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 (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
(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

JUNE 30, 2010

INDEX

2

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.

3

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.

4

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, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. FASB ASC 810-10 is effective for the first annual reporting period beginning after November 15, 2009 and for interim periods within that first annual reporting period. The Company adopted FASB ASC 810-10 starting in fiscal 2010. The adoption of FASB ASC 810-10 did not have any impact on the Company’s consolidated financial statements.

In June 2009, the FASB issued FASB ASC 860-10, Transfers and Servicing. FASB ASC 860-10 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. FASB ASC 860-10 is effective for fiscal years beginning after November 15, 2009. The Company has adopted FASB ASC 860-10 starting in fiscal 2010. The adoption of FASB ASC 860-10 did not have any impact on the Company’s consolidated financial statements.

NOTE 5 – FAIR VALUE ACCOUNTING

ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The statement describes three levels of inputs that may be used to measure fair value:

Level 1- Quoted prices (unadjusted) for identical assets or liabilities in active markets that we have the ability to access as of the measurement date.

Level 2- Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3- Significant unobservable inputs that reflect our own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input within the valuation hierarchy that is significant to the fair value measurement.

The fair value of securities available for sale is determined by obtaining market price quotes from independent third parties wherever such quotes are available. Where such quotes are not available, we utilize independent third party valuation analyses to support our own estimates and judgments in determining fair value.

Assets Measured on a Recurring Basis

	June 30, 2010 Fair Value Measurements Using (In Thousands)			
	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Agency securities	$ 17,817	-	$ 17,817	-
Residential mortgage-backed securities	27,498	-	-	$ 27,498
Total securities	$ 45,315	-	$ 17,817	$ 27,498

	September 30, 2009 Fair Value Measurements Using (In Thousands)			
	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Agency securities	$ 19,698	-	$ 19,698	-
Residential mortgage-backed securities	36,517	-	-	$ 36,517
Total securities	$ 56,215	-	$ 19,698	$ 36,517

Fair value of foreclosed assets is determined, initially, by a third-party appraisal. Subsequent to foreclosure, valuations are periodically performed by management to identify potential changes in fair value.

Assets Measured on a Nonrecurring Basis

	June 30, 2010 Fair Value Measurements Using (In Thousands)			
	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreclosed assets	$ 553	-	-	$ 553

	September 30, 2009 Fair Value Measurements Using (In Thousands)			
	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreclosed assets	$ 562	-	-	$ 562

Level 3 assets measured on a recurring basis are certain investments for which little or no market activity exists or whose value of the underlying collateral is not market observable. With respect to residential mortgage-backed securities held as investments by the Company, the credit markets continue to be disrupted resulting in a continued dislocation and lack of trading activity. Management's valuation uses both observable as well as unobservable inputs to assist in the Level 3 valuation of mortgage-backed securities held by the Company, employing a methodology that considers future cash flows along with risk-adjusted returns. The inputs in this methodology are as follows: ability and intent to hold to maturities, mortgage underwriting rates, market prices/conditions, loan type, loan-to-value, strength of borrower, loan age, delinquencies, prepayment/cash flows, liquidity, expected future cash flows, rating agency actions, and a discount rate, which is assumed to be approximately equal to the coupon rate for each security. We had an independent valuation of all Level 3 securities in the current quarter. Based on this valuation, we recorded pre-tax other than temporary impairment of $125 in the current quarter.

The fair value of foreclosed assets is determined by obtaining market price quotes from independent third parties wherever such quotes are available. Where such quotes are not available, we utilize independent third party appraisals to support our own estimates and judgments in determining fair value.

