Citizens Community Bancorp Inc.
Form 10-Q
August 15, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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 þ No o

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 þ No o

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 o	Accelerated filer o	Non-Accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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 15, 2011 there were 5,123,414 shares of the registrant s common stock, par value $0.01 per share, outstanding.

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ITEM 1. FINANCIAL STATEMENTS

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Balance Sheets
June 30, 2011 unaudited and September 30, 2010 derived from audited financial statements
(in thousands, except share data)

	June 30, 2011	*September 30, 2010*
Assets		
Cash and cash equivalents	$ 37,523	$ 72,438
Other interest-bearing deposits	9,543	
Securities available-for-sale (at fair value)	52,861	41,708
Federal Home Loan Bank stock	5,787	5,787
Loans receivable	431,457	456,232
Allowance for loan losses	(4,655)	(4,145)
Loans receivable net	426,802	452,087
Office properties and equipment net	6,888	7,216
Accrued interest receivable	1,644	1,977
Intangible assets	566	815
Foreclosed assets	1,413	448
Other assets	8,651	11,889
TOTAL ASSETS	**$551,678**	**$ 594,365**
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	$459,074	$ 476,302
Federal Home Loan Bank advances	35,300	64,200
Other liabilities	4,364	3,986
Total liabilities	**498,738**	**544,488**
Stockholders equity:		
Common stock 5,123,414 and 5,113,258 shares, respectively	51	51
Additional paid-in capital	53,880	53,823
Retained earnings	1,147	1,130
Unearned deferred compensation	(55)	(1)
Accumulated other comprehensive loss	(2,083)	(5,126)
Total stockholders equity	**52,940**	**49,877**

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$551,678**	**$ 594,365**

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Operations Unaudited
Three and Nine Months Ended June 30, 2011 and 2010
(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Interest and dividend income:				
Interest and fees on loans	$6,773	$7,482	$21,038	$22,114
Interest on investments	431	781	1,646	2,416
Total interest and dividend income	7,204	8,263	22,684	24,530
Interest expense:				
Interest on deposits	1,711	1,979	5,545	6,208
Interest on borrowed funds	433	771	1,494	2,480
Total interest expense	2,144	2,750	7,039	8,688
Net interest income	5,060	5,513	15,645	15,842
Provision for loan losses	1,364	1,331	4,614	3,493
Net interest income after provision for loan losses	3,696	4,182	11,031	12,349
Noninterest income:				
Total other-than-temporary impairment (losses)/recoveries	126	(847)	(1,288)	(2,547)
Portion of loss/(recoveries) recognized in other comprehensive loss (before tax)	(126)	722	717	1,336
Net gains from sale of securities	281		516	
Net gains / (losses) on available-for-sale securities recognized in earnings	281	(125)	(55)	(1,211)
Service charges on deposit accounts	386	395	1,095	1,123
Insurance commissions	25	39	73	159
Loan fees and service charges	70	60	349	288
Other	4	4	8	9
Total noninterest income	766	373	1,470	368
Noninterest expense:				
Salaries and related benefits	2,128	1,984	6,238	5,811
Occupancy net	606	638	1,915	1,896
Office	311	363	1,019	1,057
Data processing	116	59	249	244
Amortization of core deposit	84	84	250	250

Advertising, marketing and public relations	26	53	94	124
FDIC premium assessment	279	225	822	689
Professional services	299	329	865	899
Other	310	539	990	1,286
Total noninterest expense	4,159	4,274	12,442	12,256
Income before provision for income tax	303	281	59	461
Provision for income taxes	127	119	42	203
Net income	$ 176	$ 162	$ 17	$ 258
Per share information:				
Basic earnings	$ 0.03	$ 0.03	$	$ 0.05
Diluted earnings	$ 0.03	$ 0.03	$	$ 0.05
Dividends paid	$	$	$	$

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of
Changes in Stockholders Equity and Comprehensive
Gain/(Loss) Unaudited
Nine Months Ended June 30, 2011
(in thousands, except Shares)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (loss)	Total Equity
Balance, September 30, 2010	5,113,258	$51	$53,823	$1,130	$ (1)	$ (5,126)	$49,877
Comprehensive gain:							
Net income				17			17
Amortization of unrecognized prior service costs and net gains/losses, net of tax							
Net unrealized gain on available for sale securities, net of tax						2,391	2,391
Change in unrealized gain arising from sale of securities, net of tax						310	310
Change for realized losses on securities available for sale for OTTI write-down, net of tax						342	342
Total comprehensive gain							3,060
Common stock awarded for recognition and retention plan - 10,156 shares	10,156		56		(56)		
Stock option expense			1				1
Amortization of restricted stock					2		2
Balance, June 30, 2011	5,123,414	$51	$53,880	$1,147	$ (55)	$ (2,083)	$52,940

