

GOUVERNEUR BANCORP INC
Form PRE 14A
July 02, 2008

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. _____)

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

- x Preliminary Proxy Statement
- o Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- o Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to § 240.14a-12

Gouverneur Bancorp, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:
N/A

2) Aggregate number of securities to which transaction applies:
N/A

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11(set forth the amount on which the filing fee is calculated and state how it was determined):
N/A

4) Proposed maximum aggregate value of transaction:
N/A

5) Total Fee paid:
N/A

o Fee paid previously with preliminary materials.

o

Edgar Filing: GOUVERNEUR BANCORP INC - Form PRE 14A

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11 (a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:
N/A

2) Form, Schedule or Registration Statement No.:
N/A

3) Filing Party:
N/A

4) Date Filed:
N/A

Gouverneur Bancorp, Inc.
42 Church Street
Gouverneur, New York 13642
(315) 287-2600

[Mail date], 2008

Dear Shareholder:

You are cordially invited to attend the special meeting of shareholders of Gouverneur Bancorp, Inc. (the Company) to be held on [Meeting date], 2008, at __:00 __.m., local time [in the Boardroom of Gouverneur Savings & Loan Association, 20 John Street, Gouverneur, New York.]

At this important meeting, you will be asked to consider and vote on proposed amendments to our Charter. These amendments will provide for a reverse 1-for-100 stock split followed immediately by a forward 100-for-1 stock split of our common stock. The text of the proposed amendments is attached as *Appendices A-1* and *A-2* to the accompanying proxy statement.

This proxy statement is first being mailed to the Company's shareholders, along with the accompanying form of proxy, on or about [Mail date], 2008.

If approved at the special meeting, the reverse/forward stock split transaction will affect our shareholders as follows:

If you are a record shareholder with:

Effect:

100 or more shares:

You will continue to hold the same number of shares

Fewer than 100 shares:

You will be entitled to \$10.00 in cash, without interest, per share

The primary effect of this transaction, often referred to as a going private transaction will be to reduce our total number of shareholders of record to below 300. As a result, we will terminate the registration of our common stock under federal securities laws, our reporting obligations with the Securities and Exchange Commission (the SEC) will be suspended, and we will no longer be eligible for trading on the American Stock Exchange.

We are proposing this transaction because our Board has concluded, after careful consideration, that the costs and other disadvantages associated with being an SEC-reporting company outweigh any of the advantages. The reasons the Board considered in reaching this conclusion include:

- We estimate that we will eliminate annual expenses of approximately \$248,000 by eliminating the requirement to make periodic reports and reducing the expenses of shareholder communications.
- Operating as a non-SEC reporting company will reduce the burden on our management that arises from increasingly stringent SEC reporting requirements, including requirements of the Sarbanes-Oxley Act, thus allowing management to focus more of its attention on our customers and the communities in which we operate.
- Beginning with its Form 10-KSB for the year ending September 30, 2008, the Company must provide a report of management on the Company's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. The costs of compliance with this requirement and the related attestation report currently required for fiscal 2010 are estimated at \$13,000 for each of the years ending September 30, 2008 and 2009 and \$33,000 for the year ending September 30, 2010. These costs will be avoided if the Company completes the reverse/forward stock split described in the accompanying proxy statement.

- At least 129 of our 345 record shareholders own fewer than 100 shares. The reduction in the number of shareholders can be expected to reduce our costs of shareholder communications.
 - These costs of being a public company outweigh the benefits to a well-capitalized company of our size, and going private will free up management to focus on long-term business prospects beneficial to shareholders and customers.
- The enclosed proxy statement includes a discussion of the alternatives and factors considered by the Board in connection with its approval of the reverse/forward stock split, and we encourage you to read carefully the proxy statement and its appendices. **Your Board of Directors believes the terms of the proposed transaction are fair and are in the best interest of our unaffiliated shareholders, and unanimously recommends that you vote FOR the proposal to amend our Charter.**

Your vote is very important. Whether or not you plan to attend the special meeting, please complete, date, sign and return your proxy promptly in the enclosed envelope, which requires no postage if mailed in the United States. If you attend the special meeting, you may vote in person if you wish, even if you have previously returned your proxy.

Sincerely,

Richard F. Bennett
President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of this transaction, passed upon the merits or fairness of this transaction, or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

GOUVERNEUR BANCORP, INC.

**42 Church Street
Gouverneur, New York 13642
(315) 287-2600**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON [MEETING DATE], 2008**

A special meeting of shareholders of Gouverneur Bancorp, Inc. (the Company) will be held on _____, [Meeting date], 2008, at ____:00 __.m., local time, [in the Boardroom of Gouverneur Savings & Loan Association, 20 John Street, Gouverneur, New York:]

Reverse/Forward Stock Split. To consider and vote upon a proposal to adopt two amendments to the Company's Charter. The amendments will provide for (a) a reverse 1-for-100 stock split, followed immediately by (b) a forward 100-for-1 stock split. Each record shareholder owning fewer than 100 shares of common stock, \$0.01 par value per share, immediately prior to the reverse split will, instead of participating in the forward split, receive a cash payment equal to \$10.00 per share on a pre-split basis.

The Board of Directors has fixed the close of business on [Record date], 2008, as the record date for determining those shareholders entitled to vote at the special meeting and any adjournment or postponement of the special meeting. Only shareholders at the close of business on the record date are entitled to notice of, and to vote at, the special meeting.

YOUR VOTE IS VERY IMPORTANT.

Whether or not you plan to attend the special meeting in person, please take the time to vote by completing and marking the enclosed proxy card in the enclosed postage-paid envelope. If you attend the special meeting, you may still vote in person if you wish, even if you have previously returned your proxy card.

Your Board of Directors unanimously recommends that you vote FOR approval of the amendments to our Charter.

TABLE OF CONTENTS

<u>SUMMARY TERM SHEET</u>	1
<u>Date, Time and Place of Special Meeting: Proposal to be Considered at the Special Meeting</u>	1
<u>Record Date</u>	1
<u>Vote Required for Approval</u>	1
<u>The Company and Gouverneur Savings & Loan Association</u>	1
<u>Overview of the Split Transaction</u>	2
<u>Effects of the Split Transaction</u>	2
<u>Reasons for the Split Transaction</u>	3
<u>Background of the Split Transaction</u>	3
<u>Fairness of the Split Transaction</u>	3
<u>Fairness Opinion of Financial Advisor</u>	4
<u>Interests of Certain Persons in the Split Transaction</u>	4
<u>Financing of the Split Transaction</u>	4
<u>Effect on Market for Shares</u>	5
<u>Material Federal Income Tax Consequences of the Split Transaction</u>	5
<u>Dissenters' Rights</u>	5
<u>Reservation</u>	5
<u>Recommendation of Board of Directors</u>	5
<u>QUESTIONS AND ANSWERS ABOUT THE SPLIT TRANSACTION AND THE SPECIAL MEETING</u>	6
<u>ABOUT THE SPECIAL MEETING</u>	10
<u>Date, Time and Place of Special Meeting</u>	10
<u>Matters to be Considered at the Special Meeting</u>	10
<u>Record Date: Voting Power</u>	10
<u>Quorum</u>	10
<u>Vote Required for Approval</u>	10
<u>Voting and Revocation of Proxies</u>	11
<u>Solicitation of Proxies: Expenses of Solicitation</u>	11
<u>Other Matters to be Considered at Special Meeting</u>	11
<u>PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS</u>	12
<u>Overview of the Split Transaction</u>	12
<u>Background of the Split Transaction</u>	13
<u>Reasons for the Split Transaction</u>	15
<u>Fairness of the Split Transaction</u>	17
<u>Effects of the Split Transaction on Affiliates</u>	23
<u>Determination of Fairness of Split Transaction by Affiliates</u>	23
<u>Board Recommendation</u>	23
<u>Fairness Opinion of Financial Advisor</u>	23
<u>Structure of the Split Transaction</u>	30
<u>Effects of the Split Transaction on the Company</u>	31
<u>Interests of Certain Persons in the Split Transaction</u>	33
<u>Financing of the Split Transaction</u>	33
<u>Federal Income Tax Consequences</u>	34
<u>Record and Beneficial Ownership of Common Stock</u>	35
<u>Appraisal Rights and Dissenters' Rights</u>	36
<u>Regulatory Requirements</u>	36
<u>Accounting Treatment</u>	36
<u>Fees and Expenses</u>	36
<u>Reservation</u>	37
<u>SELECTED HISTORICAL FINANCIAL DATA</u>	38
<u>SUMMARY PRO FORMA FINANCIAL INFORMATION</u>	39
<u>MARKET PRICE OF COMMON STOCK AND DIVIDEND INFORMATION</u>	41
<u>COMMON STOCK PURCHASE INFORMATION</u>	41
<u>STOCK OWNERSHIP</u>	42
<u>SUBMISSION OF BUSINESS PROPOSALS AND STOCKHOLDER NOMINATIONS</u>	43
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	43
<u>DOCUMENTS INCORPORATED BY REFERENCE</u>	44

Edgar Filing: GOUVERNEUR BANCORP INC - Form PRE 14A

<u>Appendix A-1</u>	<u>Form of Amendment to Charter to Effect Reverse Stock Split</u>
<u>Appendix A-2</u>	<u>Form of Amendment to Charter to Effect Forward Stock Split</u>
<u>Appendix B</u>	<u>Opinion of Keller and Company, Inc.</u>

SUMMARY TERM SHEET

This summary provides an overview of material information from this proxy statement. However, it is a summary only. To better understand the reverse stock split and forward stock split transaction and for a more complete description of its terms, we encourage you to read carefully this entire proxy statement and the documents to which it refers.

In this proxy statement, the Company, we, our, ours, and us refer to Gouverneur Bancorp, Inc., federally chartered corporation. The term Gouverneur Savings refers to the Company's wholly-owned subsidiary, Gouverneur Savings & Loan Association. The term split transaction refers to the reverse and forward stock splits, together with the related cash payments to registered shareholders holding fewer than 100 shares at the effective time of the split transaction. The term non-continuing shareholders of the Company means all record holders of common stock of the Company (i.e., registered owners of the shares whose names appear on the Company's records as shareholders) with fewer than 100 shares at the effective time of the reverse stock split transaction. The term continuing shareholders means all record holders of common stock of the Company with at least 100 shares at the effective time of the reverse stock split transaction. References to common stock or shares refer to the Company's common stock, par value \$0.01 per share.