The following table presents a reconciliation of residential mortgage-backed securities held by the Company measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine month periods ended June 30, 2010 and 2009:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Beginning balance	$ 29,652	$ 56,131	$ 36,517	$ 61,233

Total gains or losses (realized/unrealized):				
Included in earnings	(125)	(7,236)	(1,211)	(7,236)
Included in other comprehensive loss	891	(3,760)	40	(5,599)
Purchases, sales, issuances, and settlements, net	(2,920)	(4,098)	(7,848)	(7,361)
Ending Balance	$ 27,498	$ 41,037	$ 27,498	$ 41,037

Fair Values of Financial Instruments

ASC 825-10 and ASC 270-10, Interim Disclosures about Fair Value Financial Instruments, require disclosures about fair value financial instruments and significant assumptions used to estimate fair value. The estimated fair values of financial instruments not previously disclosed are as follows:

Cash and Cash Equivalents
Due to their short-term nature, the carrying amounts of cash and cash equivalents were considered to be a reasonable estimate of fair value.

Interest-Bearing Deposits
Due to their short-term nature, the carrying amounts of interest bearing deposits were considered to be a reasonable estimate of fair value.

Loans
Fair value is estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage and consumer. The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity date using market discount rates reflecting the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the Company's repayment schedules for each loan classification.

Federal Home Loan Bank (FHLB) Stock
Federal Home Loan Bank Stock is carried at cost, which is its redeemable fair value since the market for the stock is restricted (see Note 8 below).

Accrued Interest Receivable and Payable
Due to their short-term nature, the carrying amounts of accrued interest receivable, and payable, respectively, were considered to be a reasonable estimate of fair value.

Deposits
The fair value of deposits with no stated maturity, such as demand deposits, savings accounts, and money market accounts, is the amount payable on demand at the reporting date. The fair value of certificate accounts is calculated by using discounted cash flows applying interest rates currently being offered on similar certificates.

Borrowed Funds
The fair value of long-term borrowed funds is estimated using discounted cash flows based on the Bank's current incremental borrowing rates for similar borrowing arrangements. The carrying value of short-term borrowing approximates its fair value.

Off-Balance-Sheet Instruments
The fair value of off-balance sheet commitments would be estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the current interest rates, and the present creditworthiness of the customers. Since this amount is immaterial to the Company, no amounts for fair value are presented.

The carrying amount and estimated fair value of financial instruments were as follows (000's):

	June 30, 2010		September 30, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	$40,212	$40,212	$43,191	$43,191
Interest-bearing deposits	-	-	2,458	2,458
Securities available for sale	45,315	45,315	56,215	56,215
FHLB Stock	6,040	6,040	6,040	6,040
Loans	455,142	475,683	440,545	449,666
Accrued interest receivable	$2,046	$2,046	$2,179	$2,179
Financial Liabilities:				
Deposits	$441,016	$445,273	$409,311	$413,511
Borrowed funds	75,100	79,414	106,805	112,009
Accrued interest payable	$253	$253	$351	$351

NOTE 6 – ALLOWANCE FOR LOAN LOSSES

The Allowance for Loan Losses ("ALL") represents management's estimate of probable and inherent credit losses in the Company's loan portfolio. Estimating the amount of the ALL requires the exercise of significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of other qualitative factors such as current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset on our consolidated balance sheet. Loan losses are charged off against the ALL, while recoveries of amounts previously charged off are credited to the ALL. A provision for loan losses is charged to operations based on management's periodic evaluation of the aforementioned specific factors as well as any other pertinent factors.

The ALL consists of a specific component on impaired loans and a general component for non-impaired loans. The components of the ALL represent estimations pursuant to either ASC 450-10, Accounting for contingencies, or ASC 310-10, Accounting by Creditors for Impairment of a Loan. The specific component of the ALL reflects estimated losses from analyses developed through review of individual loans deemed impaired. These analyses involve a high degree of judgment in estimating the amount of potential loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The general component of ALL is based on the Company's historical loss experience which is updated quarterly. The general component of ALL also includes consideration for concentrations, changes in portfolio mix and volume and other qualitative factors.

There are many factors affecting the ALL; some are quantitative, while others require qualitative judgment. The process for determining the ALL (which management believes adequately considers potential factors which might possibly result in credit losses), includes subjective elements and, therefore, may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for credit losses could be required that could adversely affect our earnings or financial position in future periods. Allocations of the ALL may be made for specific loans but the entire ALL is available for any loan that, in management's judgment, should be charged-off or for which an actual loss is realized.

