Citizens Community Bancorp Inc.
Form 10-Q
August 12, 2010

UNITED STATES
SECURIT1ES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010
OR
o 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 001-33003

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

Maryland	20-5120010
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

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

715-836-9994
(Registrant's telephone number, including area code)

(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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
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 the definitions 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 [ ] (do not check if a smaller reporting company)	Smaller reporting company [X]

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

Yes [ ] No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

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

At August 12, 2010 there were 5,113,258 shares of the registrant's common stock, par value $0.01 per share, outstanding.

CITIZENS COMMUNITY BANCORP, INC.

FORM 10-Q

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ITEM 1. FINANCIAL STATEMENTS

CITIZENS COMMUNITY BANCORP, INC.

Consolidated Balance Sheets
June 30, 2010 (Unaudited) and September 30, 2009 derived from audited financial statements
(Dollar amounts in thousands)

Assets	June 30, 2010	September 30, 2009
Assets:		
Cash and cash equivalents	$ 40,212	$ 43,191
Interest-bearing deposits	-	2,458
Securities available-for-sale (at fair value)	45,315	56,215
Federal Home Loan Bank stock	6,040	6,040
Loans, net of allowance for loan losses of $3,441 and $1,925	455,142	440,545
Office properties and equipment - net	7,407	8,029
Accrued interest receivable	2,046	2,179
Intangible assets	899	1,148
Goodwill	5,593	5,593
Other assets	13,713	10,008
TOTAL ASSETS	$ 576,367	$ 575,406

Liabilities and Stockholders' Equity	June 30, 2010	September 30, 2009
Liabilities:		
Deposits	$ 441,016	$ 409,311
Federal Home Loan Bank advances	75,100	106,805
Other liabilities	3,875	3,925
Total liabilities	519,991	520,041
Stockholders' equity:		
Common stock - $0.01 par value, authorized 20,000,000 shares; issued and outstanding at June 30, 2010 and September 30,2009: 5,113,258 and 5,471,780 shares, respectively	51	55
Additional paid-in capital	53,823	56,877
Retained earnings	8,479	8,221
Unearned ESOP shares	-	(3,070)
Unearned deferred compensation	(3)	(23)
Accumulated other comprehensive loss	(5,974)	(6,695)
Total stockholders' equity	56,376	55,365
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 576,367	$ 575,406

See accompanying notes to unaudited, consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Operations - Unaudited
For the Three and Nine Months Ended June 30, 2010 and 2009
(Dollar amounts in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Interest and Dividend Income:				
Interest and fees on loans	$ 7,482	$ 6,883	$ 22,114	$ 19,697
Other interest and dividend income	781	975	2,416	3,010
Total interest and dividend income	8,263	7,858	24,530	22,707
Interest expense:				
Interest on deposits	1,979	2,495	6,208	7,649
Borrowings	771	1,084	2,480	3,442
Total interest expense	2,750	3,579	8,688	11,091
Net interest income	5,513	4,279	15,842	11,616
Provision for loan losses	1,331	324	3,493	965
Net interest income after provision for loan losses	4,182	3,955	12,349	10,651
Total other-than-temporary impairment losses	(847)	(12,502)	(2,547)	(12,502)
Portion of loss recognized in other comprehensive loss (before tax)	722	5,266	1,336	5,266
Net impairment losses recognized in earnings	(125)	(7,236)	(1,211)	(7,236)
Noninterest Income:				
Service charges on deposit accounts	395	336	1,123	968
Insurance commissions	39	84	159	265
Loan fees and service charges	60	71	288	206
Other	4	3	9	8
Total noninterest income	498	494	1,579	1,447
Noninterest expense:				
Salaries and related benefits	1,984	1,982	5,811	5,533
Occupancy - net	638	562	1,896	1,582
Office	363	372	1,057	1,128
Data processing	59	96	244	299
Amortization of core deposit intangible	84	84	250	250
Advertising, marketing and public relations	53	52	124	173
FDIC premium assessment	225	379	689	494
Professional services	329	201	899	535
Other	539	352	1,286	955
Total noninterest expense	4,274	4,080	12,256	10,949

