

Citizens Community Bancorp Inc.
Form 10-Q
August 08, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008.

OR

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

For the transition period from _____ to _____

Commission file number 001-33003

CITIZENS COMMUNITY BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

20-5120010
(IRS Employer Identification
Number)

2174 EastRidge Center, Eau Claire, WI 54701
(Address of principal executive offices)

715-836-9994
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See definition of "large accelerated filer, accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-Accelerated filer Smaller reporting company
(do not check if a smaller reporting company)

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

Yes [] No [X]

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes [] No []

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

At July 31, 2008, there were 6,226,995 shares of the issuers' common stock outstanding.

CITIZENS COMMUNITY BANCORP, INC.

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Part I – FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Balance Sheets

June 30, 2008, unaudited, September 30, 2007, derived from audited financial statements
(in thousands)

Assets	June 30, 2008	September 30, 2007
Cash and cash equivalents	\$12,421	\$6,354
Other interest-bearing deposits	371	371
Securities available-for-sale (at fair value)	66,212	39,592
Federal Home Loan Bank stock	5,787	4,822
Loans receivable	354,528	320,953
Allowance for loan losses	(1,129)	(926)
Loans receivable - net	353,399	320,027
Loans held for sale	114	0
Office properties and equipment - net	4,067	3,460
Accrued interest receivable	1,665	1,397
Intangible assets	1,302	1,528
Goodwill	5,466	5,466
Other assets	4,873	3,096
TOTAL ASSETS	\$455,677	\$386,113
Liabilities and Stockholders' Equity	June 30, 2008	September 30, 2007
Liabilities:		
Deposits	\$269,259	\$207,734
Federal Home Loan Bank advances	112,495	96,446
Other liabilities	3,974	3,784
Total liabilities	385,728	307,964
Stockholders' equity:		
Common stock - 6,226,995 and 7,118,205 shares, respectively	62	71
Additional paid-in capital	62,179	69,934
Retained earnings	12,478	12,420
Unearned ESOP shares	(3,531)	(3,877)
Unearned deferred compensation	(148)	(207)
Accumulated other comprehensive loss	(1,091)	(192)
Total stockholders' equity	69,949	78,149
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$455,677	\$386,113

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Income - Unaudited
For the Three and Nine Months Ended June 30, 2008, and 2007
(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Interest and dividend Income:				
Interest and fees on loans	\$5,773	\$4,791	\$16,999	\$13,470
Other interest and dividend income	1,011	63	2,485	238
Total interest and dividend income	6,784	4,854	19,484	13,708
Interest expense:				
Interest on deposits	2,316	1,805	6,669	5,091
Borrowings	1,273	378	3,728	931
Total interest expense	3,589	2,183	10,397	6,022
Net interest income	3,195	2,671	9,087	7,686
Provision for loan losses	182	135	543	325
Net interest income after provision for loan losses	3,013	2,536	8,544	7,361
Noninterest Income:				
Service charges on deposit accounts	263	251	755	709
Insurance commissions	80	117	253	323
Loan fees and service charges	71	78	215	216
Other	3	3	9	10
Total noninterest income	417	449	1,232	1,258
Noninterest expense:				
Salaries and related benefits	1,413	1,343	4,230	4,680
Occupancy - net	320	291	885	859
Office	292	219	791	606
Data processing	83	80	271	348
Amortization of core deposit	75	75	226	226
Advertising, marketing and public relations	31	44	96	119
Professional services	221	145	566	323
Other	322	254	864	854
Total noninterest expense	2,757	2,451	7,929	8,015
Income before provision for income tax				
	673	534	1,847	604
Provision for income taxes	284	227	757	255
Net income	\$389	\$307	\$1,090	\$349
Per share information:				
Basic earnings	\$0.06	\$0.05	\$0.17	\$0.05

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Diluted earnings	\$0.06	\$0.05	\$0.17	\$0.05
Dividends paid	\$0.05	\$0.05	\$0.15	\$0.15

Citizens Community Bancorp, Inc.
Consolidated Statements of
Changes in Stockholders' Equity - Unaudited
For the Nine Months ended June 30, 2008, and 2007
(in thousands, except shares)