Date, Time and Place of Special Meeting; Proposal to be Considered at the Special Meeting

Our Board of Directors is asking for your proxy for use at a special meeting of shareholders to be held on _____, [Meeting date], 2008, at __:00 __.m., local time, [in the Boardroom of Gouverneur Savings & Loan Association, 20 John Street, Gouverneur, New York,] and at any adjournments or postponements of that meeting. At the special meeting, shareholders will be asked:

- to consider and vote upon a proposal to adopt amendments to our Charter that will result in a 1-for-100 reverse stock split followed immediately by a 100-for-1 forward stock split.

Record Date

You may vote at the special meeting if you owned Company common stock at the close of business on [Record date], 2008, which has been set as the record date. At the close of business on the record date, there were 2,300,744 shares of our common stock outstanding. You are entitled to one vote on each matter considered and voted upon at the special meeting for each share of common stock you held of record at the close of business on the record date.

Vote Required for Approval

Proposal 1 The Reverse/Forward Stock Split. Approval of the split transaction requires the affirmative vote of the holders of a majority of the votes eligible to be cast at the special meeting. As of [Record date], the directors and executive officers of the Company beneficially owned approximately 8.1% of the Company's outstanding common stock (excluding stock options). As of [Record date], Cambray Mutual Holding Company beneficially owned approximately 57.0% of the Company's outstanding common stock. Because Cambray Mutual Holding Company is the Company's majority shareholder, the votes it casts will determine the outcome of the split transaction proposal. We believe that all of our directors and executive officers and Cambray Mutual Holding Company will vote in favor of the split transaction.

See ABOUT THE SPECIAL MEETING Vote Required for Approval.

The Company and Gouverneur Savings

Gouverneur Bancorp, Inc. is a savings and loan holding company, with a business address of 42 Church Street, Gouverneur, New York 13642, and a business telephone number of (315) 287-2600. The Company owns 100% of Gouverneur Savings & Loan Association. The Company's common stock is listed on the American Stock Exchange under the symbol GOV. As of the close of business on [Record date], 2008, we had 2,300,744 shares of our common stock issued and outstanding. Cambray Mutual Holding Company, the Company's mutual holding company, owns 57.0% of the Company's outstanding common stock. On _____, 2008, which is the most recent date on which our common stock traded before the printing of this proxy statement, the closing price of our common stock was \$_____ per share.

Edgar Filing: GOUVERNEUR BANCORP INC - Form PRE 14A

Gouverneur Savings & Loan Association is a federal savings and loan association. Gouverneur Savings conducts its operations from its main office in Gouverneur, New York, and its full-service office located in Alexandria Bay, New York. Gouverneur Savings offers a variety of banking products and services to individuals and businesses in its primary market area in southern St. Lawrence and northern Lewis and Jefferson Counties in New York State.

Overview of the Split Transaction

We are proposing that our shareholders adopt amendments to our Charter that will result in a reverse 1-for-100 stock split followed immediately by a forward 100-for-1 stock split. If the split transaction is completed, our record shareholders who hold only fractional shares after giving effect to the reverse 1-for-100 stock split will be entitled to receive a payment of \$10.00 per share for each pre-split share. Record shareholders with fewer than 100 pre-split shares will have no interest in the Company following the reverse stock split. After we complete the reverse stock split and identify those shareholders entitled to payment for their pre-split shares, we will complete a forward stock split in which each share of common stock will be converted into 100 shares of common stock post-split. As a result of this subsequent forward stock split, record shareholders who hold 100 or more shares prior to the reverse stock split will ultimately hold the same number of shares following the forward stock split. The text of the proposed amendments to our Charter are attached to this proxy statement as *Appendices A-1* and *A-2*.

The transaction has been structured as a two-step stock split transaction because the reverse stock split will enable us to reduce the number of our shareholders of record to fewer than 300, while the forward stock split will avoid disruption to the record shareholders that own 100 or more shares of common stock prior to the split transaction. Because shareholders owning 100 or more shares of common stock are not affected by the two-step structure, this structure minimizes the costs of our becoming a non-SEC reporting company while achieving the goals outlined in this proxy statement.

The split transaction is being effected at the record shareholder level. This means that we will look at the number of shares registered in the name of a single holder to determine if that holder's shares will be cashed out. Because we think it is likely that any nominee (including nominees in whose name brokers or banks hold their customers' shares) will hold more than 100 shares in the aggregate, we think it is likely that all street name holders will remain continuing shareholders.

We expect to pay a total of approximately \$39,000 to shareholders in the reverse stock split and we anticipate that the number of outstanding shares of our common stock will decrease approximately 0.2% as a result of the split transaction. These numbers and amounts may change as a result of trading activity in our shares between the date hereof and the effective date of the split transaction. See PROPOSAL 1 THE SPLIT TRANSACTIONS SPECIAL FACTORS Overview of the Split Transaction.

Effects of the Split Transaction

- The split transaction will reduce the number of holders of the common stock of the Company to fewer than 300, which will enable the Company to terminate the registration of its common stock pursuant to Section 12(b) of the Securities Exchange Act of 1934.
- As a result of the split transaction, the common stock of the Company will no longer be listed on the American Stock Exchange. We will use our best efforts to cause the common stock to be quoted on the OTC Bulletin Board, although there can be no assurance that we will be able to do so.
- Going private will significantly change the public disclosures of the Company.

For a further description of how the split transaction will affect our shareholders, including the different effects on the affiliated and unaffiliated continuing and non-continuing shareholders, please see PROPOSAL 1 THE SPLIT TRANSACTIONS SPECIAL FACTORS Fairness of the Split Transaction Substantive Fairness. For more information on the effects of the split transaction on the Company, see PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS Effects of the Split Transaction on the Company.

Reasons for the Split Transaction

The principle purposes of, and our reasons for, effecting the split transaction are:

- To eliminate annual expenses of approximately \$248,000 by eliminating the requirement to file periodic reports with the SEC and reducing the expenses of shareholder communications;
- To reduce the burden on our management that arises from increasingly stringent SEC reporting requirements, including requirements of the Sarbanes-Oxley Act, thus allowing management to focus more of its attention on our customers and the communities in which we operate;
- To eliminate costs of filing with the Company's Form 10-KSB a report of management on the Company's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and the related attestation report currently required for fiscal 2009, which costs are expected to be approximately \$13,000 in each of the years ending September 30, 2008 and 2009 and \$33,000 in the year ending September 30, 2010.

The Board has concluded that the costs of complying with federal securities laws outweigh the benefits the Company receives for being an SEC reporting company. For further discussion of the Board's reasons for the split transaction, see PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS Reasons for the Split Transaction.

Background of the Split Transaction

For a description of the events leading to the approval of the split transaction by our Board of Directors and the reasons for its approval, you should refer to PROPOSAL 1 THE SPLIT TRANSACTION Background of the Split Transaction, Reasons for the Split Transaction, and Fairness of the Split Transaction. As we explain more fully in these sections, our Board considered and rejected various alternative methods of effecting a transaction that would enable us to become a non-SEC reporting company, while remaining an independent, community-owned company.

Fairness of the Split Transaction

Based on a careful review of the facts and circumstances relating to the split transaction, our Board of Directors believes that the split transaction and the terms and provisions of the split transaction, including the cash to be paid to the non-continuing shareholders, are substantively and procedurally fair to our unaffiliated shareholders, including unaffiliated shareholders that are continuing shareholders and unaffiliated shareholders that are non-continuing shareholders. See PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS Fairness of the Split Transaction.

Edgar Filing: GOUVERNEUR BANCORP INC - Form PRE 14A

The Board considered whether the absence of a separate approval of the split transaction by the shareholders other than Cambray Mutual Holding Company affects the fairness of the transaction. The Company's board of directors also serves as the board of directors of Cambray Mutual Holding Company, the Company's majority shareholder. Because Cambray Mutual Holding Company is the Company's majority shareholder, the votes it casts will determine the outcome of the split transaction proposal. Under Office of Thrift Supervision regulations and the Company's Charter, the Board of Directors of the Company may amend the Charter of the Company, including amendments to effect both the reverse stock split and the forward stock split, upon the affirmative vote of the holders of a majority of the votes eligible to be cast at a meeting. No additional vote standard is required under either Office of Thrift Supervision regulations or the Company's Charter to amend the Company's Charter. Because of this authorization in Office of Thrift Supervision regulations and the Company's Charter, the Board of Directors does not believe that the lack of the separate approval of the split transaction by the shareholders other than Cambray Mutual Holding Company affects the fairness of the transaction to either the non-continuing shareholders or unaffiliated continuing shareholders. Accordingly, the Company has not required the separate approval of the split transaction by the shareholders other than Cambray Mutual Holding Company. The Board considered the fact that any shareholder who wishes to remain a shareholder of the Company following the reverse stock split may increase their holdings of Company common stock to at least 100 shares prior to the effective time of the reverse stock split.

For a complete discussion of the positive and negative factors considered by the Board, please see PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS Fairness of the Split Transaction.

Fairness Opinion of Financial Advisor

In deciding to approve the split transaction, our Board of Directors considered the opinion of Keller & Company, Inc. (Keller & Company) that the \$10.00 consideration proposed to be paid to the non-continuing shareholders, whether affiliated or unaffiliated, is fair from a financial point of view to those shareholders.

The full text of the fairness opinion is attached to this proxy statement as *Appendix B*, and you are encouraged to read it carefully. See PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS Fairness Opinion of Financial Advisor.