13

Changes in the ALL for the periods presented below were as follows (dollar amounts in thousands):

ALLOWANCE FOR LOAN LOSSES

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Balance at beginning of period	$ 2,885	$ 1,544	$ 1,925	$ 1,192
Provision for loan losses	1,331	324	3,493	965
Charge-offs	(822)	(178)	(2,036)	(484)
Recoveries	47	13	59	30
Balance at end of period	$ 3,441	$ 1,703	$ 3,441	$ 1,703
Net charge-offs ("NCOs")	$ (775)	$ (165)	$ (1,977)	$ (454)

As an integral part of their examination process, various regulatory agencies review the ALL. Such agencies may require that changes in the ALL be recognized when such regulators' credit evaluations differ from those of management based on information available to the regulators at the time of their examinations.

Non-performing loans as of the end of the periods shown below are as follows (dollar amounts in thousands):

NON PERFORMING LOANS (1)

	Quarters Ended				
	6/30/10	3/31/10	12/31/09	9/30/09	6/30/09
Nonaccrual Loans (2)	$ 6,600	$ 6,884	$ 7,819	$ 5,789	$ 5,019
Loans restructured in a troubled debt restructuriing	2,596	1,495	1,020	1,020	1,020
Total Nonperforming Loans ("NPLs")	$ 9,196	$ 8,379	$ 8,839	$ 6,809	$ 6,039

(1) Non performing loans are defined as non-accrual loans plus restructured loans in a troubled debt restructing.

(2) Included in total nonaccrual loans as of June 30, 2010 are $0 of troubled debt restructurings that are currently in a nonaccrual status.

Impaired loans with a valuation allowance based upon the fair value of the underlying collateral had a carrying amount of $2,596 at June 30, 2010 compared to $0 at September 30, 2009. The valuation allowance on impaired loans was $300 at June 30, 2010, compared to $0 at September 30, 2009.

NOTE 7 – STOCK-BASED COMPENSATION

In February 2005, our stockholders approved the Company's Recognition and Retention Plan. This plan provides for the grant of up to 113,910 shares of the Company's common stock to eligible participants under this plan. As of June 30, 2010, 70,615 restricted shares were issued and outstanding under this plan. During the quarter ended June 30, 2010 no shares were granted to eligible participants under this plan; and 9,338 of previously awarded shares were forfeited. Restricted shares are awarded at no cost to the employee and have a five-year vesting period. The fair value of the restricted shares on the date of award was $7.04 per share for 63,783 shares and $6.18 for 6,832 shares. Compensation expense related to these awards was $2 and $20 for the three and nine months ended June 30, 2010, respectively.

In February 2005, our stockholders also approved the Company's 2004 Stock Option and Incentive Plan. This plan provides for the grant of nonqualified and incentive stock options and stock appreciation rights to eligible participants under this plan. The plan provides for the grant of awards for up to 284,778 shares of the Company's common stock. At June 30, 2010, 202,197 options had been granted under this plan to eligible participants at a weighted-average exercise price of $7.04 per share. Options granted vest over a five-year period. Unexercised, nonqualified stock options expire within 15 years of the grant date and unexercised incentive stock options expire within 10 years of the grant date. Through June 30, 2010, since the plan’s inception, options for 113,915 shares of the Company's common stock were vested, options for 83,724 shares were forfeited and options for 4,558 shares were exercised. Of the 202,197 options granted, 113,915 remained outstanding as of June 30, 2010.

We account for stock-based employee compensation related to our 2004 Stock Option and Incentive Plan using the fair-value-based method. Accordingly, we record compensation expense based on the value of the award as measured on the grant date and recognize that cost over the vesting period for the award. The compensation cost recognized for stock-based employee compensation for the three month and nine month periods ended June 30, 2010 were $0 and $12, respectively.