Nine Months Ended June 30, 2008	Common Shares	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Unearned Compensation	Accumulated Other Comprehensive Loss	Treasury Stock	Total	
Balance - Beginning of Period	7,118,205	\$71	\$69,934	\$12,420	(\$3,877)	(\$207)	(\$192)	\$0	78,149
Comprehensive income:									
Net Income			1,090						1,090
Amortization of unrecognized prior service costs and net gains/losses, net of tax							41		41
Net unrealized loss on available for sale securities, net of tax						(940)			(940)
Total comprehensive income									191
Common Stock Repurchased	(891,210)	(9)	(7,846)						(7,855)
Stock option expense			54						54
Committed ESOP shares					346				346
Appreciation in fair value of ESOP shares charged to expense			26						26
Cancellation of unvested restricted stock			11		(11)				0
Amortization of restricted stock					70				70
			(1,032)						(1,032)

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Cash dividends (\$0.15 per share) Balance - End of Period	6,226,995	\$62	\$62,179	\$12,478	(\$3,531)	(\$148)	(\$1,091)	\$0	\$69,949
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Nine Months Ended June 30, 2007	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Unearned Compensation	Accumulated Other Comprehensive Treasury		Total
							Loss	Stock	
Balance - Beginning of Period	3,747,319	\$37	\$18,833	\$12,792	(\$894)	(\$334)	(\$11)	(\$341)	\$30,082
Adjustment to initially apply FASB Statement No. 158, net of tax							(621)		(621)
Comprehensive income:									
Net Income				349					349
Pension curtailment, net of tax*							75		75
Amortization of unrecognized prior service costs and net gains/losses, net of tax							182		182
Net unrealized loss on available for sale securities, net of tax							(4)		(4)
Total comprehensive income									602
Sale of Common Stock	3,369,061	34	51,204						51,238
Unearned shares held by ESOP					(3,415)				(3,415)
Stock option expense			57						57
Committed ESOP shares					317				317
Appreciation in fair value of ESOP shares			63						63

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charged to expense									
Cancellation of treasury stock			(341)					341	0
Dissolution of CCMHC			92						92
Cancellation of unvested restricted stock	(2,733)		(37)			37			0
Stock options exercised	4,558		32						32
Amortization of restricted stock						69			69
Cash dividends (\$0.15 per share)			(760)						(760)
Balance - End of Period	7,118,205	\$71	\$69,903	\$12,381	(\$3,992)	(\$228)	(\$379)	\$0	\$77,756

* Includes curtailment of \$124 (\$75, net of tax)

CITIZENS COMMUNITY BANCORP, INC.

Consolidated Statements of Cash Flows - Unaudited
For the Nine Months Ended June 30, 2008 and 2007

	June 30, 2008 (thousands)	June 30, 2007 (thousands)
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	\$1,090	\$349
Adjustments to reconcile net income to net cash provided by activities:		
Securities discount accretion	\$166	\$0
Provision for depreciation	342	372
Provision for loan losses	543	325
Amortization of purchase accounting adjustments	(52)	(54)
Amortization of core deposit intangible	226	226
Amortization of restricted stock	70	69
Provision for stock options	54	57
Provision (benefit) for deferred income taxes	(678)	(699)
Net change in loans held for sale	(114)	321
ESOP contribution expense in excess of shares released	26	63
Decrease (increase) in accrued interest receivable and other assets	(253)	(47)
Increase (decrease) in other liabilities	(709)	(2,496)
Total adjustments	(379)	(1,863)
Net cash provided (used) by operating activities	711	(1,514)
Cash flows from investing activities:		
Proceeds from maturities of interest bearing deposits	0	590
Sale of Federal Home Loan Bank stock	0	496
Purchase of Federal Home Loan Bank stock	(965)	0
Proceeds from sale of securities available-for-sale	0	0
Purchase securities available for sale	(31,839)	(4,916)
Proceeds from principal repayments on securities available for sale	3,939	113
Net increase in loans	(33,877)	(41,154)
Net capital expenditures	(947)	(248)
Net cash used in investing activities	(63,689)	(45,119)
Cash flows from financing activities:		
Increase (decrease) in borrowings	16,049	(13,355)
Increase in deposits	61,537	14,491
Proceeds from sale of common stock	0	51,238
Repurchase shares of common stock	(7,855)	0
Dissolution of CCMHC	0	92
Stock options exercised	0	32
Reduction (Increase) in unallocated shares held by ESOP	346	(3,098)
Cash dividends paid	(1,032)	(760)

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Net cash provided by financing activities	69,045	48,640
Net increase (decrease) in cash and cash equivalents	6,067	2,007
Cash and cash equivalents at beginning	6,354	6,170
Cash and cash equivalents at end	\$12,421	\$8,177