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows Unaudited
Nine Months Ended June 30, 2011 and 2010
(in thousands, except per share data)

	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Cash flows from operating activities:		
Net income attributable to common stockholders	$ 17	$ 258
Adjustments to reconcile net income to net cash provided by operating activities:		
Net securities amortization	(20)	(281)
Depreciation	840	839
Provision for loan losses	4,614	3,493
Net realized gain on sale of securites	(516)	0
Impairment on mortgage-backed securities	620	1,211
Amortization of core deposit intangible	250	250
Amortization of restricted stock	2	20
Provision for stock options	1	12
Provision for deferred income taxes	0	583
Decrease (increase) in accrued interest receivable and other assets	2,287	(3,794)
Increase (decrease) in other liabilities	378	(89)
Total adjustments	8,456	2,244
Net cash provided by operating activities	8,473	2,502
Cash flows from investing activities:		
Net decrease (increase) in interest-bearing deposits	(9,543)	2,458
Proceeds from sale of securities available-for-sale	45,041	0
Principal payments on securities available for sale	9,791	10,328
Purchase of securities available-for-sale	(60,998)	0
Net decrease (increase) in loans	18,959	(18,052)
Net capital expenditures	(510)	(215)
Net cash provided by (used in) investing activities	2,740	(5,481)
Cash flows from financing activities:		
Net decrease in Federal Home Loan Bank advances	(28,900)	(31,705)
Net increase (decrease) in deposits	(17,228)	31,705
Net cash provided by (used in) financing activities	(46,128)	0
Net decrease in cash and cash equivalents	(34,915)	(2,979)
Cash and cash equivalents at beginning of period	72,438	43,191

Cash and cash equivalents at end of period	$ 37,523	$ 40,212
Supplemental cash flow information:		
Cash paid during the year for:		
Interest on deposits	$ 5,558	$ 6,207
Interest on borrowings	$ 1,581	$ 2,579
Income taxes	$ 8	$ 5
Supplemental noncash disclosure:		
Transfers from loans to foreclosed properties	$ 1,750	$ 394

See accompanying condensed notes to unaudited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (loss) of the Company is principally derived from the Bank s income (loss). 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 consisting of 7 stand-alone locations and 19 in-store branch locations.

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 15, 2011, the date on which the financial statements were available to be issued.

The accompanying interim financial statements are unaudited. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

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.

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 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 consolidated financial statements in any individual reporting period.

Securities Securities are classified as available-for-sale when they might be sold before maturity. Although we generally intend to hold most of the securities in our investment portfolio until maturity, we may, from time to time, sell any of our investment securities as part of our overall management of our investment portfolio. As such, we classify all investment securities as available-for-sale. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses and losses deemed other-than-temporarily impaired due to non-credit issues being reported in other comprehensive income, net of tax. Unrealized losses deemed other-than-temporarily impaired due to credit issues are reported in current period operations.

Interest income includes amortization of purchase premium or accretion of purchase discount. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives of the securities.

Declines in the fair value of securities below their cost that are other than temporary due to credit issues are reflected as Net impairment losses recognized in earnings in the accompanying Consolidated Statement of Operations. In estimating other-than-temporary impairment, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the Bank s ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. 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 portion of the other-than-temporary impairment that is recognized in earnings and is a reduction to the cost basis of the security. The portion of other-than-temporary impairment related to all other factors is included in other comprehensive income (loss), net of the related tax effect.

Loans Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage and consumer loans is discontinued at the time the loan is over 91 days delinquent. Past due status is based on the contractual terms of the loan. Loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered unlikely. All interest accrued but not received for a loan placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual status. Loans are returned to accrual status when payments are made that bring the loan account due date to less than 92 days delinquent. Interest on impaired loans considered troubled debt restructurings that are not more than 91 days delinquent is recognized as income as it accrues based on the revised terms of the loan.

Real estate loans and open ended consumer loans are charged off to estimated net realizable value less estimated selling costs at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes greater than 180 days past due. Closed end consumer loans are charged off to net realizable value at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes greater than 120 days past due.

Allowance for Loan Losses The allowance for loan losses is a valuation allowance for probable and inherent credit losses in the Bank s loan portfolio. Loan losses are charged against the allowance for loan loss (ALL) when management believes that the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the ALL. Management estimates the allowance balance required using past loan loss experience; the nature, volume and composition of the loan portfolio; known and inherent risks in the portfolio; information about specific borrowers ability to repay and estimated collateral values; current economic conditions; and other relevant factors. The ALL consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for certain qualitative factors. The entire ALL balance is available for any loan that, in management s judgment, should be charged off.