Income (loss) before provision for income taxes	281	(6,867)	461	(6,087)
Provision for income taxes	119	(2,735)	203	(2,414)
Net income (loss) attibutable to common stockholders	$ 162	$ (4,132)	$ 258	$ (3,673)
Per share information:				
Basic earnings	$ 0.03	$ (0.80)	$ 0.05	$ (0.68)
Diluted earnings	$ 0.03	$ (0.80)	$ 0.05	$ (0.68)
Dividends paid	$ -	$ 0.05	$ -	$ 0.15

See accompanying notes to unaudited, consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Changes in
Stockholders' Equity and Comprehensive Loss - Unaudited
For the Nine Months ended June, 2010
(in thousands, except Shares)

Nine Months Ended June 30, 2010	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned ESOP Shares	Unearned Compensation	Accumulated Other Comprehensive Loss	Total
Balance - Beginning of Period	5,471,780	$ 55	$ 56,877	$ 8,221	$ (3,070)	$ (23)	$ (6,695)	$ 55,365
Comprehensive Loss:								
Net income attributable to common stockholders				258				258
Amortization of unrecognized prior service costs and net gains/losses, net of tax							1	1
Net unrealized gain on available for sale securities, net of tax							(7)	(7)
Change for realized losses on securities available for sale for OTTI write-down, net of tax							727	727
Total comprehensive income								979
Stock option expense			12					12
Termination of ESOP	(358,502)	(4)	(3,066)		3,070			
Forfeiture of unvested shares	(20)							
Amortization of restricted stock						20		20
Balance - End of Period	5,113,258	$ 51	$ 53,823	$ 8,479	$ 0	$ (3)	$ (5,974)	$ 56,376

See accompanying notes to unaudited, consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.

Consolidated Statements of Cash Flows - Unaudited
For the Nine Months Ended June 30, 2010 and 2009
(Dollar amounts in thousands)

	June 30, 2010	June 30, 2009
Cash flows from operating activities:		
Net income attributable to common stockholders	$258	$(3,673)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net securities amortization	(281)	(263)
Provision for depreciation	839	683
Provision for loan losses	3,493	965
Impairment on mortgage-backed securities	1,211	7,236
Amortization of purchase accounting adjustments	(40)	(40)
Amortization of core deposit intangible	250	249
Amortization of restricted stock	20	67
Provision for stock options	12	50
Provision for deferred income taxes	583	(3,276)
ESOP contribution benefit in excess of shares released	0	(70)
Increase in accrued interest receivable and other assets	(3,794)	(408)
Decrease in other liabilities	(49)	493
Total adjustments	2,244	5,686
Net cash provided by operating activities	2,502	2,013
Cash flows from investing activities:		
Purchase of Federal Home Loan Bank stock	0	(253)
Purchase securities available for sale	0	(20,004)
Net increase (decrease) in interest-bearing deposits	2,458	(3,941)
Proceeds from principal repayments on securities available for sale	10,328	7,828
Net increase in loans	(18,052)	(57,019)
Net capital expenditures	(215)	(2,333)
Net cash used in investing activities	(5,481)	(75,722)
Cash flows from financing activities:		
Net decrease in borrowings	(31,705)	10,560
Net increase in deposits	31,705	68,654
Repurchase shares of common stock	0	(5,260)
Reduction in unallocated shares held by ESOP	0	346
Cash dividends paid	0	(872)
Net cash provided by (used in) financing activities	0	73,428
Net decrease in cash and cash equivalents	(2,979)	(281)
Cash and cash equivalents at beginning of period	43,191	23,666
Cash and cash equivalents at end of period	$40,212	$23,385
Supplemental cash flow information:		
Cash paid during the period for:		
Interest on deposits	$6,207	$7,646
Interest on borrowings	$2,579	$3,504
Income taxes	$5	$925

Supplemental noncash disclosure:		
Transfers from loans to foreclosed properties	$394	$246

See accompanying notes to unaudited, consolidated financial statements.