In February 2008, our stockholders approved the Company's 2008 Equity Incentive Plan. The aggregate number of shares of common stock reserved and available for issuance under the 2008 Equity Incentive Plan is 597,605 shares. Under the Plan, the Compensation Committee may grant stock options and stock appreciation rights that, upon exercise, result in the issuance of 426,860 shares of the Company's common stock. The Committee may grant restricted stock and restricted stock units for an aggregate of 170,745 shares of Company common stock under this plan. In October 2008, the Compensation Committee suspended consideration of distributions or awards under this plan, and as of June 30, 2010, no grants or awards have been made to eligible participants under the 2008 Equity Incentive Plan.

NOTE 8 – FEDERAL HOME LOAN BANK STOCK

The Company is required to be a member of and maintain a certain amount of capital stock of the FHLB of Chicago ("FHLB") to obtain an advance from the FHLB. As of June 30, 2010, the carrying amount of the Company’s investment in FHLB stock was $6.0 million. There is no ready market for the FHLB stock nor are there any quoted market values for the FHLB stock because shares can only be purchased or sold between members of the FHLB at the stock's $100 par value. As a result, we account for this investment as a long-term asset and carry it at cost. Whenever an event or change in circumstances has occurred that may have significant adverse effect on the fair value of the FHLB stock the Company reviews this investment for impairment.

On October 10, 2007, the FHLB entered into a consensual cease and desist order with its regulator, the Federal Housing Finance Board ("Finance Board"). Under this order, the FHLB must maintain certain minimum capital ratios; therefore, restricting capital stock repurchases and redemptions, including redemptions upon membership withdrawal, without approval of the Director of the Office of Supervision of the Finance Board. As a result of this order, coupled with net losses over several periods, and the restrictions placed on stock redemptions, the Company considers the following in order to determine whether the FHLB stock should be classified as other-than-temporarily impaired:

Significance and length of the decline in net assets compared to the capital stock;

Commitments by the FHLB to make payments required by law or regulation;

Impact of legislative and regulatory changes; and

Liquidity position of the FHLB.

After considering these factors and our intention and ability to hold the FHLB stock for the time necessary to recover the initial investment, we determined that the FHLB stock was not impaired as of June 30, 2010.

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

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "could," "expect," "intend," "may," "planned," "potential," "should," "will," "would." Such forward-looking statements in this report are inherently subject to many uncertainties in the Company's operations and business environment. These uncertainties include general economic conditions, in particular, relating to consumer demand for the Bank's products and services; the Bank's ability to maintain current deposit and loan levels at current interest rates; competitive and technological developments; deteriorating credit quality, including changes in the interest rate environment reducing interest margins; prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; the Bank's ability to maintain required capital levels and adequate sources of funding and liquidity; maintaining capital requirements may limit the Bank's operations and potential growth; changes and trends in capital markets; competitive pressures among depository institutions; effects of critical accounting policies and judgments; changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board (FASB) or other regulatory agencies; further write-downs in the Bank's mortgage-backed securities portfolio; the Bank's ability to implement its cost-savings and revenue enhancement initiatives; legislative or regulatory changes or actions, or significant litigation, adversely affecting the Bank; fluctuation of the Company's stock price; ability to attract and retain key personnel; ability to secure confidential information through the use of computer systems and telecommunications networks; and the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. Such uncertainties and other risks that may affect the Company's performance are discussed further in Part I, Item 1A, "Risk Factors," in the Company's Form 10-K for the year ended September 30, 2009 filed with the Securities and Exchange Commission on December 29, 2009. The Company undertakes no obligation to make any revisions to the forward-looking statements contained in this report or to update them to reflect events or circumstances occurring after the date of this report.

GENERAL

The following discussion focuses on the consolidated financial condition of the Company and the Bank as of June 30, 2010, and the consolidated results of operations for the three and nine months ended June 30, 2010, compared to the same period in the fiscal year ended September 30, 2009. This discussion should be read in conjunction with the interim condensed consolidated financial statements and notes thereto included with this report and with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes related thereto included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on December 29, 2009.