A loan is impaired when full payment under the loan terms is not expected. Troubled debt restructurings are individually evaluated to determine the need for a specific allowance. If a specific allowance is warranted, a specific allowance is established so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the underlying collateral of the loan. Large groups of smaller balance homogeneous loans, such as non-classified

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consumer and residential real estate loans are collectively evaluated for impairment, and accordingly, are not separately identified for impairment disclosures.

The Bank manages its loan portfolio in two segments; real estate loans and consumer loans. Real estate loans are secured by single family or 1-4 family real estate, and include first and second mortgage loans along with home equity lines of credit. Consumer loans consist mainly of loans secured by personal property as collateral. Approximately 80% of the Bank s consumer loan portfolio consists of indirect paper loans. Indirect paper loans are secured consumer loans originated by the Bank where the borrowers are identified through the Bank s relationships with various consumer product dealer networks mainly within the Bank s market area. These loans are approved based on the Bank s current underwriting standards. Management believes that bifurcation of the Bank s loan portfolio into these two segments for credit quality, impairment and ALL disclosures provides the most meaningful presentation, consistent with how each portfolio is managed.

Income Taxes The Company accounts for income taxes in accordance with ASC Topic 740, Income Taxes . Under this guidance, deferred taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that will apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. See Note 14 to the Company s consolidated financial statements included in the Company s Form 10-K/A filed with the Securities and Exchange Commission on January 11, 2011 for details on the Company s income taxes.

The Company includes in Other Assets the tax effect of differences in recorded bases of assets and liabilities for financial reporting and tax reporting purposes. At each measurement date, to the extent this tax effect represents a net benefit, the Company assesses the ability to realize that net benefit based on existing tax carryback opportunities, projected future taxable income, arid intended income tax strategies. As of June 30, 2011 and September 30, 2010, the Company believes it is more likely than not that the aggregate amount of these considerations will be sufficient to enable the Company to realize those benefits. Accordingly, the Company has not recorded any valuation allowance related to this net benefit at either date.

Earnings (Loss) Per Share Basic earnings (loss) per common share is calculated as net income or loss divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable during the period, consisting of stock options outstanding under the Company s stock incentive plan.

Reclassifications Certain items previously reported were reclassified for consistency with the current presentation.

Adoption of New Accounting Standards In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This ASU allows an entity the option to present the total of comprehensive income, the component of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. An entity is required to present each component of net income along with total net income, each component of other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance in the ASU is effective for fiscal years, and interim periods within those years, beginning after The fair value of foreclosed assets is determined by obtaining market price

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December 15, 2011. The provisions of this guidance are not expected to have a significant impact on the Company s consolidated financial condition, results of operation or liquidity.

In June 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this ASU are intended to result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The guidance in the ASU is effective for the first interim or annual period beginning after December 15, 2011. The provisions of this guidance are not expected to have a significant impact on the Company s consolidated financial condition, results of operation or liquidity.

In May 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective control for Repurchase Agreements*. This ASU is intended to improve financial reporting of repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments to the Codification in this ASU are intended to improve the accounting for these transactions by removing from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets. The guidance in the ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The provisions of this guidance are not expected to have a significant impact on the Company s consolidated financial condition, results of operation or liquidity.

In April 2011, the FASB issued ASU No. 2011-02 Receivables (Topic 310): *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*. This ASU is intended to improve financial reporting by creating greater consistency in how GAAP is applied for various types of debt restructurings. It is intended to assist creditors in determining whether a modification of terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. The new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. The provisions of this guidance are not expected to have a significant impact on our consolidated financial condition, results of operations or liquidity.

NOTE 2 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.

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The fair value of securities available for sale is determined by obtaining market price quotes from independent third parties wherever such quotes are available (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs). Where such quotes are not available, we utilize independent third party valuation analyses to support our own estimates and judgments in determining fair value.

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Assets Measured on a Recurring Basis (000 s)

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011:				
Securities available for sale:				
U.S. Agency mortgage-backed securities	$11,574	$	$11,574	$
U.S. Agency floating Rate Bonds	30,904		30,904	
Non-agency mortgage-backed securities	10,383			10,383
Total	$52,861	$	$42,478	$10,383
September 30, 2010:				
Securities available for sale:				
U.S. Agency securities	$16,709	$	$16,709	$
Non-agency mortgage-backed securities	24,999			24,999
Total	$41,708	$ &#15		