Supplemental cash flow information:

Cash paid during the year for:

Interest on deposits	\$6,669	\$5,090
Interest on borrowings	3,697	1040
Income taxes	969	573

CITIZENS COMMUNITY BANCORP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 –Organization

The financial statements of Citizens Community Federal (the “Bank”) included herein have been included by Citizens Community Bancorp, Inc. (the “Company”) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Citizens Community Bancorp (CCB) was a successor to Citizens Community Federal as a result of a regulatory restructuring into the mutual holding company form, which was effective on March 29, 2004. The restructuring included the capitalization of CCB, the sale of 978,650 shares of its common stock, including 119,236 shares to the employee stock ownership plan (ESOP), the issuance of 2,063,100 shares of its common stock to Citizens Community MHC and the acquisition by CCB of all of the shares of Citizens Community Federal. The ESOP borrowed \$1,192,360 from CCB to purchase its shares of CCB’s stock.

Proceeds from the stock offering, net of the ESOP loan totaled \$7,974,296. \$4,533,328 was used to purchase 100% (3,041,750 shares) of Citizens Community Federal’s stock and \$3,340,968 was retained by CCB for short-term investments and general corporate purposes. The restructuring included a series of transactions by which the corporate structure of Citizens Community Federal was converted from a mutual savings bank to the mutual holding company form of ownership. Upon completion, Citizens Community Federal became a federal stock savings bank subsidiary of Citizens Community Bancorp. Citizens Community Bancorp was a majority-owned subsidiary of Citizens Community MHC. Members of Citizens Community Federal became members of Citizens Community MHC and continued to have the same voting rights in Citizens Community MHC after the restructuring as they had in Citizens Community Federal. After the stock offering, Citizens Community MHC owned 67.83%, or 2,063,100 shares, of the common stock of Citizens Community Bancorp and the remaining 32.17% of the stock was sold to the public.

On July 1, 2005, CCB acquired Community Plus Savings Bank, Rochester Hills, Mich., through a merger with and into Citizens Community Federal. In accordance with the merger agreement, CCB issued 705,569 additional shares to Citizens Community MHC, based on the \$9.25 million independently appraised value of Community Plus Savings Bank. In addition to the shares issued to Citizens Community MHC, the members of Community Plus Savings Bank became members of Citizens Community MHC. At June 30, 2005, Community Plus Savings Bank had total assets of \$46.0 million and deposits and other liabilities of \$41.8 million, prior to purchase accounting adjustments.

On October 31, 2006, a second-step conversion was completed in which Citizens Community MHC converted to stock form. Through this transaction, Citizens Community MHC and CCB ceased to exist and were replaced by Citizens Community Bancorp, Inc. as the holding company for the Bank. A total of 5,290,000 shares of common stock were sold in the offering at \$10 per share through which the Company received proceeds of \$51,238,000 net of offering costs of \$1,662,000. The Company contributed \$25,619,000, or approximately 50%, of the net proceeds to the Bank in the form of a capital contribution. The Company lent \$3,415,010 to the ESOP and the ESOP used those funds to acquire 341,501 shares of Company stock at \$10 per share.

As part of the conversion, outstanding public shares of CCB were exchanged for 1.91067 shares of Citizens Community Bancorp, Inc., the new holding company of Citizens Community Federal. The exchange resulted in an additional 1,826,380 of outstanding shares of the Company for a total of 7,116,380 outstanding shares. Treasury stock held was cancelled.

The consolidated income of the Company is principally from the income of the Bank. The Bank originates residential and consumer loans, and accepts deposits from customers primarily in Wisconsin, Minnesota and Michigan. The Bank acquired a branch in Mankato, Minn., in November of 2003, opened a new branch office in Oakdale, Minn., on October 1, 2004, and acquired Community Plus Savings Bank's Lake Orion and Rochester Hills, Mich., branches on July 1, 2005. On January 22, 2008, the Bank announced that it signed a letter of intent with Wal-Mart to open seven branches during 2008 in Wal-Mart Supercenters in Wisconsin and Minnesota. The Bank opened a new branch in the Wal-Mart Supercenter in Red Wing, Minn. on March 3, 2008, and in Rice Lake, Wis. on May 1, 2008. The Bank moved its existing branches in Black River Falls and Wisconsin Dells, Wis. to the new Wal-Mart Supercenter locations in those respective communities. The Bank also opened a new location in Brooklyn Park, Minn. on July 30, 2008 located in the community's Wal-Mart Supercenter. The Bank will open Citizens Community Federal branches in the following additional Wal-Mart Supercenters: Faribault, Minn. and Hutchinson, Minn. On April 9, 2008, the Bank announced that it had entered into an agreement with American National Bank of Beaver Dam, Wis. to acquire three American National Bank branches located in Wal-Mart Superstores located in Appleton, Fond du Lac and Oshkosh, Wis. Subsequent to June 30, 2008, the Bank opened these branch acquisitions on August 3, 2008.