Interests of Certain Persons in the Split Transaction

You should be aware that the directors and executive officers of the Company have interests in the split transaction that may present actual or potential, or the appearance of actual or potential, conflicts of interest in connection with the split transaction, including the following:

- Following the split transaction, the executive officers and directors of the Company will own, in the aggregate, approximately 8.1% of the outstanding shares of the Company's common stock (excluding stock options), the same percentage ownership that they held as of _____, 2008.
- In addition, our board of directors also serves as the board of directors of Cambray Mutual Holding Company, our majority stockholder. Following the split transaction, Cambray Mutual Holding Company will own approximately 57.1% of the outstanding shares of the Company's common stock, which represents a slight increase from the 57.0% that it held as of _____, 2008. See PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS Interests of Certain Persons in the Split Transaction.

Financing of the Split Transaction

We estimate that the total funds required to fund the payment of the split transaction consideration to the non-continuing shareholders and to pay fees and expenses relating to the split transaction will be approximately \$114,000. This amount may increase as a result of trading activity in our shares between the date hereof and the effective date of the split transaction. Gouverneur Savings intends to dividend funds to the Company, its sole stockholder, and upon receipt of the dividend the Company will have sufficient working capital to fund the split transaction.

Effect on Market for Shares

The common stock of the Company is currently listed on the American Stock Exchange. Following the split transaction, the common stock will be delisted from the American Stock Exchange. This delisting, together with the reduction in public information concerning the Company as a result of its no longer being required to file reports under the Securities Exchange Act of 1934, may reduce the liquidity of the common stock. The Company currently intends to use its best efforts to cause its common stock to be quoted on the OTC Bulletin Board, although there can be no assurance that it will be able to do so. See PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS Effects of the Split Transaction on the Company.

Material Federal Income Tax Consequences of the Split Transaction

We believe that the split transaction, if completed, will have the following federal income tax consequences:

- the split transaction should result in no material federal income tax consequences to us;
- the continuing shareholders, whether affiliated or unaffiliated, will not recognize any gain or loss or dividend income in connection with the split transaction; and
- the receipt of cash in the split transaction by the non-continuing shareholders, whether affiliated or unaffiliated, will be taxable to those shareholders, who will generally recognize gain or loss in the split transaction in an amount determined by the difference between the cash they receive and their adjusted tax basis in their common stock surrendered. Any such recognized gain will be treated as capital gain unless, in the case of the particular shareholder, the receipt of the cash is deemed to have the effect of a dividend.

Because determining the tax consequences of the split transaction can be complicated, you should consult your own tax advisor to understand fully how the split transaction will affect you. See PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS Federal Income Tax Consequences.

Dissenters' Rights

Under Office of Thrift Supervision regulations, you do not have dissenters' rights in connection with the split transaction. Although you will not have dissenters' rights in connection with the split transaction, you may pursue all available remedies under applicable law.

Reservation

The Company reserves the right to abandon the split transaction for any reason at any time before the filing of the necessary amendments to the Charter with the Office of Thrift Supervision if the Board of Directors determines that such action would be in the best interest of the Company. The Company may, for example, abandon or delay the transaction if there is a significant increase in transaction costs or if it is determined that the approved split will not reduce the number of shareholders of record to fewer than 300. See PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS Reservation.

Recommendation of Board of Directors

Our Board of Directors unanimously recommends that you vote FOR the proposed amendments to our Charter that will effect the split transaction.

**QUESTIONS AND ANSWERS ABOUT THE
SPLIT TRANSACTION AND THE SPECIAL MEETING**

Q: What is the date, time and place of the special meeting?

A: The special meeting of our shareholders will be held on _____, [Meeting date], 2008, at ___:00 __.m., local time, [in the Boardroom of Gouverneur Savings & Loan Association, 20 John Street, Gouverneur, New York.]

Q: What is the proposed split transaction?

A: We are proposing that our shareholders approve a reverse 1-for-100 stock split followed immediately by a forward 100-for-1 stock split of our outstanding common stock.

The purpose of the split transaction is to allow us to suspend our SEC-reporting obligations (referred to as going private) by reducing the number of our shareholders of record to fewer than 300. This will allow us to terminate the registration of our common stock under the Securities Exchange Act of 1934 (the Exchange Act), and relieve us of the costs typically associated with the preparation and filing of reports and other documents with the SEC.

Q: What does it mean for the Company and our shareholders that the Company will no longer be a public company and subject to federal securities laws reporting obligations?

A: We will no longer be required to file reports with the SEC, including annual, quarterly and periodic reports. This will greatly reduce the amount of information that is publicly available about the Company and will eliminate certain corporate governance safeguards resulting from the Sarbanes-Oxley Act, such as the requirements for an audited report on our internal controls and for our CEO and CFO to certify as to the accuracy of our disclosures, and disclosure requirements relating to our audit committee composition, code of ethics and director nomination process. We do, however, intend to continue to have our financial statements audited and to send shareholders an annual report. Additionally, beginning 90 days after the effective date of the split transaction, our executive officers and directors will no longer be subject to many of the reporting requirements and restrictions of the Exchange Act, including the reporting and short-swing profit provisions of Section 16, and information about their compensation and stock ownership will not be publicly available.

Q: What will I receive in the split transaction?

A: If you are the registered owner of fewer than 100 shares of our common stock on the date of the reverse stock split, you will receive \$10.00 in cash from us for each pre-split share you own. If you are the registered owner of 100 or more shares of our common stock on the date of the reverse stock split, you will not receive any cash payment for your shares in connection with the split transaction and will continue to hold the same number of shares of our common stock as you did before the split transaction.

Q: Why is 100 shares the cutoff number for determining which shareholders will be cashed out and which shareholders will remain as shareholders of the Company?

A: The purpose of the split transaction is to reduce the number of our shareholders of record to fewer than 300, which will allow us to de-register as an SEC-reporting company. Our Board selected 100 shares as the cutoff number in order to enhance the probability that after the split transaction we will have fewer than 300 shareholders of record.

Q: May I buy additional shares in order to remain a shareholder of the Company?

A: Yes. The key date for acquiring additional shares is [Meeting date], 2008. So long as you are able to acquire a sufficient number of shares so that you are the registered owner of 100 or more shares by _____, [Meeting date], 2008, your shares of common stock will not be cashed out by the split transaction.

Q: What if I hold my shares in street name ?

A: The split transaction will be effected at the registered shareholder level. This means that we will look at the number of shares registered in the name of a single holder as that name appears in the Company's records to determine if that holder's shares will be cashed out. With respect to shares held in street name, because it is likely that your brokerage firm holds 100 or more total shares registered in nominee name, you are not likely to be cashed out, even if you beneficially own fewer than 100 shares. If you hold shares in street name, you should talk to your broker, nominee or agent to determine how the split transaction will affect you.

Q: What is the recommendation of our Board of Directors regarding the split transaction proposal?

A: Our Board of Directors has determined that the split transaction is advisable and in the best interests of the Company's shareholders, including affiliated and unaffiliated shareholders. Our Board of Directors has unanimously approved the split transaction and recommends that you vote FOR approval of the split transaction at the special meeting.

Q: When is the split transaction expected to be completed?

A: If the proposed amendments to our Charter are approved at the special meeting, we expect the split transaction to be completed as soon as practicable thereafter. We need to file the amendments to our Charter with the Office of Thrift Supervision for the split transaction to become effective.

Q: Who is entitled to vote at the special meeting?

A: Holders of record of our common stock as of the close of business on [Record date], 2008, are entitled to vote at the special meeting. Each of our shareholders is entitled to one vote for each share of our common stock owned at the record date.

Q: What vote is required for our shareholders to approve the split transaction?

A: Approval of the split transaction requires the affirmative vote of the holders of a majority of the votes eligible to be cast at the special meeting. Because Cambray Mutual Holding Company is the Company's majority shareholder, the votes it casts will determine the outcome of the split transaction proposal.

Q: What if the proposed split transaction is not completed?

A: It is possible that the proposed split transaction will not be completed. The proposed split transaction will not be completed if, for example, shareholders do not approve the proposed amendments to our Charter by the required vote. Alternatively, even if shareholder approval is received, if the Board determines that it is not in the best interests of the Company's shareholders to complete the transaction, the Board may decide to abandon it. If the split transaction is not completed, we will continue our current operations, and we will continue to be subject to the reporting requirements of the SEC.

Q: What happens if I do not return my proxy card?

A: A failure to return your proxy card will have the same effect as a negative vote for the split transaction proposal.

Q: What do I need to do now?

A: After carefully reading and considering the information contained in this proxy statement, please vote your shares of common stock as soon as possible. You may vote your shares by returning the enclosed proxy or by voting in person at the special meeting of shareholders. This proxy statement includes detailed information on how to cast your vote.

Q: If my shares are held for me by my broker, will my broker vote those shares for me?

A: Your broker will vote your shares only if you provide instructions to your broker on how to vote. You should instruct your broker on how to vote your shares using the voting instruction card provided by your broker.

Q: Can I change my vote after I have mailed my proxy card?

A: Yes. You can change your vote at any time before your proxy is voted at the special meeting by following the procedures outlined in this proxy statement.

Q: Do I need to attend the special meeting in person?

A: No. You do not have to attend the special meeting to vote your Company shares.

Q: Will I have appraisal or dissenters' rights in connection with the split transaction?

A: No. Under Office of Thrift Supervision regulations, which governs the split transaction, you do not have the right to demand the appraised value of your shares or any other dissenters' rights. Your rights are described in more detail under PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS Appraisal Rights and Dissenters' Rights.

Q: Should I send in my stock certificates now?

A: No. If you are the registered owner of fewer than 100 shares of common stock on the date the split transaction is completed, our transfer agent will send you written instructions for exchanging your stock certificates for cash. If you are the registered owner of 100 or more shares of our common stock, you will continue to hold the same shares after the split transaction as you did before.

Q: If I own fewer than 100 shares and cannot locate my stock certificates, what should I do?

A: If you are entitled to receive cash in the split transaction you will be sent a Letter of Transmittal with instructions for tendering your stock certificates. Those instructions will explain what to do if you cannot find your stock certificates. Generally, you will need to submit a lost share affidavit and a fee for a surety bond in lieu of submitting the lost, misplaced or destroyed stock certificate.

Q: What are the tax consequences of the split transaction to me?

A. There will be no tax consequences to you if you are the registered owner of 100 or more shares of Company common stock or if you hold shares with a brokerage firm or bank that owns through a nominee in the aggregate 100 or more shares of Company common stock. If you receive cash in the split transaction because you are the registered owner of fewer than 100 shares of Company common stock, you will generally recognize gain or loss in the split transaction in an amount determined by the difference between the cash you receive and your adjusted tax basis in your shares of common stock surrendered. See PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS Federal Income Tax Consequences.

Q: Where can I find more information about the Company?

A. We file periodic reports and other information with the SEC. You may read and copy this information at the SEC's public reference facilities. Please call the SEC at 1-800-SEC-0330 for information about these facilities. This information is also available at the Internet site maintained by the SEC at <http://www.sec.gov>. General information about us is available at our Internet site at www.gouverneurbank.com; the information on our Internet site is not incorporated by reference into this proxy statement and does not form a part of this proxy statement. For a more detailed description of the information available, please see WHERE YOU CAN FIND MORE INFORMATION.

Q: Who can help answer my questions?

A. If you have questions about the split transaction after reading this proxy statement, you should contact Richard F. Bennett, our President and Chief Executive Officer, or Robert J. Twyman, our Chief Financial Officer, at (315) 287-2600.

ABOUT THE SPECIAL MEETING

Date, Time and Place of Special Meeting

Our Board of Directors is asking for your proxy for use at our special meeting of shareholders to be held on _____, [Meeting date], 2008, at __:00 __.m., local time, [in the Boardroom of Gouverneur Savings & Loan Association, 20 John Street, Gouverneur, New York], and at any adjournments or postponements of that meeting.

Matters to be Considered at the Special Meeting

The purpose of the special meeting is for you to consider and vote upon:

Proposal 1: The adoption of amendments to our Charter that will result in a reverse, followed by a forward, stock split transaction. This transaction is comprised of:

- a reverse stock split, in which each 100 shares of our common stock held in the record name of a shareholder at the effective time of the reverse stock split will be converted into one share of common stock; followed immediately by
- a forward stock split, in which each share of common stock outstanding after completion of the reverse stock split will be converted into 100 shares of common stock.

Each record shareholder owning fewer than 100 shares of common stock immediately prior to the reverse stock split will receive a cash payment of \$10.00 per share on a pre-split basis.

Record Date; Voting Power

You may vote at the special meeting if you were the record owner of shares of our common stock at the close of business on [Record date], 2008, which has been set as the record date. At the close of business on the record date, there were 2,300,744 shares of our common stock, \$0.01 par value per share, outstanding. You are entitled to one vote on each matter considered and voted upon at the special meeting for each share of common stock you held of record at the close of business on the record date.

Quorum

The presence, in person or by proxy, of a majority of our outstanding shares entitled to vote is necessary to constitute a quorum at the special meeting. Abstentions and broker non-votes are counted for purposes of establishing a quorum at the special meeting. Because Cambrey Mutual Holding Company is the Company's majority shareholder, the votes it casts will ensure the presence of a quorum.

Vote Required for Approval

Proposal 1 The Reverse/Forward Stock Split. Approval of the split transaction requires the affirmative vote of the holders of a majority of the votes eligible to be cast at the special meeting, including shares held by Cambrey Mutual Holding Company. As of [Record date], the directors and executive officers of the Company beneficially owned approximately 8.1% of the Company's outstanding common stock (excluding stock options). As of [Record date], Cambrey Mutual Holding Company beneficially owned approximately 57.0% of the Company's outstanding common stock. Because Cambrey Mutual Holding Company is the Company's majority shareholder, the votes it casts will determine the outcome of the split transaction proposal. We believe that all of our directors and executive officers and Cambrey Mutual Holding Company will vote in favor of the split transaction. Approval of the amendments and the split transaction do not require the separate vote of a majority of our unaffiliated shareholders, and no separate vote will be conducted. Abstentions and broker non-votes will have the same effect as a negative vote.

Voting and Revocation of Proxies

You may vote your shares in person by attending the special meeting, or by mailing us your completed proxy if you are unable or do not wish to attend. If a proxy card is submitted without instructions, the proxies will be voted **FOR** the proposal to approve the split transaction.

You can revoke your proxy at any time before the vote is taken. at the meeting by:

- delivering to Charles C. VanVleet, our Corporate Secretary, at 42 Church Street, Gouverneur, New York 13642, on or before the date of the special meeting, a later-dated and signed proxy card or a written revocation of the proxy;
- delivering to us at the special meeting prior to the taking of the vote a later-dated and signed proxy card or a written revocation;
- attending the special meeting and voting in person; or
- if you have instructed a broker to vote your shares, following the directions received from your broker to change those instructions.

Revoking a proxy will not affect a vote once the vote has been taken. Attendance at the special meeting will not, in itself, constitute a revocation of a proxy.

Solicitation of Proxies; Expenses of Solicitation

We are mailing this proxy material to our shareholders on or about [Mail date], 2008.

The enclosed proxy is solicited on behalf of our Board of Directors. The cost of soliciting proxies in the accompanying form will be borne by us. In addition to the use of mail, our officers and directors may solicit proxies by telephone or other electronic means. These individuals will receive no additional compensation for these services, but will be reimbursed for any transaction expenses incurred by them in connection with these services. Upon request, we will reimburse brokers, dealers, banks and trustees or their nominees for reasonable expenses incurred by them in forwarding proxy material to beneficial owners of shares of existing common stock.

Other Matters to be Considered at Special Meeting

As of the date of this proxy statement, the only business that our management expects to be presented at the meeting is that set forth above. If any other matters are properly brought before the meeting, or any adjournments thereof, it is the intention of the persons named in the accompanying form of proxy to vote the proxy on such matters in accordance with their best judgment.

PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS

Overview of the Split Transaction

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Gouverneur Bancorp, Inc., a federally chartered corporation, and is to be used at a special meeting at which our shareholders, among other things, will be asked to consider and vote upon a proposal to amend our Charter. If approved, the amendments will result in a 1-for-100 reverse split of our common stock, followed immediately by a 100-for-1 forward split of our common stock.

If the reverse and forward stock splits are approved and completed as described below, record holders of fewer than 100 shares of our common stock prior to the reverse split will no longer be shareholders of the Company. Instead, those shareholders will be entitled only to receive payment of \$10.00 per share of common stock held prior to the reverse split. Record shareholders holding 100 or more pre-split shares will remain shareholders. We intend, immediately following the split transaction, to terminate the registration of our shares under the Securities Exchange Act of 1934.

If approved by our shareholders at the special meeting and implemented by our Board of Directors, the split transaction will generally affect our shareholders as follows:

SHAREHOLDER POSITION PRIOR TO SPLIT TRANSACTION	EFFECT OF SPLIT TRANSACTION
Shareholders holding in registered name 100 or more shares of common stock	Shareholders will continue to hold the same number of shares they held prior to the split transaction.
Shareholders holding in registered name fewer than 100 shares of common stock	Shares will be converted into \$10.00 per share of common stock outstanding immediately prior to the reverse stock split.
Shareholders holding common stock in street name through a nominee (such as a bank or broker)	The split transaction will be effected at the record shareholder level. Therefore, regardless of the number of beneficial holders or the number of shares held by each beneficial holder, shares held in street name by a bank or broker who holds through a nominee in the aggregate more than 100 shares for its customers will be subject to the forward split, and the beneficial holders who hold their shares in street name will be continuing shareholders with the same number of shares as before the split transaction. If a shareholder owns fewer than 100 shares with a bank or broker who does not own of record in its own name or in a nominee name at least 100 shares in the aggregate for its customers, that shareholder will receive \$10.00 per share of common stock outstanding immediately prior to the reverse stock split.

The split transaction will become effective upon the filing of the necessary amendments to our Charter with the Office of Thrift Supervision or on a later date specified in that filing. The forms of the amendments to our Charter are attached to this proxy statement as *Appendices A-1* and *A-2*. Under no circumstances would the Board consummate the reverse stock split and not the forward stock split, for the reasons set forth in **PROPOSAL 1 THE SPLIT TRANSACTION SPECIAL FACTORS Fairness of the Split Transaction**.

Background of the Split Transaction

As an SEC reporting company, we are required to prepare and file with the SEC, among other items, annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K, and proxy statements and related materials.

In addition to the burden on management, the costs associated with these reports and other filing obligations comprise a significant corporate overhead expense. These costs include securities counsel fees, auditor fees, special Board and committee meeting fees, costs of printing and mailing shareholder documents, and EDGAR filing costs. For the fiscal year ended September 30, 2007, the total costs, including costs of management and staff time, of being a public company were \$234,000. These costs have been increasing over the years, and we believe they will continue as a significant expense of the Company, particularly as a result of the additional reporting and disclosure obligations imposed on SEC-reporting companies by the Sarbanes-Oxley Act.

If the Company does not go private, beginning with its Form 10-K for the year ending September 30, 2008 it will need to file a report of management on the Company's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. The costs of compliance with this requirement are estimated at \$13,000 for each of the fiscal years ending September 30, 2008, 2009 and 2010. Moreover, under Section 404 of the Sarbanes-Oxley Act for the fiscal year ended September 30, 2010, an attestation report of the Company's independent auditors on the Company's internal control over financial reporting will be required (unless the SEC delays this requirement for an additional year, as is currently proposed). The costs related to the initial attestation report are estimated to be \$20,000. These costs will be avoided if we complete the split transaction.

Our Board of Directors and management believe that the recurring expense and burden of our SEC-reporting requirements described above are not cost efficient for the Company. Becoming a non-SEC reporting company will allow us to avoid these costs and expenses. In addition, once our SEC reporting obligations are suspended, we will not be subject to the provisions of the Sarbanes-Oxley Act, and our officers will not be required to certify the accuracy of our financial statements under SEC rules. However, we will continue to be subject to the rules and regulations imposed by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation, including those relating to financial reporting.