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 its parent company, 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. Originally, Citizens Community Federal was a credit union. In December 2001, Citizens Community Federal converted to a federal mutual savings bank. In 2004, Citizens Community Federal reorganized into the mutual holding company form of organization. In 2006, Citizens Community Bancorp completed its second-step mutual to stock conversion.

The consolidated income of the Company is principally derived from the Bank's income. The Bank originates residential and consumer loans and accepts deposits from customers, primarily in Wisconsin, Minnesota and Michigan. The Bank operates 26 full-service offices; nine stand-alone locations and 17 branches located inside Walmart Supercenters.

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.

In preparing these financial statements, we evaluated the events and transactions that occurred through August 12, 2010, the date on which the financial statements were available to be issued. As of August 12, 2010, there were no subsequent events which required recognition or disclosure.

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 and nine months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010. 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 – USE OF ESTIMATES

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Estimates are used in accounting for, among other items, fair value of financial instruments, the allowance for loan losses, valuation of acquired intangible assets, useful lives for depreciation and amortization, future cash flows associated with impairment testing for goodwill, indefinite-lived intangible assets and long-lived assets, deferred tax assets, uncertain income tax positions and contingencies. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the financial statements in any individual reporting period.

NOTE 4 – ADOPTION OF NEW ACCOUNTING STANDARDS

In July 2010, the FASB issued ASU 2010-20, "Receivables (Topic 310): Disclosure about Credit Quality of Financing Receivables and the Allowance for Credit Losses". The objective of this guidance is for an entity to provide disclosures that facilitate the evaluation of the nature of credit risk inherent in the entity's portfolio of financing receivables; how that risk is analyzed and assessed in arriving at the allowance for doubtful accounts; and the changes and reasons for those changes in the allowance for credit losses. To achieve those objectives, disclosures on a disaggregated basis shall be provided on two defined levels: (1) portfolio segment; and (2) class of financing receivable. This guidance makes changes to existing disclosure requirements and includes additional disclosure requirements relating to financing receivables. The guidance pertaining to disclosures as of the end of a reporting period are effective for the Company for interim and annual reporting periods beginning on or after December 15, 2010. The guidance pertaining to disclosures about activity that occurs during a reporting period are effective for the Company for interim and annual reporting periods beginning on or after December 15, 2010. The provisions of this guidance are not expected to have a significant impact on the Company's consolidated financial condition, results of operations or liquidity.

In March, 2010, the FASB issued ASU 2010-11, "Derivatives and Hedging (Topic 815) – Scope Exception Related to Embedded Credit Derivatives." The objective of this guidance is to clarify that the only form of an embedded credit derivative that is exempt from embedded derivative bifurcation requirements are those that relate to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The provisions of ASU 2010-11 are effective for the Company for interim and annual reporting periods beginning after June 15, 2010 and are not expected to have a significant impact on the Company's consolidated financial condition, results of operations or liquidity.

In January 2010, the FASB issued ASU 2010-06, which provided updated guidance on fair value measurements and disclosures as set forth in ASC 820-10. The guidance requires companies to disclose transfers in and out of levels 1 and 2, and to expand the reconciliation of level 3 fair value measurements by presenting separately information about purchases, sales, issuances and settlements. The updated guidance also clarifies existing disclosure requirements on the level of disaggregation (provide fair value measurement disclosures for each class of assets and liabilities) and inputs and valuation techniques (disclose for fair value measurements that fall in either level 2 or level 3). This guidance was effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances and settlements in the reconciliation of level 3 fair value measurements. Those disclosures regarding the reconciliation of level 3 fair value measurements are effective for periods beginning after December 15, 2010. We adopted this guidance effective January 1, 2010, except with respect to the level 3 reconciliation requirements. The expanded level 3 reconciliation requirement will be adopted for our fiscal year ending September 30, 2011.

In June 2009, the FASB issued FASB ASC 810-10, Consolidation. The amendments adopted by this codification topic include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity,