GOUVERNEUR BANCORP INC
Form 10QSB
February 08, 2008

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

FORM 10-QSB

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

For the quarterly period ended December 31, 2007

OR

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

For the transition period from _______________ to ___________________

Commission file number 001-14910

GOUVERNEUR BANCORP, INC.
(Exact name of small business issuer as specified in its charter)

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

42 Church Street, Gouverneur, New York 13642
(Address of principal executive offices)

Issuer's telephone number (315) 287-2600

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

Yes [X] No [ ]

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

Class	Outstanding at February 6, 2008
Common Stock, par value $ .01	2,300,399

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

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FORM 10-QSB
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 2007
Assets:	
Cash and due from banks	$
Interest-bearing deposits in bank	
Total cash and cash equivalents	
Securities available-for-sale	
Securities held-to-maturity (fair value of $79 at December 31,	

2007 and $81 at September 30, 2007)	
Loans held for sale	
Loans, net of deferred fees	10
Less allowance for loan losses	
Loans, net	10
Investment in Federal Home Loan Bank stock, at cost	
Investment in life insurance	
Bank premises and equipment, net	
Accrued interest receivable and other assets	
Total assets	$ 13
Liabilities:	
Deposits: Non interest-bearing demand	$
NOW and money market	1
Savings	1
Time	4
Total deposits	7
Advances from Federal Home Loan Bank	3
Accrued interest payable and other liabilities	
Total liabilities	11
Shareholders' Equity:	
Preferred stock, $.01 par value, 1,000,000 shares authorized; none issued	
Common stock, $.01 par value, 9,000,000 shares authorized; 2,384,040 shares issued	
Additional paid-in capital	
Retained earnings	1
Treasury stock, at cost, December, 83,641 shares; September, 83,981 shares	
Accumulated other comprehensive income	
Unallocated common stock held by ESOP	
Total shareholders' equity	2
Total liabilities and shareholders' equity	$ 13

See accompanying notes to the consolidated financial statements.

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

	Three M
	Dece
	2007

Interest income:	
Loans	$ 1,842
Securities-taxable	121
-non-taxable	25
Other short-term investments	25
Total interest income	2,013
Interest expense:	
Deposits	568
Borrowings - short-term	106
Borrowings - long-term	299
Total interest expense	973
Net interest income	1,040
Provision for loan losses	--
Net interest income after provision for loan losses	1,040
Non-interest income	
Service charges	102
Earnings on investment in life insurance	38
Other	19
Total non-interest income	159
Non-interest expenses	
Salaries and employee benefits	454
Directors fees	12
Occupancy and Equipment	123
Data processing	35
Postage and supplies	32
Professional fees	65
Expense on foreclosed assets, net	5
Other	112
Total non-interest expenses	838
Income before income tax expense	361
Income tax expense	122
Net income	$ 239
Earnings per common share - basic	$ 0.10
Earnings per common share - diluted	$ 0.10

See accompanying notes to the consolidated financial statements.

GOUVERNEUR BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Three months ended December 31, 2007
(In thousands, except share data) (Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Acc Comp Inco
Balance at September 30, 2007	$ 24	$ 4,910	$ 16,024	$ (425)	$
Comprehensive Income:					
Net Income			239		
Net pension and postretirement benefit costs, net of taxes					
Change in net unrealized gain on Securities available for sale, net of taxes					
Total comprehensive income					
Allocation of ESOP shares, 2,674 shares		13			
Adoption of EITF Issue No. 06-4			(121)		
Amortization of MRP		8			
Balance at December 31, 2007	$ 24	$ 4,931	$ 16,142	$ (425)	$

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GOUVERNEUR BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Three months ended December 31, 2006
(In thousands, except share data) (Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	U st
Balance at September 30, 2006	$ 24	$ 4,847	$ 15,398	$ (466)	$ 234	$
Comprehensive Income:						
Net Income			216			
Change in net unrealized gain on Securities						

available for sale, net of taxes					12	
Total comprehensive income						
Allocation of ESOP shares (2,482 shares)		19				
Amortization of stock options (800 options)		2				
Amortization of MRP		5				
Exercise of stock options (5,675 shares)		(2)		29		
Balance at December 31, 2006	$ 24	$ 4,871	$ 15,614	$ (437)	$ 246	$