There can be many advantages to being a public company, including having an active trading market for our stock. However, because the number of outstanding shares of our common stock is small and we have a small number of shareholders, we have not recognized the full benefit of having an active trading market. In the 12 months ended March 31, 2008, our common stock was not traded at all on 119 of the 252 trading days. During such period, our common stock had an average daily trading volume of only 841 shares. Having a limited trading market makes it difficult for our shareholders to liquidate a large number of shares of our stock without negatively affecting the per share sale price. In contrast, the split transaction will allow our small shareholders to sell their shares at a fixed price that will not decline based upon the number of shares sold, and allow them to do so without incurring typical transaction costs.

Other potential advantages of being a public company are the ability to access capital markets to meet additional capital needs and to use capital stock to make acquisitions. However, since becoming a public company in 1998, we have had limited capital needs. We have not made any additional public offerings of common stock or any other equity securities or raised additional funds through private placements since our organization in 1998. In addition, we have not used our common stock as consideration for any acquisitions. Currently, we do not anticipate issuing additional shares of common stock in either public or private transactions.

For these and other reasons noted below, our Board of Directors and management have concluded that the benefits of being an SEC-reporting company are substantially outweighed by the burden on management and the expense related to the SEC reporting obligations. As a result, during the past three years, our management began to explore the possibility of reducing our number of record shareholders to below 300 in order to suspend our periodic reporting obligations to the SEC.

Edgar Filing: GOUVERNEUR BANCORP INC - Form PRE 14A

As far back as the October 2006 regular meeting of the Company's Board of Directors, a discussion was held on Section 404 of the Sarbanes-Oxley Act and the impact this would have on publicly traded companies and the advantages of remaining a publicly traded company were reviewed. In November 2006, discussions were held with a financial advisor on strategic alternatives for the Company, including going private. In January 2007, management discussed with the board the pros and cons of going private and regulatory and other legal issues related to going private transactions. In particular, management provided estimated costs of operating as a public company and the expected additional costs that would be required for compliance with Section 404 of the Sarbanes-Oxley Act. At that time, consideration was given to the fact that the application of Section 404 of the Sarbanes-Oxley Act had been postponed for smaller public companies, such as the Company.

In January and February 2008, the Board again discussed the issue of going private and the pros and cons of deregistration, including updated estimated costs of operating as a public company. Management was instructed to research the issue further and to provide the Board with a more detailed analysis of going private.

At a Board meeting held in April 2008, management reviewed with the Board the different methods for going private, the advantages and disadvantages of going private and regulatory and other legal issues related to going private. The discussion also focused on the expenses involved in being a public company, including the costs of compliance with Section 404 of the Sarbanes-Oxley Act. The Board of Directors also took note of the fact that in recent periods numerous other financial institutions had undertaken going private transactions because of the increasing expense burden of operating as a public company. At this meeting, it was decided that the Company should continue its consideration of a going private transaction and to seek the advice of legal counsel.

At a May 14, 2008 Board meeting, management and legal counsel discussed with the Board the issue of going private. The discussion focused on various steps the Company could take to become a private company, including a reverse/forward stock split, a freeze-out merger, a tender offer, odd-lot tender offer and open market repurchases. Each alternative was examined and the advantages and disadvantages of each of these possible structures were considered. In addition, management and legal counsel discussed the timing and estimated costs of a going private transaction and emphasized that the expenses for compliance with Section 404 would be incurred shortly if the Company did not commence a going private transaction at this time.

At a Board meeting held on May 19, 2008, the Board again reviewed the various steps that could be taken to become a private company and determined to further investigate a going private transaction, in particular a reverse/forward stock split. The directors also resolved to engage a financial advisor to provide an opinion regarding the fairness of a split transaction to affiliated and unaffiliated shareholders cashed out in the transaction. On June 4, 2008, the Company formally engaged Keller & Company to prepare a fairness opinion and supporting analysis in connection with the Company's split transaction.

At a Board meeting held on June 25, 2008, Keller & Company presented different bases for determining the price to be paid to shareholders to be cashed out in the split transaction. Keller & Company's analysis focused on (i) a comparison of the Company with certain publicly-traded companies deemed comparable to the Company, (ii) a review of the historical and current market performance of the Company shares on the American Stock Exchange and (iii) a discounted cash flow analysis of the Company. The Board of Directors concluded, based on the information provided and subject to the receipt of a fairness opinion from Keller & Company, that \$10.00 would be an appropriate amount to pay non-continuing shareholders in the split transaction. This seemed to be a fair price based on the information presented by Keller & Company and yet was not so high as to be unfair to shareholders not cashed out in the transaction. The Board again considered the fact that shareholders who did not wish to be cashed out at that price could purchase additional shares on the market before the transaction was completed, or transfer their currently held shares into nominee name through a broker to avoid being cashed out. The Board considered a draft proxy statement in which the reverse/forward stock split would be explained to shareholders. Legal counsel was available to answer questions from the Board and to review the draft proxy statement.

Following the Board's determination of the \$10.00 per share price, Keller & Company delivered its oral opinion that the \$10.00 per share cash consideration to be paid to shareholders holding fewer than 100 shares of our common stock prior to the reverse stock split was fair from a financial point of view to our shareholders. The Board approved the split transaction by means of a 1-for-100 reverse stock split followed by a 100-for-1 forward stock split, pursuant to which shareholders owning fewer than 100 shares would receive \$10.00 in cash for their pre-split shares of our common stock.

Edgar Filing: GOUVERNEUR BANCORP INC - Form PRE 14A

Thereafter, Keller & Company delivered to the Board its written fairness opinion, dated June 25, 2008, a copy of which is attached as *Appendix B*.

Reasons for the Split Transaction

The Company is undertaking the split transaction at this time to end our SEC reporting obligations, which will enable us to save the Company and our shareholders the substantial costs associated with being a reporting company. The specific factors considered in electing at this time to undertake the split transaction and become a non-SEC reporting company are as follows:

- We estimate that we will eliminate costs of approximately \$248,000 on an annual basis by eliminating the requirement to make periodic reports and reducing the expenses of shareholder communications. These expenses include legal expenses (\$20,000), accounting expenses (\$60,500), printing, EDGAR and miscellaneous costs (\$28,000), American Stock Exchange listing fees (\$27,500), and costs of staff and management time spent on reporting and securities law compliance matters (\$112,000).
- If the Company does not go private, it will need to file with its Form 10-KSB for the year ending September 30, 2008 a report of management on the Company's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. The costs of compliance with this requirement are estimated at \$13,000 for each of the fiscal years ending September 30, 2008, 2009 and 2010. Moreover, under Section 404 of the Sarbanes-Oxley Act for the fiscal year ended September 30, 2010, an attestation report of the Company's independent registered public accounting firm on the Company's internal control over financial reporting will be required (unless the SEC delays this requirement for an additional year, as is currently proposed). The costs related to the initial attestation report are estimated to be \$20,000. These costs will be avoided if we complete the split transaction.
- We believe that, as a result of the recent disclosure and procedural requirements resulting from the Sarbanes-Oxley Act, the legal, accounting and administrative expense and the management and staff effort necessary to continue as an SEC-reporting company will remain significant, particularly in view of the requirements of Section 404, without a commensurate benefit to our shareholders. We expect to continue to provide our shareholders with financial information by disseminating an annual report, but we anticipate that the costs associated with this report will be substantially less than those we incur currently.
- In the Board of Directors' judgment, little justification exists for the continuing direct and indirect costs of registration with the SEC, which costs have recently increased as a result of the Sarbanes-Oxley Act, given the low trading volume in our common stock and that our earnings are sufficient to support growth and we therefore do not depend on raising capital in the public market, and do not expect to do so in the near future. If it becomes necessary to raise additional capital, we believe that there are adequate sources of additional capital available, whether through borrowing at the holding company level or through private or institutional sales of equity or debt securities, although we recognize that there can be no assurance that we will be able to raise additional capital if required, or that the cost of any required additional capital will be attractive.
- The expense of administering accounts of small shareholders is disproportionate to their ownership in the Company. Approximately 129 of our 345 shareholders of record beneficially own fewer than 100 shares of our common stock. These shareholders own approximately 0.2% of our shares of common stock. A disproportionate amount of our administrative expenses relating to shareholder accounts and reporting requirements is attributable to these shareholders.

- The split transaction allows non-continuing shareholders to receive fair value for their shares, in a simple and cost-effective manner, particularly given the possible ineffectiveness and inefficiencies of a tender offer, an open market share repurchase or a cash-out merger. Shareholders owning under 100 shares may find it uneconomical to dispose of those shares due to minimum brokerage commissions which are often charged.
- The split transaction will allow the non-continuing shareholders to realize what our Board has determined to be fair value for their Company common stock, without incurring brokerage commissions.

Completing the split transaction at this time will allow us to begin to realize cost savings, and will allow our management to focus on long-term beneficial business prospects to our shareholders, customers and communities.

We considered that some shareholders may prefer to continue as shareholders of the Company as an SEC-reporting company, which is a factor weighing against the split transaction. However, we believe that the disadvantages of remaining a public company subject to the registration and reporting requirements of the SEC outweigh any advantages. We have no present intention to raise capital through sales of securities in a public offering in the future or to acquire other business entities using stock as the consideration for such acquisition. Accordingly, we are not likely to make use of advantages that our status as an SEC-reporting company may offer. Moreover, those shareholders wishing to remain shareholders have the option of purchasing shares so that their total shares exceed 100 or transferring the shares they own into nominee name.

In view of the wide variety of factors considered in connection with its evaluation of the split transaction, our Board of Directors did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors it considered in reaching its determinations.