The Bank is a federally chartered stock savings institution, which has grown over the past several years through branch expansion. We acquired branches in Chippewa Falls, Wisconsin in 2002, and Mankato, Minnesota in 2003. We opened a branch office in Oakdale, Minnesota in 2004. On July 1, 2005, we acquired Community Plus Savings Bank, located in Rochester Hills, Mich., through a merger with and into Citizens Community Federal.

16

In 2008 and 2009 we opened fourteen new branches located inside Walmart Supercenters in Minnesota and Wisconsin, as well as converted three existing Wisconsin branches to locations inside Walmart Supercenters.

Citizens Community Bancorp, Inc. is 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 and the net proceeds of the reorganization described in Note 1 to our consolidated financial statements included herein that it retained.

At June 30, 2010, the Company had total assets of $576.4 million, total deposits of $441.0 million and stockholders' equity of $56.4 million. The Company and the Bank are examined and regulated by the OTS, their primary federal regulator. The Bank is also regulated by the FDIC. The Bank is required to have certain reserves set by the Federal Reserve Board and is a member of the Federal Home Loan Bank of Chicago, which is one of the 12 regional banks in the Federal Home Loan Bank System.

CRITICAL ACCOUNTING POLICIES

We have established certain accounting policies, which require use of estimates and judgment. In addition to the policies included in Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements included as an exhibit to our Form 10-K annual report for the fiscal year ending September 30, 2009, our critical accounting policies are as follows:

Allowance for Loan Losses.

We maintain an allowance for loan losses to absorb probable incurred loss in our loan portfolio. The allowance is based on ongoing, quarterly assessments of the estimated probable incurred losses in the loan portfolio. In evaluating the level of the allowance for loan loss, we consider the types of loans and the amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. We follow all applicable regulatory guidance, including the “Interagency Policy Statement on the Allowance for Loan and Lease Losses,” issued by the Federal Financial Institutions Examination Council (FFIEC). The Bank’s Allowance for Loan Losses Policy conforms to all applicable regulatory expectations. However, based on periodic examinations by regulators, the amount of allowance for loan losses recorded during a particular period may be adjusted.

Our determination of the allowance for loan losses is based on (1) specific allowances for specifically identified and evaluated impaired loans and their corresponding estimated loss based on likelihood of default, payment history, and net realizable value of underlying collateral; and (2) a general allowance on loans not specifically identified in (1) above, based on historical loss ratios which are adjusted for qualitative and general economic factors. We continue to refine our allowance for loan losses methodology, with an increased emphasis on historical performance adjusted for applicable economic and qualitative factors.

Assessing the allowance for loan losses is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received on impaired loans, any of which estimates may be susceptible to significant change. In our opinion, the allowance, when taken as a whole, reflects estimated probable loan losses in our loan portfolio.

Available for Sale Securities.

Securities are classified as available for sale and are carried at fair value, with unrealized gains and losses reported in other comprehensive income (loss). Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives of the securities.

We evaluate all investment securities on a quarterly basis, and more frequently when economic conditions warrant determining if other-than-temporary impairment exists. A debt security is considered impaired if the fair value is less than its amortized cost at the report date. If impaired, we then assess whether the impairment is other-than-temporary.

Current authoritative guidance provides that an unrealized loss is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component is recorded in earnings as a component of other-than-temporary impairment in the consolidated statements of operations, while the loss component related to other market factors is recognized in other comprehensive income (loss), provided the Company does not intend to sell the underlying debt security and it is “more likely than not” that the Company will not have to sell the debt security prior to recovery of the unrealized loss.

We consider the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time, and extent to which, the fair value has been less than the amortized cost.
- Adverse conditions specifically related to the security, industry or geographic area.
- The historical and implied volatility of the fair value of the security.
- The payment structure of the debt security and the likelihood of the issuer or underlying borrowers being able to make payments that may increase in the future.
- The failure of the issuer of the security or the underlying borrowers to make scheduled interest or principal payments.
- Any changes to the rating of the security by a rating agency.
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

Interest income on securities for which other-than-temporary impairment has been recognized in earnings is recognized at a rate commensurate with the expected future cash flows and amortized cost basis of the securities after the impairment.

Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

To determine if other-than-temporary impairment exists on a debt security, the Bank first determines if (1) it intends to sell the security or (2) it is more likely than not that it will be required to sell the security before its anticipated recovery. If either of the conditions is met, the Bank will recognize other-than-temporary impairment in earnings equal to the difference between the security’s fair value and its adjusted cost basis. If neither of the conditions is met, the Bank determines (a) the amount of the impairment related to credit loss and (b) the amount of the impairment due to all other factors. The difference between the present values of the cash flows expected to be collected and the amortized cost basis is the credit loss. The credit loss is the amount of the other-than-temporary impairment that is recognized in earnings and is a reduction to the cost basis of the security. The amount of the total impairment related to all other factors (excluding credit loss) is included in other comprehensive loss.

We monitor our portfolio investments on an on-going basis and we obtain an independent valuation of our non-agency residential mortgage-backed securities. This analysis is utilized to ascertain whether any decline in market value is other-than-temporary. In determining whether an impairment is other-than-temporary, we consider the length of time and the extent to which the market value has been below cost, recent events specific to the issuer including investment downgrades by rating agencies and economic conditions within the issuer's industry, whether it is more likely than not that we will be required to sell the security before there would be a recovery in value, and credit performance of the underlying collateral backing the securities, including delinquency rates, cumulative losses to date, and prepayment speed.

The independent valuation process included:

Obtaining individual loan level data directly from servicers and trustees, and making assumptions regarding the frequency of foreclosure, loss severity and conditional prepayment rate (both the entire pool and the loan group pertaining to the bond we hold).

Projecting cash flows based on these assumptions and stressing the cash flows under different time periods and requirements based on the class structure and credit enhancement features of the bond we hold.

Identifying various price/yield scenarios based on the Bank's book value and valuations based on both hold-to-maturity and current free market trade scenarios. Discount rates were determined based on the volatility and complexity of the security and the yields demanded by buyers in the market at the time of the valuation.

For non-agency residential mortgage-backed securities that are considered other-than-temporarily impaired and for which we have the ability and intent to hold these securities until the recovery of our amortized cost basis, we recognize other-than-temporary impairment in accordance with accounting principles generally accepted in the United States. Under these principles, we separate the amount of the other-than-temporary impairment into the amount that is credit related and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of expected future cash flows. The amount due to other factors is recognized in other comprehensive income (loss).

Income Taxes.

The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be material to our consolidated results of our operations and reported earnings. We believe that the tax assets and liabilities are adequate and properly recorded in the consolidated financial statements. As of June 30, 2010, management does not believe a valuation allowance is necessary.

Goodwill.

Goodwill represents the difference between the cost of the acquisition and the fair value of the acquired net assets and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, and are classified separately under the appropriate balance sheet captions. Goodwill is considered to have an indefinite useful life and is stated at cost less any accumulated impairment losses. Tests for impairment are conducted annually.

RESULTS OF OPERATIONS

Unless otherwise stated, all monetary amounts in this Management's Discussion and Analysis of Financial Condition and Results of Operations, other than share and per share amounts, are stated in thousands.

The following table sets forth our results of operations and related summary information for the three and nine month periods ended June 30, 2010 and 2009:

SUMMARY RESULTS OF OPERATIONS
(Dollar amounts in thousands, except for share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Net income (loss), as reported	$162	$(4,132)	$258	$(3,673)
EPS - basic, as reported	$0.03	$(0.80)	$0.05	$(0.68)
EPS - diluted, as reported	$0.03	$(0.80)	$0.05	$(0.68)
Cash dividends paid	$-	$0.05	$-	$0.15
Return on average assets (annualized)	0.11%	(3.14%)	0.06%	(0.93%)
Reteurn on average equity (annualized)	0.29%	(7.00%)	0.46%	(5.93%)