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

	Three Mo Decem
	2007
Cash flows from operating activities:	
Net Income	$ 239
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	--
Net amortization of deferred fees on loans	34
Depreciation	30
Earnings on investment in life insurance	(38)
Stock-based compensation expense	34
(Increase) decrease in accrued interest receivable and other assets	(42)
Increase in accrued interest payable and other liabilities	643
Net cash provided by operating activities	900
Cash flows from investing activities:	
Securities available for sale:	
Proceeds from maturities and principal reductions	390
Purchases	(436)
Securities held to maturity - proceeds from maturities	3
Proceeds from sales of foreclosed assets	93
(Purchases) redemptions of Federal Home Loan Bank stock	20
Net increase in loans	(132)
Additions to premises and equipment	(156)
Net cash used by investing activities	(218)

Cash flows from financing activities:	
Net (decrease) increase in deposits	(779)
Net proceeds (repayments) from FHLB advances	(450)
Exercise of stock options	--
Net cash (used) provided by financing activities	(1,229)
Net increase (decrease) in cash and cash equivalents	(547)
Cash and cash equivalents at beginning of period	3,880
Cash and cash equivalents at end of period	$ 3,333
Non-cash investing activities:	
Foreclosed assets received in settlement of loans	$ 73
Cash paid during the period for:	
Interest	1,016
Income taxes paid	13

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Gouverneur Bancorp, Inc. (the "Company") and Gouverneur Savings and Loan Association (the "Bank"), the wholly owned and only subsidiary of the Company, as of December 31, 2007 and September 30, 2007 and for the three-month periods ended December 31, 2007 and 2006. All material intercompany accounts and transactions have been eliminated in this consolidation. These statements were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with instructions for Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all information or footnotes necessary for a complete presentation of financial statements in conformity with GAAP.

In the opinion of management, all adjustments, consisting of only normal recurring adjustments or accruals, which are necessary for a fair presentation of the consolidated financial statements have been made at and for the three-month periods ended December 31, 2007 and 2006. The results of operations for the three-month period ended December 31, 2007 are not necessarily indicative of the results which may be expected for an entire fiscal year or other interim periods.

The data in the consolidated statement of condition for September 30, 2007 was derived from the Company's Annual Report on Form 10-KSB. That data, along with the interim financial information presented in the consolidated statements of financial condition, income, shareholders' equity and cash flows should be read in conjunction with the 2007 consolidated financial statements, including the notes thereto included

in the Company's 2007 Annual Report on Form 10-KSB.

2. Earnings Per Common Share

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

Basic and diluted earnings per common share for the three-month periods ended December 31, 2007 and 2006 were computed as follows:

(In thousands, except per share data)

	Three Months December 3	
	2007	
Basic earnings per common share:		
Net income	$ 239	$
Weighted average common shares outstanding	2,278	
Basic earnings per common share	$ 0.10	$
Diluted earnings per common share:		
Net income	$ 239	$
Weighted average common shares outstanding	2,278	
Additional potentially dilutive securities (equivalent in common stock)		
Common Stock options and unearned MRP shares	24	
Diluted weighted average common shares outstanding	2,302	
Diluted earnings per common share	$ 0.10	$

3. Comprehensive Income

Comprehensive income, presented in the consolidated statements of shareholders' equity, consists of net income and the net change for the period in after-tax unrealized gains or losses on securities available for sale. For the three months ended December 31, 2007, it also includes the amortization of certain pension and postretirement costs previously recorded in accumulated other comprehensive income in accordance with SFAS No. 158 "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans". Accumulated other comprehensive income in the consolidated statements of financial

condition represents the net unrealized gains or losses on securities available for sale and pension and postretirement benefit costs related to SFAS 158, as of the reporting dates, net of related tax effects.

The components of other comprehensive income and related tax effects for the three-month periods ended December 31, 2007 and 2006 are as follows:

	Three Months December 3	
	2007	
	(In thousa	
Unrealized holding gains (losses) on available for sale securities	$ (75)	$
Net pension and postretirement benefit costs	15	
	(60)	
Tax effect	(24)	
Other comprehensive income, net of tax	$ (36)	$

The following table shows the components of accumulated other comprehensive income at December 31, 2007 and September 30, 2007:

	December 31, 2007	Se
	(In thousa	
Pension and postretirement benefit costs, net of taxes of $126 at December 31, 2007 and $133 at September 30, 2007	$ (189)	$
Unrealized holding gains on available for sale securities, net of net of taxes of $90 at December 31, 2007 and $121 at September 30, 2007	135	
	$ (54)	$