We reviewed and considered various alternative transactions to accomplish the proposed transaction, but ultimately elected to proceed with the split transaction. The following were the alternative transactions considered, but rejected:

- ***Tender Offer to Shareholders.*** The Board considered a tender offer to repurchase shares of our outstanding common stock. The results of a tender offer are unpredictable because participation is voluntary. Accordingly, there might not be a sufficient number of record shareholders tendering their shares to reduce the number of shareholders of record below 300. Furthermore, federal regulations impose rules regarding the treatment of shareholders in a tender offer, including the pro-rata acceptance of offers from shareholders. The Board rejected this alternative because it could not ensure that a tender offer would achieve the objective of reducing the number of record holders.
- ***Open Market Stock Repurchases.*** The Board considered using its previously announced stock buy-back plan and purchasing shares on the open market. Although the expenses associated with such a transaction would be low, it might not result in the desired reduction of shareholders of record. The Board rejected this alternative because it could not ensure that an open market stock repurchase would achieve the objective of reducing the number of record holders.
- ***Cash-Out Merger.*** The Board considered a cash-out merger of the Company into a newly-formed corporation, with the conversion of the outstanding shares occurring in the same general manner and ratios as in the split transaction. This type of merger would have the same net effect on our shareholders as the split transaction. However, the Board determined that a cash-out merger was not a preferable option because it did not offer any advantages over the split transaction, but would have required the formation of a new corporation, more documentation than the split transaction, including a plan of the merger, and likely increased costs, primarily due to additional regulatory complications associated with a merger.

- **Share Reclassification.** The Board considered reclassifying certain shares of the Company's common stock into a new series of preferred stock so that the number of common shareholders of record would fall below 300. The benefits of this type of transaction are that all shareholders would retain an equity interest in the Company and that the Company would conserve cash by not having to cash out any shareholders. The problem with this type of transaction is that it would result in a small number of shareholders holding, in the aggregate, a very small number of shares of preferred stock. As a result, those shareholders whose shares were reclassified into preferred stock would be left holding a very illiquid security. The Board rejected this alternative because it concluded that few shareholders would want to hold an illiquid security and because those shareholders who wanted to retain an equity interest in the Company could avoid being cashed out in the split transaction by increasing their holdings or moving their shares into street name.
- **Business Combination.** Although in the past, the Board considered possible affiliations with other financial institutions, it concluded that the Company's shareholders would be better served if the Company achieved the cost savings attributable to going private and focused on business strategies to enhance shareholder value as an independent customer-oriented and community-based financial institution. The Board has not engaged in any discussions with other financial institutions concerning a business combination during the past two years.
- **Maintaining the Status Quo.** The Board considered maintaining the status quo. In that case, we would continue to incur the significant expenses, as outlined above, of being an SEC-reporting company without the expected commensurate benefits. Thus, the Board considered maintaining the status quo not to be in our best interests or the best interests of our shareholders and rejected this alternative.

Fairness of the Split Transaction

Based on a careful review of the facts and circumstances relating to the split transaction, our Board of Directors believes that the split transaction and the terms and provisions of the split transaction, including the cash to be paid to non-continuing shareholders, are substantively and procedurally fair to our affiliated and unaffiliated shareholders.

Substantive Fairness

In concluding that the terms and conditions of the split transaction, including the cash to be paid to the non-continuing shareholders, are substantively fair to our unaffiliated shareholders, our Board of Directors considered a number of factors. In addition to the fairness opinion of Keller & Company, the Board considered the following specific factors in reaching its conclusion that the price to be paid in the reverse stock split to unaffiliated shareholders in lieu of fractional shares is fair to such shareholders. Individual directors may have given differing weights to different factors. Due to the relative illiquidity of the common stock, the Board as a whole generally placed more emphasis on the fairness opinion than on the stock prices as quoted on the American Stock Exchange, and the Board ultimately relied on the findings of Keller & Company in determining that the \$10.00 price per share is fair to unaffiliated shareholders. In fixing the purchase price in the split transaction, the Board of Directors did not attempt to establish a price that reflected the value of the Company as a whole. Rather, the Board of Directors sought to establish a price that was fair to both the non-continuing and the continuing shareholders based on the nature of the transaction and the circumstances in which it is being undertaken.

Current and Historical Market Prices of the Company's Common Stock. Although the common stock is listed on the American Stock Exchange, there is a limited trading market for the common stock. The high and low sale prices for the common stock from April 1, 2007 to March 31, 2008, ranged from a high of \$12.60 on October 10, 2007, to a low of \$7.53 per share on December 31, 2007. The closing sale price of the common stock on June 24, 2008, which was the last trading day before the Board determined the cash to be paid to non-continuing shareholders on June 25, 2008, was \$8.60 per share. The Board noted that the current market prices represent the price at which willing buyers and sellers of the Company's common stock have recently sold their shares. The Board members acknowledged that the price at which shareholders of the Company's common stock are willing to sell their shares generally is a strong indicator of the fair value of a share of the Company's common stock. As a result, the Board decided to assign more weight to recent market prices than to historical prices.

Premium Over Market Price. In order to increase the value of the transaction to those unaffiliated shareholders who hold fewer than 100 shares pre-split and thus will be cashed out in the reverse stock split, the Board decided to add a premium over current market prices in determining the price to be paid for fractional shares. The \$10.00 price to be paid for fractional shares includes a premium of \$1.40 per share (16.3%) over the last closing trading price of \$8.60 prior to the Board determination of the cash to be paid to non-continuing shareholders on June 25, 2008, and a premium of \$1.44 per share (16.8%) over the average closing trading price of \$8.56 for the thirty calendar days prior to June 25, 2008. The Board determined that a premium over the market price of the stock was justified in light of the fact that the split transaction is not a voluntary transaction for non-continuing shareholders. At the same time, the Board determined that the premium was not so high as to be unfair to the unaffiliated continuing shareholders.

Net Book Value. As of March 31, 2008, the book value per share of our common stock was \$9.01 and the \$10.00 per share price represents an 11.0% premium over book value.

Going Concern Value. Based on applicable federal law, the Board of Directors concluded that going concern value, in the context of a reverse/forward stock split, should not be given much weight, as shareholders cashed out in the split transaction can avoid its effects by purchasing a sufficient amount of stock to survive the reverse stock split or by simply using the payment received in the reverse stock split to purchase shares of the Company common stock after the transaction is effective. If the cashed-out shareholders are awarded the value of the Company as a going concern, they, rather than the Company and its continuing shareholders, would receive a windfall. The cashed-out shareholders could capture the full proportionate value of the fractional interest, return to the market and buy new stock at the market price, and realize the going concern value a second time should the Company ever merge or otherwise become subject to a change of control transaction.

Liquidation Value. The Board did not consider the liquidation value of the Company when selecting the purchase price. A liquidation analysis is not believed to be a relevant factor because the liquidation of a bank or discontinuance of a bank's operations is not considered to be a viable alternative. Historically, banks have generally only been liquidated in the event of insolvency or receivership. Neither the Company's management nor the Board has any intention of liquidating Gouverneur Savings.

Stock Repurchases. In reaching its determination as to fairness of the \$10.00 per share price, the directors considered the purchase prices paid by the Company in previous purchases pursuant to its stock repurchase programs. See COMMON STOCK PURCHASE INFORMATION. In the 12 months ending March 31, 2008, those prices ranged from \$9.10 to \$9.25 per share. The directors did not consider these prices to be a material factor in their consideration of the fairness of the split transaction, because these purchase prices generally approximated the then-market value of our common stock.

The factors that our Board of Directors considered positive for all unaffiliated shareholders, including both those that are continuing and non-continuing shareholders, included the following:

- our smaller shareholders who prefer to remain as shareholders of the Company may elect to do so by acquiring sufficient shares so that they hold at least 100 shares of common stock in their own names immediately prior to the split transaction or transferring their registered shares into nominee name with a broker who holds in nominee name over 100 shares;

- beneficial owners who hold their shares in street name, who would be cashed out if they were record owners instead of beneficial owners, and who wish to be cashed out as if they were record owners instead of beneficial owners, can work with their broker or nominee to transfer their shares into a record account in their own name so that they will be cashed out; and
- shareholders receive limited benefit from our being an SEC-reporting company because of our size and the limited trading of our common stock.

In addition to the positive factors applicable to all of our shareholders set forth above, the factors that the Board of Directors considered beneficial for the unaffiliated shareholders that are non-continuing shareholders included:

- the cash price of \$10.00 represents a 16.3% premium per share over the last closing trading price of \$8.60 on June 24, 2008; and a 16.8% premium per share over the average closing trading price of \$8.56 for the 30 calendar days prior to June 25, 2008;
- the factors relating to the fairness of the \$10.00 per share price set forth on pages ____ through ____ hereof;
- our common stock trades infrequently, not trading at all on 119 of the 252 trading days during the 12 months ended March 31, 2008, and with an average daily trading volume during that period of only 841 shares, a volume that the Board felt did not provide our shareholders with sufficient opportunity to readily obtain cash for a significant number of shares;
- the cash to be paid to non-continuing shareholders in the split transaction will provide certainty of value to those shareholders and immediate liquidity for them; and
- no brokerage or other transaction costs are to be incurred by them in connection with the transfer of their shares to the Company.

The factors that the Board of Directors considered positive for the affiliated and unaffiliated shareholders that are continuing shareholders included:

- they will continue to have the opportunity to participate in our future growth and earnings;
- they will realize the potential benefits of the termination of registration of our common stock, including reduced expenses as a result of no longer needing to comply with SEC reporting requirements;
- the fact that we anticipate that our shares will continue to be traded on the OTC Bulletin Board or in the pink sheets electronic quotation system after the split transaction, which will provide opportunities for continuing shareholders to trade their shares in the future;
- net income for the year ended September 30, 2007, would increase from \$942,000 (\$.042 per share) on a historical basis to \$1.0 million (\$.45 per share) on a pro forma basis and net income for the six months ended March 31, 2008, would increase from \$476,000 (\$.21 per share) to \$531,000 (\$.23 per share) on a pro forma basis as a result of the split transaction; and
- the two step structure of the split transaction will avoid disruption to holders of 100 or more shares of our common stock, who are not being cashed out in the transaction, by avoiding the requirement that these shareholders forward their stock certificates to the Company for cash for fractional shares of common stock and replacement stock certificates for whole shares of common stock.

Edgar Filing: GOUVERNEUR BANCORP INC - Form PRE 14A

The Board also considered the per-share purchase price to be fair from the perspective of continuing shareholders, as it was based on a price that willing buyers and sellers pay for the shares on the market, and that the purchase of shares in the split transaction at this price was a good use of the Company's excess capital at this time.

