During fiscal 2006, the Bank's non-performing assets increased from $399,000 to $691,000. Non-performing loans increased by $287,000 to $680,000 at September 30, 2006 from $393,000 at September 30, 2005, represented 0.64% of total loans versus 0.39% a year earlier. During fiscal 2006, we incurred no losses associated with the $393,000 of non-performing loans at September 30, 2005. Currently, three of the five residential non-accrual mortgages are in foreclosure proceedings and one paid off in October 2006, while one of the six mortgage loans, in the amount of $102,000, that was over 90 days delinquent and still accruing is now non-accrual.

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. Management determined that a $100,000

provision for loan losses was appropriate for 2006 due to the general growth of the loan portfolio and specifically the residential mortgage loan portfolio growth of $7.8 million.

At September 30, 2006, there were no loans other than those included in the table above with regard to which management had information about possible credit problems of the borrower that caused management to seriously doubt the ability of the borrower to comply with the present loan repayment terms. The

Bank's ratio of non-performing assets to total assets was below 1% for the ninth straight year.

It is the Company's policy to discontinue accruing interest on a loan when its fourth monthly payment is due and unpaid, unless the Company determines that the nature of the delinquency and the collateral are such that collection of the principal and interest on the loan is reasonably assured. When the accrual of interest is discontinued, all accrued but unpaid interest is charged against current period income. Generally, once the accrual of interest is discontinued, the Company records interest as and when received until the loan is restored to accruing status. However, if there is substantial doubt as the collectibility of the loan, amounts received are recorded as a reduction of principal until the loan is returned to accruing status.

The amount of additional interest income that would have been recorded on non-accrual loans had those loans been performing in accordance with their terms was approximately $28,000 for fiscal 2006 and $15,000 for fiscal 2005.

Classified Assets. OTS regulations require that the Company classify its assets on a regular basis and establish prudent valuation allowances based on such classifications. In addition, in connection with examinations, OTS examiners have the authority to identify problem assets and, if appropriate, require that they be classified. There are three adverse classifications for problem assets: Substandard, Doubtful and Loss. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets, with the additional characteristics that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high probability of loss. An asset classified as Loss is considered not collectible and of such little value that its continuance as an asset on the financial statements of the Company is not warranted.

Assets classified as Substandard or Doubtful require the Company to establish prudent valuation allowances. If an asset or portion thereof is classified as Loss, the Company must either establish a specific allowance for loss equal to 100% of the portion of the asset classified Loss or charge off such amount. If the Company does not agree with an examiner's classification of an asset it may appeal this determination. On the basis of management's review of its loans and other assets at September 30, 2006, the Company had $532,000 of assets classified as Substandard and none classified as Doubtful or Loss.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risks inherent in the Company's loan portfolio. The allowance for loan losses is maintained at an amount management considers appropriate to cover loan losses deemed probable by our estimates. The allowance is based upon a number of factors, including asset classifications, economic trends, industry experience and trends, industry and geographic concentrations, estimated collateral values, management's assessment of the credit risk inherent in the portfolio, historical loan loss experience and the Company's underwriting policies. The Company evaluates, on a monthly basis, all loans identified as problem loans, including all non-accrual loans and other loans where management has reason to doubt collection in full in accordance with original payment terms. The Company considers whether the allowance should be adjusted to protect against risks associated with such loans. In addition, the Company applies a percentage, for each category of performing loans not designated as problem loans, to determine an additional component of the allowance to protect against unascertainable risks inherent in any portfolio of performing loans.

The analysis of the adequacy of the allowance is reported to and reviewed by the Board of Directors quarterly. Management believes it uses a reasonable and prudent methodology to project losses in the loan portfolio, and hence assess the adequacy of the allowance for loan losses. However, any such assessment is only an informed estimate and future adjustments may be necessary if economic conditions or the Company's actual experience differ substantially from the assumptions upon which the evaluation of the allowance was based. Furthermore, state and federal regulators, in reviewing the Company's loan portfolio as part of a future regulatory examination, may request the Company to increase its allowance for loan losses, thereby negatively affecting the Company's financial condition and earnings at that time. Moreover, future additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of management's control.

The following table analyzes activity in the Company's allowance for loan losses during the periods indicated. Loans in the consumer other category are primarily automobile loans.

	At September 30,				
	2006	2005	2004	2003	
	(Dollars in thousands)				
Allowance, beginning of period	$ 869	$ 755	$ 655	$ 671	$
Provision for loan losses	100	140	135	95	
Charge-offs:					
Residential mortgage & home equity	9	15	--	33	
Commercial mortgage	--	--	--	18	
Consumer other	42	58	63	85	
Commercial other	--	6	58	52	
Total charge-offs	51	79	121	188	
Recoveries:					
Residential mortgage & home equity	15	15	9	16	
Commercial mortgage	--	--	--	--	
Consumer other	15	38	18	51	
Commercial other	--	--	59	10	
Total recoveries	30	53	86	77	
Net charge-offs	21	26	35	111	
Allowance, end of period	$ 948	$ 869	$ 755	$ 655	$
Allowance as a percent of total loans	0.90%	0.90%	0.94%	1.01%	
Ratio of net charge-offs to average loans outstanding	0.02%	0.03%	0.05%	0.19%	

The following table analyzes the allocation of the Company's allowance for loan losses to specific loan categories during the periods indicated. In

2006 and 2005 categories were added for commercial mortgages and commercial

other loans. For prior years, the amount allocated to consumer other loans included both categories of commercial loans.