4. Stock Option and Management Recognition Plans

The Company has a Stock Option Plan ("SOP") and MRP for directors, officers and key employees. Both plans are described in Note 12 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-KSB, for the fiscal year ended September 30, 2007. Through September 30, 2006, the Company accounted for its SOP using the intrinsic value method set forth in Accounting Principles Board Opinion

No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") and related interpretations. Under APB No. 25, generally, when the exercise price of the Company's stock options equaled the market price of the underlying stock on the date of the grant, no compensation expense was recognized. The Company adopted SFAS No. 123R "Share Based Payment", using the modified-prospective transition method, beginning on October 1, 2006 and, therefore, began to expense the fair value of all options over their remaining vesting periods to the extent the options were not fully vested as of the adoption date and began to expense the fair value of all stock options granted subsequent to September 30, 2006, over their requisite service periods.

SFAS 123R also requires the benefits of realized tax deductions in excess of previously recognized tax benefits on stock-based compensation expense to be reported as a financing cash flow (none for the three months ended December 31, 2007) rather than an operating cash flow, as previously required. In accordance with Staff Accounting Bulletin ("SAB") No. 107, the Company classified share-based compensation within non-interest expenses to correspond with the same line item as the cash compensation paid to employees and directors.

Both employee and non-employee director options generally vest over a five-year service period. Compensation expense recognized for all options grants is net of estimated forfeitures and is recognized over the awards' respective requisite vesting periods. The fair values of all option grants were estimated using the Black-Scholes option pricing model. The Company recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite vesting period of the awards. Stock option compensation expense was $0 and $2,000 for the three months ended December 31, 2007 and 2006. No options were granted in the three-month periods ending December 31, 2006 or 2007.

The Company awarded no shares of stock under the MRP during the quarter ended December 31, 2007. During the three months ended December 31, 2007, the Company recorded $8,000 of share-based compensation expense, which was for MRP shares. The Company estimates it will record share-based compensation expense of approximately $33,000 in fiscal 2008.

The following table illustrates the impact of share-based compensation on net income and earnings per share:

	Three Months Ended			
	December 31, 2007		December 31	
(In thousands, except per share data)	As Reported	Impact of Share-Based Compensation Expense	As Reported	C
Net income	$ 239	$ 5	$ 216	$
Earnings per share:				
Basic	$ 0.10	$ 0.00	$ 0.10	$
Diluted	$ 0.10	$ 0.00	$ 0.09	$

5. Commitments and Contingencies

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance by a customer to a third party. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet instruments. The Bank had six standby letters of credit totaling $203,000 as of December 31, 2007.

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

6. Dividend Restrictions

Cambray Mutual Holding Company ("Cambray MHC"), the Company's parent mutual holding company, held 1,311,222 shares, or 57.0%, of the Company's issued and outstanding common stock, and shareholders other than Cambray MHC held 989,177 shares or 43.0% of such stock at December 31, 2007. Cambray MHC has filed a notice with the Office of Thrift Supervision ("OTS") to waive its right to receive cash dividends during the 2008 calendar year.

Cambray MHC waived receipt of several past dividends paid by the Company. The dividends waived are considered a restriction on the retained earnings of the Company. As of December 31, 2007 and September 30, 2007, the aggregate retained earnings restricted for cash dividends waived was $1,927,000.

7. Recently Issued Accounting Standards

In September 2006, the FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements" ("EITF 06-4"). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during

the employee's retirement. Alternatively, if the policy holder has

agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106 or Accounting Principals Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. This EITF is effective for fiscal years beginning after December 15, 2007, with early adoption permitted. The Company elected to adopt EITF 06-4 on October 1, 2007 which resulted in an increase in liabilities, and a decrease in retained earnings, of $121,000. Compensation expense for the quarter ended December 31, 2007 was $9,000 and is expected to be $34,000 for the year ended September 30, 2008 related to the adoption of EITF 06-4.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that companies recognize in their financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company adopted FIN 48 on October 1, 2007. The impact of adopting FIN 48 did not have a material effect on our financial statements.

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

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued proposed FASB Staff Position (FSP) 157-b, "Effective Date of FASB Statement No. 157," that would permit a one-year deferral in applying the measurement provisions of Statement No. 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair

value in an entity's financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of Statement 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. This deferral does not apply, however, to an entity that applies Statement 157 in interim or annual financial statements before proposed FSP 157-b is finalized. The Company is currently evaluating the impact, if any, that the adoption of FSP 157-b will have on the Company's operating income or net earnings.