The Board considered whether the absence of a separate approval of the split transaction by the shareholders other than Cambray Mutual Holding Company affects the fairness of the transaction. The Company's board of directors also serves as the board of directors of Cambray Mutual Holding Company, the Company's majority shareholder. Because Cambray Mutual Holding Company is the Company's majority shareholder, the votes it casts will determine the outcome of the split transaction proposal. Under Office of Thrift Supervision regulations and the Company's Charter, the Board of Directors of the Company may amend the Charter of the Company, including amendments to effect both the reverse stock split and the forward stock split, upon the affirmative vote of the holders of a majority of the votes eligible to be cast at a meeting. No additional vote standard is required under either Office of Thrift Supervision regulations or the Company's Charter to amend the Company's Charter. Because of this authorization in Office of Thrift Supervision regulations and the Company's Charter, the Board of Directors does not believe that the lack of the separate approval of the split transaction by the shareholders other than Cambray Mutual Holding Company affects the fairness of the transaction to either the non-continuing shareholders or unaffiliated continuing shareholders. Accordingly, the Company has not required the separate approval of the split transaction by the shareholders other than Cambray Mutual Holding Company. The Board considered the fact that any shareholder who wishes to remain a shareholder of the Company following the reverse stock split may increase their holdings of Company common stock to at least 100 shares prior to the effective time of the reverse stock split.

The Board is aware of, and has considered, the impact of certain potentially countervailing factors on the substantive fairness of the split transaction to the unaffiliated non-continuing shareholders, including that, unless they take specific steps to avoid being cashed out, such as purchasing more shares or transferring their shares into a brokerage account that would avoid the elimination of their shares:

- they will be required to surrender their shares involuntarily in exchange for the cash-out price determined by the Board without the opportunity to liquidate their shares at a time and for a price of their choosing;
- they will not have the opportunity to participate in any of our future growth, earnings and dividends; and
- they will be required to pay income tax on the receipt of cash in the split transaction.

The factors that our Board of Directors considered as potentially negative for the affiliated and unaffiliated shareholders that are continuing shareholders included:

- they will have reduced access to our financial information once we are no longer an SEC-reporting company, including forms filed by our directors and executive officers reporting changes in their beneficial ownership, although we do intend to continue to provide the continuing shareholders with an annual report and the Company and Gouverneur Savings will continue to be subject to the filing requirements of the Office of Thrift Supervision;
- the fact that future business partners might require more information from us before entering into a business relationship due to the lack of publicly available information about us;

- the fact that we may have a lower public profile in our community, which may be a negative factor with some of our customers;
- the fact that continuing shareholders will lose certain protections currently provided under the Securities Exchange Act of 1934, such as limitations on short-swing transactions by executive officers and directors under Section 16 of that Act;
- the liquidity of our shares of common stock held by continuing shareholders may be further reduced by the termination of the registration of the common stock under the Securities Exchange Act of 1934 and the delisting of the common stock from the American Stock Exchange. Future trading in our shares after we go private, if it occurs, will only occur in the OTC Bulletin Board, the pink sheets electronic quotation system or in privately negotiated sales;
- the book value per share of common stock as of March 31, 2008, would decrease from \$9.01 per share on a historical basis to \$8.97 per share on a pro forma basis, which represents a 0.4% change in the book value per share of our common stock as a result of the split transaction; and
- the Company expects to pay approximately \$114,000 (including expenses) to effect the split transaction. This amount may change as a result of trading activity in our shares between the date hereof and the effective date of the split transaction.

Our Board of Directors believes that these potentially countervailing factors do not, individually or in the aggregate, outweigh the overall substantive fairness of the split transaction to our affiliated and unaffiliated shareholders, whether they be continuing or non-continuing shareholders, and that the foregoing factors are outweighed by the positive factors previously described.

Procedural Fairness

We believe that the split transaction is procedurally fair to our unaffiliated shareholders, including those that are continuing shareholders and those that are non-continuing shareholders. The factors that our Board of Directors considered positive for all shareholders, including both continuing and non-continuing shareholders, included the following:

- the split transaction is being effected in accordance with all applicable requirements of Office of Thrift Supervision regulations;
- the Board obtained a fairness opinion from an independent third party concerning the price to be paid to cash out shareholders, and the Board of Directors imposed no limitations upon Keller & Company with respect to the investigation made or procedures followed in rendering its fairness opinion;
- the Company retained and received advice from legal counsel in evaluating the terms of the split transaction;
- management and the Board considered alternative methods of effecting a transaction that would result in our becoming a non-SEC reporting company, each of which was determined to be impractical, more expensive than the split transaction, or potentially ineffective in achieving the goals of providing cash and value to the non-continuing shareholders as soon as possible and eliminating the costs and burdens of public company status;

- shareholders will have the opportunity to determine whether or not they will remain shareholders after the split transaction by acquiring sufficient shares so that they hold at least 100 shares immediately prior to the split transaction or transferring their shares into nominee name or selling sufficient shares so that they hold fewer than 100 shares immediately prior to the split transaction, so long as they act sufficiently in advance of the split transaction so that the sale or purchase is reflected in our shareholder records by the close of business (local time) on the effective date of the split transaction; and
- the Company has sufficient cash resources to undertake the necessary actions to finance the split transaction, with total expenditures estimated at \$114,000, and therefore the split transaction should not materially affect our financial condition and results of operations.

The Board is aware of, and has considered, the impact of the following potentially countervailing factors, which affect both continuing and non-continuing shareholders to the same degree, on the procedural fairness of the split transaction:

- the transaction is not structured to require approval of a majority of the unaffiliated shareholders;
- no appraisal or dissenters' rights are available under Office of Thrift Supervision regulations to shareholders who dissent from the split transaction;
- we did not receive a valuation of our common stock by an independent appraiser;
- we did not appoint a special committee of independent directors to consider the split transaction as a majority of the members of the Company's Board of Directors are independent and a majority of the independent directors approved the split transaction; and
- we did not retain an independent, unaffiliated representative to act solely on behalf of the shareholders to be cashed out in the split transaction for the purposes of negotiating the terms of the split transaction.

The Board of Directors believes that the foregoing potentially countervailing factors did not, individually or in the aggregate, outweigh the overall procedural fairness of the split transaction to our unaffiliated shareholders, whether they are continuing or non-continuing shareholders, and the foregoing factors are outweighed by the procedural safeguards previously described.

In addition, with respect to the determination not to seek a valuation, our Board felt that the fairness opinion given by Keller & Company provided sufficient procedural safeguards with respect to the cash to be paid to the non-continuing shareholders, and determined that it would be unnecessary to incur the additional cost associated with obtaining a valuation.

Because shareholders will have the opportunity to adjust their share ownership levels and thereby elect whether or not to remain a shareholder, the Board did not consider the absence of appraisal rights or the approval of the split transaction by shareholders other than Cambray Mutual Holding Company to be a significant factor with respect to the split transaction.

We therefore believe that the split transaction is substantively and procedurally fair to our affiliated and unaffiliated shareholders, including those that will be continuing shareholders and those that will be non-continuing shareholders, for the reasons and factors described above. In reaching this determination, we have not assigned specific weights to particular factors, and we considered all factors as a whole.

We have not made any provision in connection with the split transaction to grant unaffiliated shareholders access to our corporate files or to obtain counsel or appraisal services at our expense. With respect to unaffiliated shareholders' access to our corporate files, our Board determined that this proxy statement, together with our other filings with the SEC, provide adequate information for unaffiliated shareholders. With respect to obtaining counsel or appraisal services solely for unaffiliated shareholders at our expense, the Board did not consider these actions necessary or customary. Our Board also considered the fact that under Office of Thrift Supervision regulations, and subject to certain conditions set forth under Office of Thrift Supervision regulations, shareholders have the right to review our relevant books and records of account.

Effects of the Split Transaction on Affiliates

The split transaction will impact both affiliated and non-affiliated shareholders of the Company. As used in this proxy statement, the term *affiliated shareholder* means any shareholder who is a director or executive officer of the Company and Cambray Mutual Holding Company, our majority shareholder, which has the same Board of Directors as the Company, and the term *unaffiliated shareholder* means any shareholder other than an affiliated shareholder. All of the affiliated shareholders of the Company own over 100 shares of Company common stock. Therefore, the effects of the split transaction on each of the affiliated shareholders will be the same. We expect that our executive officers and directors will beneficially own approximately 186,065 shares (excluding unexercised options) as a group immediately after the split transaction and that Cambray Mutual Holding Company will beneficially own 1,311,222 shares immediately after the split transaction.

Other potential effects of the split transaction which are unique to the affiliated shareholders include the following:

- **Reduced Reporting Requirements for Officers and Directors.** The directors and executive officers and Cambray Mutual Holding Company will no longer be subject to the reporting and short-swing profit provisions under the Securities Exchange Act of 1934 with respect to changes in their beneficial ownership of our common stock.
- **Share Ownership.** If the split transaction occurs, we expect that the percentage of beneficial ownership of voting common stock of the Company held by executive officers and directors of the Company as a group (excluding stock options) will remain the same at 8.1% and that the percentage of beneficial ownership of voting common stock held by Cambray Mutual Holding Company will increase from 57.0% to 57.1% resulting in slightly greater voting power for affiliated shareholders and less for non-affiliated shareholders.

Determination of Fairness of Split Transaction By Affiliates

John L. Bartlett, Richard F. Bennett, Richard E. Jones, Frank Langevin, Robert J. Leader, Kathleen F. McIntosh, Timothy J. Monroe, F. Toby Morrow, Joseph C. Pistolesi, Robert J. Twyman and Charles C. VanVleet are considered *affiliates* of the Company due to their positions in senior management and/or on the Board of Directors of the Company. In addition, Cambray Mutual Holding Company is considered an affiliate due to its majority ownership of the Company's common stock. The affiliates who are not Board members reviewed the same information regarding the split transaction that the Board reviewed and considered the same factors as the Board of Directors. Each of these affiliates adopts the analysis of the Board of Directors which is discussed in this proxy statement and has separately determined that the split transaction is fair to affiliated and unaffiliated shareholders.