	At September 30,			
	2006		2005	
	Amount	Percent of Loans to Total Loans	Amount	P o t L
	(Dollars in thousands)			
Allowance allocated to:				
Residential mortgages	$ 516	81.77%	$ 440	
Commercial mortgages	139	7.11%	139	
Consumer other	254	9.81%	252	
Commercial other	39	1.31%	38	
Total allowance	$ 948	100.00%	$ 869	

	At September 30,					
	2004		2003		2002	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	P o t L
	(Dollars in thousands)					
Allowance allocated to:						
Residential mortgages	$ 446	84.38%	$ 382	80.56%	$ 294	
Commercial mortgages	--	0.00%	--	0.00%	--	
Consumer other	309	15.62%	273	19.44%	377	
Commercial other	--	0.00%	--	0.0%	--	
Total allowance	$ 755	100.00%	$ 655	100.00%	$ 671	

Environmental Issues

The Company encounters certain environmental risks in its lending activities. Under federal and state environmental laws, lenders may become liable for costs of cleaning up hazardous materials found on property securing their loans. In addition, the presence of hazardous materials may have a substantial adverse effect on the value of such property as collateral and may cause economic difficulties for the borrower, causing the loan to go into default. Although environmental risks are usually associated with loans secured by commercial real estate, risks may also exist for loans secured by residential real estate if, for example, there is nearby commercial contamination or if the residence was constructed on property formerly used for commercial purposes. The Company attempts to control its risk by requiring a phase one environmental assessment by a Company approved engineer as part of its underwriting review for commercial mortgage loans when management deems such review to be necessary based on the history of the property.

The Company believes its procedures regarding the assessment of environmental risk are adequate. As of September 30, 2006, the Company was unaware of any environmental issues with respect to any of its mortgage loans that would subject it to any material liability. Hidden or future environmental contamination could adversely affect the values of properties securing loans in the Company's portfolio.

Investment Activities

General. The Company develops an annual investment plan approved by the Board of Directors. The Company recognizes that imbedded in the mortgage portfolio are inherent prepayment and extension risks. Among the goals of the investment plan are to develop a securities portfolio that may offset some of the risks of the loan portfolio. Investments are well diversified and are of high quality. The price risk of the investment portfolio is governed by parameters of the investment plan. In addition to price risk, the plan also develops goals for portfolio yield and cash flow. Individual security purchases are analyzed in terms of how they fit with the goals of the investment plan. The Company's President implements the investment plan. All security purchases and sales are reported to the Board of Directors each month. An update of the progress made versus the investment plan is also reported to the Board's Asset Liability Committee on a quarterly basis, at which time recommendations may be made to alter the plan if conditions warrant.

The Company primarily employs a strategy of investing in short and intermediate term fixed rate securities and may from time to time invest in longer-term fixed rate securities. The Company has de-emphasized investments in adjustable rate securities because of the high level of adjustable rate loans in its mortgage portfolio. The Company may elect to increase or decrease its interest rate sensitivity depending upon, among other things, the level of interest rates. The investment portfolio would change based upon the Company's desired interest rate risk position.

As required by Statement of Financial Accounting Standards ("SFAS") 115, securities are classified into three categories: trading, held-to-maturity and available-for-sale. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with unrealized gains and losses included in trading account activities in the statement of income. Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. All other securities are classified as available-for-sale. Available-for-sale securities are reported at fair value with unrealized gains and losses included, on an after-tax basis, as a separate component of accumulated other comprehensive income. The Company does not have a trading securities portfolio and has no current plans to maintain such a portfolio in the future. The Company classifies each security in either the available-for-sale or the held-to-maturity categories when the security is purchased.

Investment Securities. The Company's investment securities totaled $9.9

million at September 30, 2006, including $9.8 million classified as available-for-sale and $0.1 million classified as held-to maturity. The Company invests primarily in debt securities issued by the United States Government and its agencies ($4.8 million at September 30, 2006) and mortgage-backed securities issued or guaranteed by government-sponsored enterprises ($3.3 million at September 30, 2006). For the past few years, the Company has classified all purchases of securities as available-for-sale in order to maintain flexibility

in managing its investments. Investment securities are purchased in order to invest funds that many may be needed to make loans in the future, to provide a source of liquidity if the need for funds arises, to manage interest rate sensitivity, and to take advantage of acceptable after tax yields that are available when purchasing certain tax-exempt municipal securities. The Company purchases only investment grade debt securities and at September 30, 2006, none of its investment securities were in default or otherwise classified.