The Bank is subject to competition from other financial institutions and non-financial institutions providing financial products. Additionally, the Bank is subject to the regulations of certain regulatory agencies and undergoes periodic examination by those regulatory agencies.

NOTE 2 – PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Citizens Community Federal. All significant inter-company accounts and transactions have been eliminated.

The accompanying unaudited consolidated financial statements of Citizens Community Bancorp, Inc. have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months and nine months ended June 30, 2008, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2008. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

NOTE 3 – STOCK-BASED COMPENSATION

In February 2005, the Recognition and Retention Plan was approved by the Company's stockholders. The plan provides for the grant of up to 113,910 shares. As of June 30, 2008, 70,622 restricted shares were granted under this plan, and 5,467 of these shares were forfeited. Restricted shares are issued at no cost to the employee and have a five-year vesting period. The fair value of the restricted shares on the date of issue was \$7.04 per share for 63,790 shares and \$6.18 for 6,832 shares. Compensation expense related to these awards was \$23,056 for the three months ended June 30, 2008, and \$69,808 for the nine-month period ended June 30, 2008.

In February 2005, the 2004 Stock Option and Incentive Plan was approved by stockholders. The plan provides for the grant of nonqualified and incentive stock options, and stock appreciation rights. The plan provides for the grant of options for up to 284,778 shares. At June 30, 2008, 202,197 options had

been granted under this plan at a weighted-average exercise price of \$7.04 per share. Options vest over a five-year period. Unexercised, nonqualified stock options expire in 15 years and unexercised incentive stock options expire in 10 years. At June 30, 2008, options for 80,886 shares were vested, options for 12,529 shares were forfeited and options for 4,558 shares were exercised. Of the 202,197 options granted, 185,110 remained outstanding on June 30, 2008.

The Company accounts for stock-based employee compensation related to its stock option plan using the fair-value-based method consistent with the methodology prescribed by SFAS No. 123(R), "Accounting for Stock-Based Compensation," which the Company adopted on October 1, 2006, as required. Accordingly, the Company records compensation expense whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the vesting period. The costs recognized for the three- and nine-month periods ended June 30, 2008, were \$17,740 and \$54,310, respectively.

In February 2008, the 2008 Equity Incentive Plan was approved by stockholders. The aggregate number of shares of common stock of Citizens Community Bancorp, Inc. reserved and available for issuance under the Incentive Plan is 597,605. Under the Plan, the Incentive Plan Committee may grant stock options and stock appreciation rights that, upon exercise, result in the issuance of 426,860 shares of Citizens Community Bancorp, Inc. common stock. The Committee may grant restricted stock and restricted stock units for an aggregate of 170,745 shares of Citizens Community Bancorp, Inc. common stock. As of June 30, 2008, no shares have been granted under this 2008 Equity Incentive Plan.

NOTE 4 – SUPPLEMENTAL EXECUTIVE AND DIRECTOR RETIREMENT PLANS

On October 1, 2006, the Company adopted SFAS No. 158, Employers' Accounting for Defined Pension and Other Postretirement Plans. SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position. It also requires employers to recognize gains or losses and prior service costs or credits that arise during the year but are not recognized as components of net periodic benefit costs under SFAS No. 87 as a component of other comprehensive income. The implementation increased deferred tax assets by \$412,000, increased accrued pension liability \$1,033,000 and decreased equity \$621,000 for the underfunded status of the plan.

NOTE 5 – EARNINGS PER SHARE

Basic earnings per share (EPS) is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The weighted average number of shares outstanding for the three-month periods ended June 30, 2008, and 2007, were 6,108,223 and 6,616,087 for basic EPS and 6,124,057 and 6,641,018 for diluted EPS, respectively. The weighted average number of shares outstanding for the nine-month periods ended June 30, 2008, and 2007, were 6,340,884 and 6,675,191 for basic EPS and 6,360,895 and 6,702,223 for diluted EPS, respectively.