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In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This statement permits entities to choose to measure many financial instruments and certain other items at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is effective as of the beginning of an entity's first fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The Company is continuing to evaluate the impact of this statement.

FASB statement No. 160 "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51" was issued in December of 2007. This Statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. The Company believes that this new pronouncement will have an immaterial impact on the Company's financial statements in future periods.

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

Staff Accounting Bulletin No. 109 (SAB 109), "Written Loan Commitments Recorded at Fair Value Through Earnings" expresses the views of the staff regarding written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. To make the staff's views consistent with current authoritative accounting guidance, the SAB revises and rescinds portions of SAB No. 105, "Application of Accounting Principles to Loan Commitments." Specifically, the SAB revises the SEC staff's views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. The SAB retains the staff's views on incorporating expected net future cash flows related to internally-developed intangible assets in the fair value measurement of a written loan commitment. The staff expects

registrants to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company does not expect SAB 109 to have a material impact on its financial statements.

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

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

Forward-Looking Statements

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

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

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

- Local, regional, national or global economic conditions which could cause an increase in loan delinquencies, a decrease in property values, or a change in the housing turnover rate;
- Fluctuations in loan demand and deposit flows;
- Changes in market interest rates or changes in the speed at which market interest rates change;
- Changes in laws and regulations affecting us, including changes in accounting standards and legal compliance requirements;

- Changes in competition, including non-bank investments; and
- Changes in consumer preferences.

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

General

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

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

Critical Accounting Policies

Note 2 to the consolidated financial statements of the Company (included in item 7 of the Annual Report on Form 10-KSB of the Company for the year ended September 30, 2007) lists significant accounting policies used in the development and presentation of its financial statements. This discussion and analysis, the significant accounting policies, and other financial statement disclosures identify and address key variables and other qualitative and quantitative factors that are necessary for an understanding and evaluation of the Company's results of operations. The following accounting policy is the one identified by management to be critical to the results of operations:

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

critical for the Company.

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

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

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Average Balances, Interest Rates and Yields

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

For the three months Ended De			
2007			
(Dollars in thousands)			
Average Balance	Interest	Yield/ Cost (6)	Average Balance

Loans, net (1)	$ 108,492	$ 1,842	6.74%	$ 108,
Securities (2)	11,231	146	5.16%	11,
Other short-term investments	2,335	25	4.25%	
Total interest-earning assets	122,058	2,013	6.54%	120,
Non-interest-earning assets	10,461			9,
Total assets	$ 132,519			$ 130,
Savings and club accounts (3)	$ 18,280	$ 47	1.02%	$ 19,
Time certificates	39,659	480	4.80%	38,
NOW and money market accounts	12,975	41	1.25%	12,
Borrowings	33,902	405	4.74%	35,
Total interest-bearing liabilities	104,816	973	3.68%	105,
Non-interest-bearing liabilities	7,264			5,
Total liabilities	112,080			110,
Shareholders' equity	20,439			20,
Total liabilities and shareholders' equity	$ 132,519			$ 130,
Net interest income/spread (4)		$ 1,040	2.86%	
Net earning assets/net interest margin (5)	$ 17,242		3.38%	$ 15,
Ratio of average interest-earning assets to average interest-bearing liabilities	1.16x			1

Notes appear on following page

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

Rate Volume Analysis of Net Interest Income

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

	For the three months ended December 31, 2007 vs. 2006 Increase (Decrease) Due To:		
	Volume	Rate	Total
	(Dollars in thousands)		
Interest-earning assets:			
Loans	$ (4)	$ (7)	$ (11)
Securities	1	13	14
Other short-term investments	18	(2)	16
Total interest-earning assets	15	4	19
Interest-bearing liabilities:			
Savings and club accounts	(3)	--	(3)
Time certificates	15	35	50
NOW and money market accounts	3	--	3
Borrowings	(18)	(6)	(24)
Total interest-bearing liabilities	(3)	29	26
Net change in net interest income	$ 18	$ (25)	$ (7)

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Comparison of Financial Condition at December 31, 2007 and September 30, 2007.