Board Recommendation

Our Board of Directors believes the terms of the split transaction are fair and in the best interests of our unaffiliated and affiliated shareholders and unanimously recommends that you vote **FOR** the adoption of the amendments to our Charter that will allow us to effect the split transaction.

Fairness Opinion of Financial Advisor

At a meeting of the Company's Board of Directors on June 25, 2008, Keller & Company, Inc. (*Keller & Company*) rendered an opinion as to the fairness, from a financial point of view, of the \$10.00 per share consideration to be paid for each share of common stock of that will be cashed out in the split transaction. Keller & Company's opinion does not consider the merits of the Company's decision to undertake the split transaction, but addresses only the fairness of the consideration received for those shareholders being cashed out.

The full text of the opinion of Keller & Company, which is attached as Appendix B to this document, sets forth certain assumptions made, matters considered and limitations on the review undertaken by Keller & Company, and should be read in its entirety. The summary of the Keller & Company opinion set forth in this document is qualified in its entirety by reference to the full text of the Keller & Company's opinion. The opinion of Keller & Company is directed to the Board of Directors and does not constitute a recommendation to any shareholder as to any action that such shareholder should take in connection with the split transaction, or otherwise.

The fairness opinion was prepared for use by the Board and was directed only to the fairness, from a financial point of view, as of June 25, 2008, of the \$10.00 per share consideration. Keller & Company was not involved in structuring the split transaction and its opinion does not compare the relative merits of the split transaction with those of any other transaction or business strategy which were or might have been available to or considered by the Company or the Board as alternatives to the split transaction and does not address the underlying business decision by the Board to proceed with or effect the split transaction. The fairness opinion is directed to the Board in its evaluation of the split transaction and does not constitute a recommendation to the Board as to how it should vote on the split transaction or to any stockholder as to how such stockholder should vote at the special meeting. In furnishing the fairness opinion, Keller & Company did not admit that it is an expert within the meaning of the term "expert" as used in the Securities Act nor did it admit that its opinion serves as a report or valuation within the meaning of the Securities Act.

The Board selected Keller & Company as its financial advisor because it is a recognized financial institutions consulting firm that has substantial experience in the financial institutions industry and is knowledgeable and familiar with the operations of the Company and its business. As part of its business, Keller & Company is regularly engaged in the valuation of businesses and securities in connection with mergers, acquisitions, underwritings, sales and distributions of listed and unlisted securities, private placements and valuation for corporate and other purposes, particularly those of financial institutions and financial institution holding companies.

Keller & Company has served as consultant to the Company in the past, assisting the Company in various projects, including the preparation of the Company's conversion appraisal and its three-year business plan in 1998. During the past three years, Keller & Company has assisted the Company in the preparation of a business plan update, resulting in total fees to Keller & Company of approximately \$3,800.

In rendering the fairness opinion, Keller & Company reviewed the terms of the split transaction and also reviewed financial and other information that was publicly available. Keller & Company also reviewed certain publicly available operational, financial and stock market data relating to selected public companies and conducted other financial studies, analyses and investigations as Keller & Company deemed necessary and appropriate for purposes of rendering the fairness opinion, as more fully set forth therein. No limitations were imposed by the Board of the Company upon Keller & Company with respect to its investigations conducted or procedures followed in rendering its opinion. Keller & Company was further requested by the Board to provide advisory assistance in determining a price to be paid to shareholders who will be cashed out in the split transaction.

Keller & Company assumed and relied upon, without independent verification, the accuracy and completeness of all financial and other information that was publicly available. Keller & Company further relied upon the assurances of the Company's management that they are unaware of any facts that would make the information provided to it incomplete or misleading.

Keller & Company was not requested to make, and did not make, an independent evaluation or appraisal of the assets, properties, facilities or liabilities (contingent or otherwise) of the Company, and was not furnished with any such appraisals or evaluations. Keller & Company's opinion is necessarily based upon financial, economic, market and other conditions and circumstances existing and disclosed to Keller & Company on the date of the fairness opinion. Subsequent developments may affect the conclusions reached in the fairness opinion, and Keller & Company has no obligation to update, revise or reaffirm the fairness opinion.

Edgar Filing: GOUVERNEUR BANCORP INC - Form PRE 14A

In preparing the fairness opinion, Keller & Company conducted the following three principal analyses: (i) a comparison of the Company with certain publicly-traded companies deemed comparable to the Company; (ii) a review of the historical and current market performance of the Company shares on the American Stock Exchange; and (iii) a discounted cash flow analysis of the Company.

Keller & Company discussed the Company's current financial position and recent earnings performance with senior management and discussed and reviewed local economic conditions and growth trends. Keller & Company gave consideration to historical pricing quotations for the Company and trading activity in the stock and identified a comparable group of publicly traded thrift institutions based on asset size, geographic location and financial characteristics that were similar to the Company. Keller & Company assumed and relied upon the accuracy and completeness of all the financial information, analyses and other information that was publicly-available or furnished to it, and did not verify the accuracy of completeness of this information.

The following are summaries of the pertinent financial analyses performed by Keller & Company in connection with its advice to the Board and the preparation of the fairness opinion. These summaries alone do not constitute a complete description of the approaches and methodologies Keller & Company employed in reaching its conclusions. The order of the analyses described does not represent relative importance or weight given to each of those analyses by Keller & Company. The summaries of the financial analyses include information presented in tabular format, which must be read together with the full text of each summary and are alone not a complete description of Keller & Company's financial analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before June 30, 2008, and is not necessarily indicative of current market conditions.

Discounted Cash Flow Analysis

The discounted cash flow method, also referred to as the income method, values the Corporation by projecting future benefits of ownership and discounting those benefits to a present value. The application of this method requires the selection of an appropriate discount rate, as well as assumptions related to prospective earnings, growth rates, dividends, and a terminal value. This method does not recognize the implementation of the proposed split transaction and assumes that the Company will continue to operate within its current structure and business model through 2012. It should be noted that the discounted cash flow is a widely used valuation methodology and relies on numerous assumptions, including projected earnings, terminal values, acquisition multiples and discount rates, which can change over time.

Keller & Company selected a discount rate of 12.15 percent, based on the estimated cost of capital for small capitalization financial institutions published in December, 2007, by Ibbotson Associates, a recognized statistical source, and adjusted to reflect the general volatility of rates, trends and economic conditions during the first half of 2008.

The incorporated assumptions related to the financial condition, operating performance and dividend payments of the Company from fiscal year 2008 to fiscal year 2012 were developed by the Company's management. Those assumptions and the resulting projections were deemed reasonable by Keller & Company, based on Keller & Company's experience in constructing and evaluating financial models for thrift institutions and banks, in the context of the Company's historical condition and performance, future expectations and the anticipated trends in the competitive and financial environment within which the Company operates.

Edgar Filing: GOUVERNEUR BANCORP INC - Form PRE 14A

Based on a pro forma discounted cash flow analysis, Keller & Company determined the present value of the Company at June 25, 2008, by adding (a) the present value of the estimated dividend stream that the Company could generate over the fiscal years 2008 through 2012 and (b) the present value of the terminal value of the Company common stock at September 30, 2012. The terminal value was determined by applying to the residual tangible book value of the Company at December 31, 2012, an acquisition multiple of 1.59, which is the average of Mid-Atlantic, New England and Midwest thrift acquisitions of comparable size between January 1, 2007, and June 25, 2008, for which pricing data were available and discounting the adjusted tangible book value by the 2012 present value factor.

As indicated, the present value of the Company's anticipated dividends through September 30, 2012, is \$1,976,000, recognizing that dividends for the first half of the Company's 2008 fiscal year have already been paid. The Company's projected tangible book value at September 30, 2012, is \$23,311,000, to which is applied the 1.59 acquisition multiple, resulting in an undiscounted terminal value of \$37,065,000. Discounted by the 2012 present value factor of 0.5636, the present value of Corporation's total equity value at September 30, 2012, is \$20,891,000.

The sum of the present value of the dividends and the terminal value is, therefore, \$22,278,000 or \$9.69 per share using the discounted cash flow method, based on a constant 2,299,384 shares outstanding. The discounted cash flow analysis was pertinent to Keller & Company's fairness opinion in that it recognized the earnings and dividend positions of the Company combined with the current market condition for thrift institution acquisitions.

DISCOUNTED CASH FLOW ANALYSIS

For the fiscal years ended September 30,

	2008	2009	2010	2011	2012	Total
(Dollars in thousands, except share data)						
Net interest income after provision for loan losses	4,200	4,400	4,600	4,850	5,100	23,150
Noninterest income	699	750	800	850	900	3,999
Noninterest expense	(3,538)	(3,750)	(3,930)	(4,120)	(4,320)	(19,658)
Net income before taxes	1,361	1,400	1,470	1,580	1,680	7,491
Income taxes @ 35.40%	482	496	520	559	595	2,652
Net income	879	904	950	1,021	1,085	4,839
Dividend/share	0.23	0.15	0.15	0.27	0.17	
Dividend paid ⁽¹⁾	264	336	356	625	395	1,976
Discount rate: 12.15%						
Present value factor (%)	0.9443	0.7951	0.7089	0.6321	0.5636	
Present value of cash flow	249	267	252	395	223	1,387
Tangible book value	21,063	21,632	22,225	22,621	23,311	
Shares outstanding	2,299,384	2,299,384	2,299,384	2,299,384	2,299,384	
Tangible book value/share	\$ 9.16	\$ 9.41	\$ 9.67	\$ 9.84	\$ 10.14	
Average assets	133,000	135,700	139,800	144,000	149,800	
Return on average assets (%)	0.66	0.67	0.68	0.71	0.72	

Calculation of present value per share:

Present value of cash flow - 5 years		\$	1,387
Tangible book value at 9/30/12	\$	23,311	
Tangible book value acquisition ratio ⁽²⁾		1.59	
Undiscounted terminal tangible book value	\$	37,065	
Terminal tangible book value discounted at	0.5636	=	<u>20,891</u>
Total equity value at 9/30/08		&nbs	