The Company invests in mortgage-backed securities to supplement the yields on its loan portfolio and to help satisfy our Qualified Thrift Lender ("QTL") test, as described on page 23 of this report. More than ninety percent of the mortgage-backed securities were issued, and are insured or guaranteed by Fannie Mae, Freddie Mac or the Government National Mortgage Association ("Ginnie Mae"). At September 30, 2006, the Company's mortgage-backed securities portfolio contained $3.2 million classified as available-for-sale and $0.1 million classified as held-to maturity.

Mortgage-backed securities are more liquid than individual mortgage loans and may be used to collateralize borrowings of the Company. However, these securities generally yield less than the loans that underlie them because of the cost of payment guarantees or credit enhancements that reduce credit risk. Mortgage-backed securities of the type held by the Company are generally weighted at 20%, rather than the 50% weighting for performing residential one-to-four family mortgage loans, in determining risk-based capital ratios.

Investment securities carry a reduced credit risk as compared to loans. However, investment securities classified as available-for-sale are subject to the risk that a fluctuating interest rate environment could cause a material decline in the carrying value of such securities. In addition, interest rate fluctuations, real estate market changes and changes in economic conditions may alter the prepayment rates on the mortgage loans underlying the mortgage-backed securities and thus affect the value of such securities resulting in a decline in shareholders' equity.

At September 30, 2006, the Company had gross unrealized losses of $121,000 on available for sale securities and none on held to maturity securities. In management's opinion, the unrealized losses primarily reflect changes in interest rates subsequent to the acquisition of the securities rather than a deterioration of the issuer's ability to repay the debt, and as such, are considered to be a temporary impairment of the securities.

Equity Securities. At September 30, 2006, the Company owned, in its available for sale portfolio, corporate equity securities represented by Freddie Mac preferred stock with a fair value of $492,000 and a cost of $7,000.

At September 30, 2006, the Bank also had $1,773,000 of stock in the FHLB, down from $1,838,000 at September 30, 2005. The stock is redeemable at par. The Bank is required to hold FHLB stock equal to 5% of advances from the FHLB to maintain its membership in the FHLB system. The yield on this stock was 5.35% (annualized) for the year ended September 30, 2006.

The following table sets forth certain information regarding the carrying values of the Company's available for sale and held to maturity portfolios at the dates indicated.

	At September 30, 2006 Carrying Value	At September 30, 2005 Carrying Value	At September 30, 2004 Carrying Value
	(Dollars in thousands)		
Securities Available for Sale:			
U.S. Government and federal agency securities	$ 4,781	$ 4,968	$ 6,385
Mortgage-backed securities	3,241	4,123	5,304
Municipal securities	1,268	1,276	1,286
Total debt securities	9,290	10,367	12,975
Equity securities	492	503	680
Mutual funds	63	122	142
Total available for sale	9,845	10,992	13,797
Securities Held to Maturity:			
Mortgage-backed securities	92	109	251
Total held to maturity	92	109	251
Total Securities	$ 9,937	$ 11,101	$ 14,048

The table below sets forth certain information regarding the carrying value, weighted average yields and stated maturity of the Company's securities at September 30, 2006. There were no securities (exclusive of obligations of the U.S. Government and federal agencies) issued by any one entity with the total carrying value in excess of 10% of the Company's shareholders' equity at that date.

	One year or less (1) Carrying Value	One year or less (1) Ave. Yield	From one to five years Carrying Value	From one to five years Ave. Yield	From five to ten years Carrying Value	From five to ten years Ave. Yield	More than Ten years Carrying Value	More than Ten years Ave. Yield
	(Dollars in thousands)							
U.S. Gov't sec	$ --	0.00%	$ 998	5.19%	$ 976	4.29%	$2,807	4.10%
Mortgage-back sec.(1)	4	5.51%	625	3.69%	503	7.25%	2,201	5.24%
Municipal sec	--	0.00%	515	4.37%	753	3.63%	--	0.00%
Other sec.(2)	555	3.21%	--	0.00%	--	0.00%	--	0.00%

Total	$ 559	3.23%	$2,138	4.55%	$2,232	4.74%	$5,008	4.60%	$

(1) Mortgage-backed securities are included based upon final maturity date. Actual maturities will differ due to scheduled monthly payments and due to the rights of the borrowers of the underlying loans to prepay their obligations without penalty.

(2) Includes equity securities and mutual funds, which have no maturity.

Sources of Funds

General. The Company's primary source of funds is deposits. The Company has incurred borrowings to fund additional loans and investments, and may do so again in the future. In addition, the Company derives funds for loans and investments from loans and security repayments and prepayments and revenues from operations. Scheduled payments on loans and mortgage-backed and investment securities are relatively stable sources of funds, while savings inflows and outflows and loan and mortgage-backed and investment securities prepayments are significantly influenced by general interest rates and money market conditions. In general, the Company expects that it will continue to offer the same types of deposit products but also expects that it will continue to use FHLB advances as a source of funds to fund loan growth and maximize the return on the Company's common stock.

Deposits. The Company offers several types of deposit programs to its customers, including savings accounts, NOW accounts, money market deposit accounts, checking accounts and certificates of deposit. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. The Company's deposits are obtained predominantly from its primary market area. The Company relies primarily on customer service and long-standing relationships with customers to attract and retain these savings deposits; however, market interest rates and rates offered by competing financial institutions significantly affect the Company's ability to attract and retain savings deposits. The Company began using brokers to obtain deposits during the 2006 fiscal year and, at September 30, 2006, has $4.0 million in brokered deposits. At September 30, 2006, the Company had $72.5 million of deposits, including the brokered deposits.

We generally price our deposit rates to be competitive with other institutions in our market area. Pricing determinations are made weekly by a committee of officers.

The following table sets forth the distribution of the Company's deposit accounts at the dates indicated. The interest rates shown for non-time accounts are the rates in effect at September 30, 2006.

	At September 30,				
	2006		2005		20
		Percent		Percent	

	Amount	of total	Amount	of total	Amount
			(Dollars in thousands)		
Non-time accounts:					
Savings and club accounts (1.05%)	$ 19,342	26.69%	$ 19,101	29.86%	$ 20,038
NOW and money market accounts (0.49 - 3.49%)	11,966	16.52%	11,956	18.69%	10,710
Non-interest bearing Demand accounts	3,493	4.82%	2,043	3.19%	1,327
Total non-time deposits	34,801	48.03%	33,100	51.74%	32,075
Time accounts:					
1.00 - 1.99%	--	0.00%	2,786	4.36%	11,037
2.00 - 2.99%	1,249	1.73%	9,903	15.48%	10,158
3.00 - 3.99%	12,583	17.36%	12,777	19.98%	3,622
4.00 - 4.99%	16,350	22.56%	5,398	8.44%	4,441
5.00 - 5.99%	7,480	10.32%	--	0.00%	265
Total time deposits	37,662	51.97%	30,864	48.26%	29,523
Total deposits	$ 72,463	100.00%	$ 63,964	100.00%	$ 61,598

At September 30, 2006, the Company had $6,818,000 in certificates of deposit with balances of $100,000 or more ("jumbo deposits"), representing 9.41% of all deposits.

The following table sets forth the amount of certificates of deposit in denominations of $100,000 at September 30, 2006, and the remaining period to maturity of such deposits.

Amount Due (in thousands)				
In 3 Months Or Less	In More Than 3 up to 6 Months	In More Than 6 up to 12 Months	In More Than 12 Months	Total
$ 1,996	$ 351	$ 3,210	$ 1,261	$ 6,818

Brokered deposits. During fiscal 2006, we began using brokered deposits as another source of funding our loan growth since deposit growth has not been sufficient by itself and ended the year with $4.0 million, representing 5.52% of total deposits, in brokered deposits with an average cost of 5.42%. Pricing on these deposits is similar in cost to the costs of borrowed funds, which is currently higher than the cost of retail deposits.

Borrowings. During fiscal 2006, we reduced borrowings by $1.5 million. All outstanding borrowings are from the FHLB and generally have terms of one to ten years with the entire principal balance repayable at the earlier of call date or maturity. The average balance of FHLB outstanding borrowings payable during 2006 was $34.8 million and the weighted average cost was 4.43%. The highest balance outstanding during the year was $38.8 million and the balance at

September 30, 2006 was $35.3 million. In 2005, the average balance of loans

payable to the FHLB was $29.5 million at a weighted average cost of 3.63%. The highest outstanding balance during the 2005 fiscal year was $36.8 million and the balance at September 30, 2005 was $36.8 million.

Subsidiary Activities

The Company is permitted to own subsidiaries for certain limited purposes, as permitted under OTS regulations. The Company has no subsidiaries except for the Bank.

Personnel

At September 30, 2006, the Company had thirty-three full-time and one part-time employee, as compared to thirty-three full-time and no part-time employees on September 30, 2005. A collective bargaining unit does not represent employees, and the Company considers its relationship with its employees to be good.

Regulation

General

The Bank is a federal savings association subject to extensive regulation, examination, and supervision by the OTS, as its primary federal regulator and by the FDIC as its deposit insurer. The Bank's deposit accounts are insured up to applicable limits by the Deposit Insurance Fund of the FDIC, and the Bank is a member of the FHLB. The OTS regulates the Company and Cambray MHC as savings and loan holding companies. The following discussion is not, and does not purport to be, a complete description of the laws and regulation applicable to the Company and the Bank. Any change in such laws or regulations by the OTS, the FDIC or congress could materially adversely affect the Company and the Bank.

Regulation of Federal Savings Associations

Business Activities. The Bank's lending, investment and deposit powers come from the Home Owners' Loan Act, as amended (the "HOLA") and OTS regulations. These powers are also governed to some extent, by the FDIC under the Federal Deposit Insurance Act and FDIC regulations. The Bank may make residential and commercial mortgage loans, commercial loans and consumer loans, and may invest in certain types of debt securities, and other assets. The HOLA and OTS regulations limit the amounts that the Bank may invest in various categories of loans, securities and other investments and such limits are generally calculated as percentages of the Bank's assets or capital. The Bank may offer a variety of deposit accounts, including savings, certificate (time), demand and NOW accounts. The Bank may also establish subsidiaries to engage in financially related activities such as insurance and securities brokerage.