During the three months from September 30, 2007 through December 31, 2007, total assets decreased $0.4 million, or 0.3%, from $132.6 million to $132.2 million. Net loans increased by $0.1 million, or 0.1%, from $106.1 million to $106.2 million. This slight increase resulted from our strategy to deliberately reduce loan growth due to the narrow margins between loan rates and borrowing costs over the past year.

Deposits decreased $779,000, or 1.0%, during the fiscal quarter from $76.2 million at September 30, 2007 to $75.5 million at December 31, 2007.

Non-interest-bearing demand accounts, NOW and money market accounts and savings account balances decreased, but were partially offset by an increase in time deposits.

Borrowed funds from the FHLB, consisting of advances and securities repurchase obligations, were $32.7 million on December 31, 2007 and $33.2 million on September 30, 2007.

Shareholders' equity increased $116,000 during the first quarter of the fiscal year. This was the result of net income of $239,000 combined with increases of $26,000 on Employee Stock Ownership Plan shares earned, $8,000 of amortization of MRP shares and the recognition of pension and postretirement costs of $9,000. Partially offsetting the increases were a $45,000 decrease in unrealized gains on securities available-for-sale, net of taxes and a charge of $121,000 to retained earnings related to the adoption of EITF Issue No. 06-4.

Non-performing assets increased from $762,000 on September 30, 2007 to $1,190,000 at December 31, 2007, while the ratio of non-performing assets to total assets increased from 0.57% to 0.90% over the same period. Non-performing loans increased from $674,000, or 0.63% of total loans at September 30, 2007 to $1,122,000, or 1.06% at December 31, 2007, due primarily to the addition of one loan in the amount of $486,000 to non-accrual loans. A summary of the Company's non-performing assets and related ratios follows:

Non-performing assets	December 31, 2007	September 30, 2007
Non-accrual loans		
Residential mortgages and home equity loans	$ 849	$ 127
Commercial mortgages	250	249
Consumer other	23	1
Commercial other	--	--
Total non-accrual loans	1,122	377
Residential mortgage loans over 90 days delinquent and still accruing	--	297
Total non-performing loans	1,122	674
Foreclosed real estate	68	85
Other repossessed assets	--	3
Total non-performing assets	$ 1,190	$ 762
Non-performing loans as a percent of total gross loans	1.06%	0.63%
Non-performing assets as a percent of total assets	0.90%	0.57%

Five of twelve non-accrual residential mortgages are currently in

foreclosure proceedings including the loan mentioned above for $486,000.

A commercial mortgage loan in the amount of $250,000 is in foreclosure proceedings.

The Company had no loans more than 90 days delinquent and still accruing at December 31, 2007.

Management feels that the increase in non-performing residential mortgages may be in part related to higher energy costs precipitated by the more than tripling of oil prices on the world market in the past two years. These increases for both heating fuel and gasoline are impacting all residents and especially those on limited incomes. We suspect there also has been an increase in delinquencies related to energy prices. Management believes that the non-performing loans are adequately secured by collateral. Further, management is not aware of any other factors common to these loans, which caused their non-performance. Accordingly, while we will continue to monitor asset quality, management has determined that the allowance for loan losses is appropriate at this time.

Comparison of Results of Operations for the Three Months Ended December 31, 2007 and 2006.

General. Our net income for the three months ended December 31, 2007 was $239,000, an increase of $23,000, or 10.6%, over our net income of $216,000 for the same period last year. The increase in net income was the result of the following factors:

1. Net interest income decreased by $7,000, as interest income increased $19,000 and interest expense increased by $26,000,

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

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

4. non-interest expenses decreased $13,000, and

5. an increase of $8,000 in income taxes.

Basic and diluted earnings per share were each $0.10 for the three months ended December 31, 2007 and $0.10 and $0.09 respectively, for the three months ended December 31, 2006.

Interest Income. An analysis of the information shown previously in the Average Balances, Interest Rates and Yields table and in the Rate Volume Analysis of Net interest Income table follows:

1. Results show that interest income increased by $19,000, or 1.0%, from $1,994,000 for the three months ended December 31, 2006 to $2,013,000 for the three months ended December 31, 2007. Interest income increased $15,000 due to an increase in the average balance of interest-earning assets, from $120.5 million to $122.1 million, and total interest income increased $4,000 despite the decrease in the average rate earned on interest-earning assets from 6.56% to 6.54%.