On a basic and diluted per-share basis, Citizens Community Bancorp, Inc., reported third-quarter earnings of \$0.06 per share, compared to net earnings of \$0.05 per share for the year-earlier three-month period. For the nine months, the Company reported basic and diluted earnings of \$0.17 per share, versus earnings of \$0.05 per share in 2007.

NOTE 6 – NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company believes the adoption of this statement will not have a significant effect on its financial statements.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 159, the Fair Value Option for Financial Assets and Financial Liabilities. This statement amends SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company believes the adoption of this statement will not have a significant effect on the financial statements of the Company.

In September 2006, the SEC announced Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 addresses how to quantify financial statement errors that arose in prior periods for purposes of assessing their materiality in the current period. It requires analysis of misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality. It clarifies that immaterial financial statement errors in a prior SEC filing can be corrected in subsequent filings without the need to amend the prior filing. In addition, SAB 108 provides transitional relief for correcting errors that would have been considered immaterial before its issuance. The adoption of SAB 108 will not have an impact on our consolidated financial position, results of operations, or cash flows.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and are including this statement for purposes of these safe harbor provisions. “Forward-looking statements”, which are based on certain assumptions and describe future plans, strategies and expectations of Citizens Community Bancorp may be identified by the use of words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated,” and “potential”. Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operation and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage, consumer and other loans, real estate values, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning Citizens Community Bancorp and its business, including additional factors that could materially affect our financial results, is included in our filings with the Securities and Exchange Commission.

GENERAL

Citizens Community Bancorp (“CCB”) was capitalized as a result of an initial public offering related to a mutual holding company reorganization effective March 29, 2004, as explained in Note 1 to the unaudited consolidated financial statements. CCB was the mid-tier holding company for Citizens Community Federal. CCB was chartered under federal law and owned 100% of the stock of Citizens Community Federal (the “Bank”). CCB directed Citizens Community Federal’s business activities.

On October 31, 2006, Citizens Community MHC (the “MHC”) completed its reorganization into stock form and Citizens Community Bancorp, Inc. (the “Company”) succeeded to the business of CCB, the MHC’s former stock holding company subsidiary. The outstanding shares of common stock of the former mid-tier stock holding company (other than shares held by the MHC which were canceled) were converted into 1,826,380 shares of common stock of the Company. As part of the second-step mutual to stock conversion transaction, the Company sold a total of 5,290,000 shares to eligible depositors of the Bank in a subscription offering at \$10.00 per share, including 341,501 shares sold to the ESOP utilizing funds borrowed from the Company.

Citizens Community Bancorp, Inc. was incorporated under the laws of the State of Maryland to hold all of the stock of Citizens Community Federal. Citizens Community Bancorp, Inc. is a unitary savings and loan holding company and is subject to regulation by the Office of Thrift Supervision (OTS). Citizens Community Bancorp, Inc. has no significant assets other than all of the outstanding shares of common stock of Citizens Community Federal, the net proceeds it kept from the reorganization and its loan to the ESOP.

The following discussion focuses on the consolidated financial condition of the Company and the Bank as of June 30, 2008, and the consolidated results of operations for the three and nine months ended June 30, 2008, compared to the same periods in 2007. This discussion should be read in conjunction with the interim condensed consolidated financial statements and notes thereto included with this report.

Historically, Citizens Community Federal was a federal credit union. Citizens Community Federal accepted deposits and made loans to members, who lived, worked or worshiped in the Wisconsin counties of Chippewa and Eau Claire, and parts of Pepin, Buffalo and Trempealeau. Members included businesses and other entities located in these counties, and members and employees of the Hocak Nation.

In December 2001, Citizens Community Federal converted to a federal mutual savings bank in order to better serve its customers and the local community through the broader lending ability of a federal savings bank, and to expand its customer base beyond the limited field of membership permitted for credit unions. As a federal savings bank, the Bank has expanded authority in structuring residential mortgage and consumer loans, and it has the ability to make commercial loans, although the Bank does not currently have any immediate plans to commence making commercial loans.

In 2004, Citizens Community Federal reorganized into the mutual holding company form of organization. In 2006, it completed a second-step conversion into a full stock holding company format. The Bank is a federally chartered stock savings institution with 17 full-service offices.

We have utilized our expanded lending authority to significantly increase our ability to market one-to four-family residential lending. Most of these loans are originated through our internal marketing efforts, and our existing and walk-in customers. We typically do not rely on real estate brokers or builders to help us generate loan originations.