Branching. Subject to certain limitations, HOLA and OTS regulations permit federally-chartered savings associations to establish branches in any state of the United States. This authority preempts any state law purporting to regulate branching by federal savings associations.

Loans to One Borrower. Under the HOLA, federal savings associations are subject to the limits applicable to national banks on loans to a single borrower or a related group of borrowers. The Bank generally may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. Up to an additional 10% of unimpaired capital and surplus can be lent if the additional amount is fully secured by readily marketable collateral. At September 30, 2006, the Bank's regulatory limit on loans to one borrower was in excess of $2.9 million. At that date, the Bank's largest aggregate of loans to one borrower was $2,475,000.

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QTL Test. The HOLA requires the Bank to meet a Qualified Thrift Lender, or QTL test. Under the QTL test the Bank must maintain at least 65% of its assets, after certain adjustments, in various types of loans made for residential and housing purposes, related investments, education, small business and credit card loans, and consumer loans and certain other loan and investments. The Bank satisfies the QTL test and the Bank anticipates that it will continue to satisfy the test in the future. If the Bank fails to satisfy the QTL test it will have to either restrict its activities or convert to a commercial bank charter.

Capital Requirements. OTS regulations require that the Bank maintain tangible capital equal to 1.5% of total assets as adjusted under the OTS regulations, core capital equal to 3% of such adjusted total assets and total capital (core capital plus supplementary capital) equal to 8% of risk-weighted assets. The Bank's capital ratios at September 30, 2006 all substantially exceeded OTS minimum capital requirements.

Limitations on Capital Distributions. OTS regulates the amount of dividends and other capital distributions that the Bank may pay to the Company. In general, if the Bank will satisfy all OTS capital requirements both before and after the distribution, the Bank may make capital distributions to the Company in any year equal to the current year's net income plus retained net income for the preceding two years. However, because it is a savings and loan holding company subsidiary, the Bank must notify the OTS of the distribution and the OTS may object on safety and soundness grounds.

If any capital distribution will exceed these limits, or if the OTS either considers the Bank a troubled or problem institution or gives the Bank a rating in less than the two highest rating categories, then the Bank must get OTS approval before making a capital distribution. The Bank is not currently required to obtain OTS approval unless it exceeds the dollar limits, and the Bank has never paid a dividend to the Company that exceeds the dollar limits. Therefore, the Company does not believe that the OTS capital distribution regulations will have a material affect on its operations or its ability to pay dividends to its stockholders.

Community Reinvestment Act and Fair Lending Laws. Under the federal Community Reinvestment Act (the "CRA"), the Bank, consistent with its safe and sound operation, must help meet the credit needs of its entire community, including low and moderate income neighborhoods. The OTS periodically assesses the Bank's compliance with CRA requirements. The Bank received a "satisfactory" CRA rating in its most recent OTS examination. The Bank must also comply with the Equal Credit Opportunity Act, which prohibits creditors from discrimination in their lending practices on bases specified in these statutes. The OTS and the Justice Department may take enforcement action against institutions that fail to comply with Fair Lending Laws.

Transactions With Related Parties. The Bank is authorized by federal law to engage in transactions with its affiliates. In general, an affiliate of the Bank is any company that controls the Bank or any other company that is controlled by a company that controls the Bank, excluding the Bank's subsidiaries other than those that are insured depository institutions. The Bank may not (a) lend to any of its affiliates that is engaged in activities that are not permissible for bank holding companies and (b) purchase the securities of any affiliate other than a subsidiary. Transactions with any individual affiliate may not exceed 10% of the capital and surplus of the Bank and aggregate transactions with all affiliates may not exceed 20%. These restrictions do not impose material limits on the Bank's business activities.

The Bank's loans to insiders must be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features. The loans are also subject to maximum dollar limits and must generally be approved by the Board of Directors. The Bank may make loans to insiders on preferential terms as part of a benefit or compensation program that is widely available to employees. The Bank has no such benefit or compensation programs.

Enforcement. The OTS has primary enforcement responsibility over federal savings associations. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and to unsafe or unsound practices.

Standards for Safety and Soundness. The OTS has adopted guidelines prescribing safety and soundness standards. These guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings standards, compensation, fees and benefits. In general, the guidelines require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The OTS may order an institution that has been given notice that it is not satisfying these safety and soundness standards to submit a compliance plan and if an institution fails to do so, the OTS may issue an order directing action to correct the deficiency and may issue an order directing other action. If an institution fails to comply with such an order, the OTS may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Real Estate Lending Standards. OTS regulations generally require each savings association to establish and maintain written internal real estate lending standards that are consistent with safe and sound banking practices and appropriate to the size of the association and the nature and scope of its real estate lending activities. The standards also must be consistent with accompanying OTS guidelines, which include loan-to-value ratios for the different types of real estate loans.

Prompt Corrective Regulatory Action. Under the OTS prompt corrective action regulations, savings associations are categorized as well-capitalized, adequately capitalized, undercapitalized, or critically undercapitalized. The OTS may, and in some cases must, take supervisory action against undercapitalized savings associations. At September 30, 2006, the Bank met the criteria for being considered well-capitalized.