2. Interest income on loans decreased $11,000, or 0.6%, for the first three months of fiscal 2008, as compared to the first three months of fiscal 2007. A decrease of $195,000 in the average balance of loans accounted for a decrease in interest income of $4,000, while a decrease of 0.02% in the average

rate on loans decreased interest income $7,000.

3. Interest income on securities and other short-term investments increased by $30,000 from $141,000 for the three months ended December 31, 2006 to $171,000 for the three months ended December 31, 2007. An increase of $1,738,000 in the average balance of securities and other short-term investments

increased interest income by $19,000, while a net increase in the average interest rate on securities and other short-term investments increased interest income by $11,000.

Interest Expense. An analysis of the information shown previously in the Average Balances, Interest Rates and Yields table and in the Rate Volume Analysis of Net interest Income table follows:

1. Interest expense increased by $26,000, or 2.7%, from $947,000 for the first quarter of fiscal 2007 to $973,000 for the first quarter of fiscal 2008. Interest expense decreased $3,000 due to a decrease in the average balance of interest-bearing liabilities. Over the same time frame, interest expense increased by $29,000 due to an increase in the average rate paid on interest-bearing liabilities from 3.57% to 3.68%.

2. The average balance of time certificates increased $1.3 million, from $38.4 million for the quarter ended December 31, 2006 to $39.7 million for the quarter ended December 31, 2007 resulting in an increase of $15,000 in interest expense. Interest expense on time certificates increased $35,000 as the average interest rate increased from 4.45% for the three months ended December 31, 2006 to 4.80% for the three months ended December 31, 2007. Brokered CDs decreased from $5.6 million at December 31, 2006 to $3.3 million at December 31, 2007, as time deposits from our local customers increased by $3.6 million. Over the same period, a decrease of $1.5 million in the average balance of borrowings from $35.4 million to $33.9 million resulted in a decrease in interest expense of $18,000, while a decrease in the average rate paid on borrowings from 4.81% to 4.74% decreased interest expense by $6,000.

Net Interest Income. Net interest income decreased by $7,000, or 0.7%, in the first three months of fiscal 2008 versus the first three months of fiscal 2007. The decrease in net interest income represents the difference between the $19,000 increase in interest income and the $26,000 increase in interest expense. The Average Balances, Interest Rates and Yields table shows that spread continues to decrease even though the Federal Reserve has lowered interest rates three times for a total of 1.0% since September 18, 2007. Our borrowing rates have decreased as compared to last year, but it will take time for deposit rates, including brokered deposits, to ratchet down. We believe our spread has bottomed out and that it will slowly begin to grow as borrowings mature and price to the current yield curve. We have decided to re-activate our loan arbitrage program, that is, we will seek to increase loan origination activity and borrow additional funds from FHLB to fund the loans. We feel the spread between loan rates and borrowing rates has improved enough to support this activity. However, the results of the first quarter of the 2008 fiscal year show that the average interest rate on interest-earning assets decreased by 2 basis points, while the average interest rate on interest-bearing liabilities increased by 11 basis points, thereby reducing spread by 13 basis points when

compared to the first quarter of fiscal 2007.

Average shareholders' equity represented 16.7% of average interest-earning assets for the quarter ended December 31, 2007 while it represented 16.6% of average interest-earning assets for the same quarter last year. Our ratio of average interest-earning assets to average interest-bearing liabilities was 1.16 times in the first quarter of fiscal 2008 and 1.15 times for the first quarter of fiscal 2007.

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

For the three months ended December 31, 2007, we recorded no provision for loan losses, compared to $15,000 in the same quarter last year. At December 31, 2007, the ratio of our loan allowance to total gross loans was 0.84% as compared to 0.87% on December 31, 2006. On September 30, 2007 the allowance was

$911,000, or 0.86% of total gross loans, and we determined for the quarter ended December 31, 2007 that the appropriate level for the allowance was $894,000. We had charge-offs during the quarter of $21,000 and recoveries of $4,000, so no provision was necessary to reach the desired level for the allowance. Our level of non-accruing loans, along with loans 90 days delinquent and still accruing interest was $1,122,000, or 1.06% of total loans, at December 31, 2007 as compared to $674,000, or 0.63% of total loans, at September 30, 2007.

Non-interest Income. Our non-interest income was $10,000 higher in the first quarter of fiscal 2008 as compared to the same quarter in fiscal 2007 mostly due to an increase in service charges of $50,000 offset by a $42,000 decrease in the market value of the underlying plan assets in the deferred directors fees plan.