Federal Reserve System. The Bank is subject to provisions of the Federal Reserve Act ("FRA") and the regulations of the Board of Governors of the Federal Reserve System ("FRB") pursuant to which depositary institutions may be required to maintain non-interest-earning reserves against their deposit accounts and certain other liabilities. Currently, reserves must be maintained against transaction accounts (primarily NOW and regular checking accounts). The Bank complies with these requirements. The balances maintained to meet the reserve requirements imposed by the FRB may be used to satisfy liquidity requirements imposed by the OTS. FHLB System members are also authorized to borrow from the Federal Reserve discount window, but FRB regulations require such institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

Privacy Regulations. OTS regulations generally require the Bank to disclose its privacy policy, including identifying with whom it shares a customer's "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter. In addition we must provide our customers with the ability to "opt-out" of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. We believe that the Bank's privacy policy complies with the regulations.

The USA PATRIOT Act. The Bank is subject to the USA PATRIOT Act, which gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. The USA PATRIOT Act imposes affirmative obligations on financial institutions, including the Bank, which include establishing anti-money laundering programs providing

for: (i) internal policies, procedures and controls; (ii) designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program. The OTS must consider the Bank's effectiveness in combating money laundering when ruling merger and other applications.

Prohibitions Against Tying Arrangements. Federal savings associations are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Insurance of Deposit Accounts. The Bank pays deposit insurance premiums to the FDIC. The amount of the premium depends upon the Bank's capital ratios and supervisory rating category. At present the Bank's capital ratios and supervisory rating are high enough that the Bank pays no regular deposit insurance premiums. However, the Bank must pay a share of the cost of the bonds issued in the late 1980s to recapitalize the now defunct Federal Savings and Loan Insurance Corporation, currently equal to approximately 0.01% of its insured deposits per year.

Federal Home Loan Bank System. The Bank is a member of the FHLB and uses it as a source for borrowing funds. The Company must own stock in the FHLB at least equal to the greater of 1% of the principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year or 5% of its advances from the FHLB. At September 30, 2006, we had $1,773,000 of capital stock of the FHLB, which satisfied this requirement, and we had FHLB borrowings totaling $35.3 million.

Holding Company Regulation

General Powers. The Company is a unitary savings and loan holding company within the meaning of the HOLA. As such, the Company is registered with the OTS and is subject to OTS regulation, examination, supervision and reporting requirements. The OTS has enforcement authority over the Company and any non-savings institution subsidiaries it may form or acquire. Among other things, this authority permits the OTS to restrict or prohibit activities that it determines may pose a serious risk to the Bank. As a unitary savings and loan holding company, the Company is not restricted as to the types of business activities in which it may engage, provided that the Bank continues to meet the QTL test. Upon any non-supervisory acquisition by the Company of another savings association or savings bank, the Company would become a multiple savings and loan holding company (if the acquired institution is held as a separate subsidiary) and would be limited primarily to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the OTS, and activities authorized by OTS regulation.

Waivers of dividends by the Mutual Holding Company. Cambray MHC owns 57.2% of the issued and outstanding common stock of the Company. If Cambray MHC decides to waive its share of any dividend that the Bank is paying to its shareholders, Cambray MHC must notify the OTS. The OTS reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if: (i) the mutual holding company board of directors determines that such waiver is consistent with such directors' fiduciary duties to the mutual holding company's members, (ii) for as long as the savings association subsidiary is controlled by the mutual holding company, the dollar amount of dividends waived by the mutual holding company are considered as a restriction to the retained earnings of the savings association, which restriction, if material, is disclosed in the public financial statements of the savings association as a note to the financial statements; (iii) the amount of any dividend waived by the mutual holding company is available for declaration as a dividend solely to the mutual holding company, and, in accordance with SFAS 5, where the savings association determines that the payment of such dividend to the mutual holding company is probable, an appropriate dollar amount is recorded as a liability. Cambray MHC has elected to waive the dividends totaling $1,508,000 as of September 30, 2006.

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Conversion of the Mutual Holding Company to Stock Form. OTS regulations permit the Mutual Holding Company to convert from the mutual to the capital stock form of organization. The Board of Directors has no current intention or plans for such a transaction. In general, if such a transaction is undertaken, a new company would be formed to replace the Company and 57.2% of its stock would be offered to the depositors of the Bank and to the public. The other current stockholders of the Company would be entitled to receive 42.8% of the stock of the new company in exchange for the stock of the Company.

Federal Securities Law

The common stock of the Company is registered with the SEC under the Securities Exchange Act of 1934 (the "Exchange Act"). The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Exchange Act.

Sarbanes Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), enacted on July 30, 2002, represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. Specifically, the Sarbanes-Oxley Act: (i) creates a new federal accounting oversight body; (ii) revamps auditor independence rules; (iii) enacts new corporate responsibility and governance measures; (iv) enhances disclosures by public companies, their directors and executive officers; (v) strengthens the powers and resources of the SEC; and (vi) imposes new criminal and civil penalties for securities fraud and related wrongful conduct. The Company is subject to the Sarbanes-Oxley Act.

The SEC has adopted regulations to implement the Sarbanes-Oxley Act, including: new standards of independence for directors who serve on the Company's Audit Committee; disclosure requirements as to whether at least one member of the Company's Audit Committee qualifies as a "financial expert" as defined in the SEC regulations and whether the Company has adopted a code of ethics applicable to its chief executive officer, chief financial officer or those persons performing similar functions; and disclosure requirements regarding the operations of board nominating committees and the means, if any, by which security holders may communicate with directors. We have incurred, and expect that we will continue to incur, increased professional fees and other expenses associated with compliance with the Sarbanes-Oxley Act.

Recently Enacted Laws and Regulations

Deposit Insurance Reform Legislation

On February 8, 2006, the President signed The Federal Deposit Insurance Reform Act of 2005 (the Reform Act) into law. The Reform Act, as supplemented by The Federal Deposit Insurance Reform Conforming Amendments Act of 2005, which the President signed into law on February 15, 2006, amends the Federal Deposit Insurance Act to effect several deposit insurance reforms. The Reform Act: (i) merges the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) into a new fund, the Deposit Insurance Fund (DIF), effective March 31, 2006; (ii) increases the coverage limit for retirement accounts to $250,000 and indexes the coverage limit for retirement accounts to inflation, as with the general deposit insurance coverage limit, effective April 1, 2006; (iii) gives the FDIC greater flexibility to set the Designated Reserve Ratio (DRR); (iv) grants the FDIC Board the discretion to price deposit insurance according to risk for all insured institutions regardless of the level of the DRR; and (v) grants a one-time initial assessment credit to recognize institutions' past contributions to the fund. The FDIC has enacted amendments to its regulations

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effective as of October 12, 2006, which implement the Reform Act. The Company does not anticipate that the Reform Act will effect its deposit insurance premium assessment presently, although it may in the future.

Executive Officer and Director Compensation Disclosure

The SEC has adopted amendments to its regulations, effective November 7, 2006, that substantially change the disclosure requirements for executive and director compensation, related person transactions, director independence and related governance matters, and security ownership of officers and directors, for companies subject to the periodic and beneficial ownership informational reporting rules under the Exchange Act. The executive and director compensation disclosure rules require small business filers such as the Company, to provide expanded tabular and accompanying narrative disclosure of compensation paid to the Chief Executive Officer and the two most highly paid executive officers other than the Chief Executive Officer, outstanding option and restricted stock awards to these individuals at year-end, and compensation paid to directors. The Company will be required to comply with these rules in its Proxy Statement and report on Form 10-KSB for its fiscal year ending September 30, 2007.

Item 2. Description of Properties

The Company conducts its business through its headquarters at 42 Church Street and an adjacent building at 26 John Street in the Town and Village of Gouverneur and a full service branch office in the Town of Alexandria. The net book value of these three premises is $1,038,000. The Company currently operates a loan production office out of rented space in Clayton, New York. The book value of that premises is zero.

Item 3. Legal Proceedings

The Bank is involved as plaintiff or defendant in various legal actions arising in the normal course of its business. While the ultimate outcome of these proceedings cannot be predicted with certainty, it is the opinion of management, after consultation with counsel representing the Bank in the proceedings, that the resolution of these proceedings should not have a material effect on the Bank's or the Registrant's results of operations and financial condition. The Registrant is not a party to any litigation.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended September 30, 2006.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Information contained under the caption "Common Stock" in the 2006 Annual Report to Stockholders included as Exhibit 13 hereto is herein incorporated by this reference.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2006 Annual Report to Stockholders included as Exhibit 13 hereto is herein incorporated by this reference.

Item 7. Financial Statements

The following information appearing in the 2006 Annual Report to Stockholders included as Exhibit 13 hereto is herein incorporated by this reference.

Report of Independent Registered Public Accounting Firm
Consolidated Statements of Financial Condition as of September 30, 2006 and 2005.
Consolidated Statements of Income for the Years Ended September 30, 2006 and 2005.
Consolidated Statements of Shareholders' Equity for the Years Ended September 30, 2006 and 2005.
Consolidated Statements of Cash Flows for the Years Ended September 30, 2006 and 2005.
Notes to Consolidated Financial Statements

With the exception of the information expressly incorporated herein by reference, the Company's Annual Report to Stockholders for the year ended September 30, 2006, is not deemed filed as part of this Annual Report on Form 10-KSB.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure:

None

Item 8A. Control and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The term "disclosure controls and procedures" is defined in Rule 13a - 14(c) of 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 September 30, 2006, and they have concluded that 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 other factors that could significantly affect our internal controls during the quarter ended September 30, 2006, including any corrective actions with regard to significantly deficiencies and material weaknesses.

Item 8B. Other Information

None

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Directors

Information contained under the caption "The Election of Directors (introduction);" "The Election of Directors - The Board of Directors and Nominees;" "The Election of Directors - Nominees;" "The Election of Directors - Continuing Directors;" and "The Election of Directors - Meetings of the Board of Directors and Certain Committees" in the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on February 12, 2007, to be filed with

the Commission within 120 days after the end of the fiscal year covered by this report is incorporated herein by this reference.