Non-interest Expense. Non-interest expense decreased by $13,000 from the quarter ended December 31, 2006 to the quarter ended December 31, 2007. Over that period, occupancy and equipment expense increased by $23,000 while directors' fees decreased by $40,000, accounting for most of the change. Occupancy and equipment costs increased due to the addition of the new office in Gouverneur. The old administration building was vacated at the end of November so we will see some offset going forward. Directors' fees were decreased mostly due to the decrease in the market value of the underlying plan assets in the deferred directors fees plan for the quarter ended December 31, 2007 as compared to the quarter ending December 31, 2006.

At December 31, 2007, we had thirty-two full-time and four part-time employees, compared to thirty-two full-time and three part-time employees at the end of December 2006.

Income tax expense. Our income tax expense increased by $8,000, or 7.0%, comparing the first quarter of fiscal 2008 to the same quarter of fiscal 2007. The increased expense was the result of an increase in income before taxes

of $31,000 over the same period, an increase of 9.4%.

Liquidity and Capital Resources

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

In general, we manage our liquidity by maintaining a sufficient level of short-term investments so funds are readily available for investment in loans when needed. During the three months ended December 31, 2007, we decreased our cash and cash equivalents by $547,000.

Deposits decreased by $779,000 during the quarter ended December 31, 2007. In addition to factors within our control, such as our deposit pricing strategies and our marketing efforts, deposit flows are affected by the level of general market interest rates, the availability of alternate investment opportunities, general economic conditions, and other factors outside our control. We reduced borrowings from FHLB by $450,000 during the quarter ended December 31, 2007 and decreased brokered CDs by $421,000 over the same period.

We monitor our liquidity regularly. Excess liquidity is invested in overnight federal funds sold and other short-term investments. If we need additional funds, we can borrow those funds, although the cost of borrowing money is normally higher than the average cost of deposits. As a member of the FHLB, the Bank can arrange to borrow an additional $18.4 million against our one to four family mortgage portfolio. We have used borrowed funds to help us leverage capital and grow the Bank, but have not needed borrowings to cover liquidity shortfalls. In addition to borrowings, we believe that, if we need to do so, we can attract additional deposits by increasing the rates we offer.

We measure liquidity on a monthly basis and want to maintain a liquidity ratio of between 5% and 15%. At December 31, 2007, the ratio is 7.3%. We will continue to monitor liquidity.

Off Balance Sheet Arrangements

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

We had $0.8 million in outstanding commitments to make loans at December 31, 2007, along with $5.8 million of unused home equity, commercial and overdraft lines of credit. We also had a commitment to sell the $2.1 million guaranteed portion of a USDA guaranteed loan we originated. The loan sold in January 2008 after we received USDA approval for the sale. We anticipate that we will have enough funds to meet our current loan commitments and to fund draws on the lines of credit through the normal turnover of our loan and securities portfolios. At December 31, 2007, we had $31.7 million of time certificates scheduled to mature within one year including brokered CDs. We anticipate that we can retain substantially all of those deposits if we need to do so to fund loans and other investments as part of our efforts to grow and leverage our capital.

Capital Resources

The OTS has minimum capital ratio requirements applying to the Bank, but there are no comparable minimum capital requirements that apply to us as a savings and loan holding company. At December 31, 2007, the Bank exceeded all regulatory capital requirements of the OTS applicable to it, with Tier I capital of $20.2 million, or 15.2% of average assets and with total risk-based capital of $21.0 million, or 27.2% of risk-weighted assets. The Bank also had tangible capital of $20.2 million, or 15.2% of average tangible assets. The Bank was classified as "well capitalized" at December 31, 2007 under OTS regulations.

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The term "disclosure controls and procedures" is defined in Rule 13a-14(c) of the Securities Exchange Act of 1934, or (the "Exchange Act"). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2007, and they have concluded that as of that date, our disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

(b) Changes in Internal Controls. There were no significant changes to our internal controls or in other factors that could significantly affect our internal controls during the quarter ended December 31, 2007, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits

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

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

32.1 Certification of Principal Executive Officer pursuant to Section 1350

32.2 Certification of Chief Financial Officer pursuant to Section 1350

SIGNATURES

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

Gouverneur Bancorp, Inc.

Date: February 8, 2008

By: /s/ Richard F. Bennett

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

By: /s/ Robert J. Twyman

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