Executive Officers

Information contained under the caption "The Election of Directors - Continuing Directors;" and "The Election of Directors - Executive Officers Who Are Not Directors" in the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on February 12, 2007, to be filed with the Commission within 120 days after the end of the fiscal year covered by this report, is incorporated herein by this reference.

Compliance with Section 16(a)

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended September 30, 2006, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10 percent beneficial owners were complied with.

Code of Ethics

The Company had adopted a Code of Ethics for adherence by its chief executive officer, chief financial officer and treasurer to promote honest and ethical conduct; full, fair and proper disclosure of financial information in the Company's periodic reports; and compliance with applicable laws, rules, and regulations. The text of the Company's Code of Ethics was previously filed as an exhibit and is posted and available on the Bank's website (http://www.gouverneurbank.com), under the link `Investor Relations', and is incorporated by reference herein.

We will provide to any person without charge, upon request, a copy of our Code of Ethics. Any such request should be directed to our Corporate Secretary, Gouverneur Bancorp, Inc., 42 Church Street, Gouverneur, New York 13642.

Item 10. Executive Compensation

Information contained under the caption "Compensation" in the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on February 12, 2007, to be filed with the Commission within 120 days after the end of the fiscal year covered by this report, is incorporated herein by this reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information contained under the caption "Principal Owners of Our Common Stock" in the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on February 12, 2007, to be filed with the Commission within 120 days after the end of the fiscal year covered by this report is incorporated herein by this reference.

Item 12. Certain Relationships and Related Transactions

Information contained under the caption "Compensation - Transactions With Directors and Officers" in the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on February 12, 2007, to be filed with the Commission within 120 days after the end of the fiscal year covered by this report, is incorporated herein by this reference.

Item 13. Exhibits

See Index to Exhibits.

Item 14. Principal Accountant Fees and Services

Information contained under the caption "Independent Auditors' Fees - Audit Fees"; "Independent Auditors' Fees - Audit-Related Fees"; "Independent Auditors' Fees - Tax Fees"; and "Independent Auditors' Fees - All other Fees" in the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on February 12, 2007, to be filed with the Commission within 120 days after the end of the fiscal year covered by this report, is incorporated herein by this reference.

Information contained under the caption "Report of the Audit Committee - Pre-Approval Policies and Procedures" in the definitive Proxy Statement for the

Annual Meeting of Stockholders to be held on February 12, 2007, to be filed with the Commission within 120 days after the end of the fiscal year covered by this report, is incorporated herein by this reference.

SIGNATURES

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

Gouverneur Bancorp, Inc.

Date: December 19, 2006

By: /s/ RICHARD F. BENNETT

Richard F. Bennett, President
(Duly authorized representative)

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

Date:	
December 19, 2006	/s/ FRANK LANGEVIN Frank Langevin, Chairman of the Board
December 19, 2006	/s/ RICHARD F. BENNETT Richard F. Bennett, President, Chief Executive Officer and Director
December 19, 2006	/s/ ROBERT J. TWYMAN Robert J. Twyman, Vice President and Chief Financial Officer, principal financial and accounting officer
December 19, 2006	/s/ CHARLES VANVLEET Charles VanVleet, Sr. Vice President and Secretary
December 19, 2006	/s/ RICHARD JONES Richard Jones, Director
December 19, 2006	/s/ ROBERT LEADER Robert Leader, Director
December 19, 2006	/s/ TIMOTHY MONROE

	Timothy Monroe, Director
December 19,2006	/s/ F. TOBY MORROW

	F. Toby Morrow, Director
December 19, 2006	/s/ JOSEPH PISTOLESI

	Joseph Pistolesi, Director

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INDEX TO EXHIBITS

Exhibit Number	Document	Reference to Previous Filing, if applicable.
3(1)	Certificate of Incorporation	**
3(11)	Bylaws	**
4	Form of Stock Certificate	*
10.1	Employee Stock Ownership Plan	*
10.2	Stock Option Plan	***
10.3	Management Recognition Plan	***
13	2006 Annual Report to Stockholders	
14	Code of Ethics for the President and Chief Executive Officer, Chief Financial Officer, and Treasurer	****
21	Subsidiaries of Registrant	
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a - 15(e) and 15(d) - 15(e)	
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a - 15(e) and 15(d) - 15(e)	
32.1	Certification of Principal Executive Officer pursuant to Section 1350	
32.2	Certification of Principal Financial Officer pursuant to Section 1350	

*Filed as exhibits to the Company's Form S-1 registration statement filed with the Commission on June 26, 1998 (File No.333-57845). All of such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-K.

**Filed as exhibits to the Company's Pre-effective Amendment No. One to

Form S-1 filed with the Commission on August 5, 1999, 1998 (File No. 333-57845). All of such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-K.

***Filed as exhibits to the Company's Definitive Proxy Statement on Form 14A filed with the Commission on September 9, 1999. All of such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-K.

****Filed as an exhibit to the Company's Form 10-KSB for the year ended September 30, 2003, as filed with the Commission on December 23, 2003. The previously filed document is hereby incorporated by reference in accordance with Item 601 of Regulation S-K.