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

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008.

OR

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

For the transition period from ___________________________ to___________________________

Commission file number 001-33003

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

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

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

Yes [ ]　　　No [X]

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

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

Yes [ ]　　　No [ ]

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

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

CITIZENS COMMUNITY BANCORP, INC.

INDEX

Part I – FINANCIAL INFORMATION

2

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

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Balance Sheets
June 30, 2008, unaudited, September 30, 2007, derived from audited financial statements
(in thousands)

Assets	June 30, 2008	September 30, 2007
Cash and cash equivalents	$12,421	$6,354
Other interest-bearing deposits	371	371
Securities available-for-sale (at fair value)	66,212	39,592
Federal Home Loan Bank stock	5,787	4,822
Loans receivable	354,528	320,953
Allowance for loan losses	(1,129)	(926)
Loans receivable - net	353,399	320,027
Loans held for sale	114	0
Office properties and equipment - net	4,067	3,460
Accrued interest receivable	1,665	1,397
Intangible assets	1,302	1,528
Goodwill	5,466	5,466
Other assets	4,873	3,096
TOTAL ASSETS	$455,677	$386,113

Liabilities and Stockholders' Equity	June 30, 2008	September 30, 2007
Liabilities:		
Deposits	$269,259	$207,734
Federal Home Loan Bank advances	112,495	96,446
Other liabilities	3,974	3,784
Total liabilities	385,728	307,964
Stockholders' equity:		
Common stock - 6,226,995 and 7,118,205 shares, respectively	62	71
Additional paid-in capital	62,179	69,934
Retained earnings	12,478	12,420
Unearned ESOP shares	(3,531)	(3,877)
Unearned deferred compensation	(148)	(207)
Accumulated other comprehensive loss	(1,091)	(192)
Total stockholders' equity	69,949	78,149
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$455,677	$386,113

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

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

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

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

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

Cash dividends ($0.15 per share)									
Balance - End of Period	6,226,995	$62	$62,179	$12,478	($3,531)	($148)	($1,091)	$0	$69,949

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

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

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

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows - Unaudited
For the Nine Months Ended June 30, 2008 and 2007

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

Net cash provided by financing activities	69,045	48,640
Net increase (decrease) in cash and cash equivalents	6,067	2,007
Cash and cash equivalents at beginning	6,354	6,170
Cash and cash equivalents at end	$12,421	$8,177
Supplemental cash flow information:		
Cash paid during the year for:		
Interest on deposits	$6,669	$5,090
Interest on borrowings	3,697	1040
Income taxes	969	573

6

CITIZENS COMMUNITY BANCORP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 –Organization

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

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

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

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

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

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

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

NOTE 2 – PRINCIPLES OF CONSOLIDATION

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

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

NOTE 3 – STOCK-BASED COMPENSATION

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

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

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

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

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

NOTE 4 – SUPPLEMENTAL EXECUTIVE AND DIRECTOR RETIREMENT PLANS

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

NOTE 5 – EARNINGS PER SHARE

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

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

NOTE 6 – NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

GENERAL

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

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

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

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

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

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

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

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

In order to differentiate ourselves from our competitors, we have stressed the use of personalized, branch-oriented customer service. With operations structured around a branch system staffed with knowledgeable and well-equipped employees, our ongoing commitment to training at all levels of our staff remains a key to the Company's success. As such, our focus is on building and growing banking relationships, in addition to opening new accounts.

On July 1, 2005, Community Plus Savings Bank, located in Rochester Hills, Mich., was acquired through a merger with and into Citizens Community Federal. At June 30, 2005, Community Plus Savings Bank had total assets of $46.0 million and deposits and other liabilities of $41.8 million, prior to purchase accounting adjustments.

At June 30, 2008, the Company had total assets of $455.7 million, total deposits of $269.3 million and stockholders' equity of $69.9 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 (FHLB) of Chicago, which is one of the 12 regional banks in the FHLB System.

CRITICAL ACCOUNTING POLICIES

Allowance for Loan Losses.

Citizens Community Federal maintains an allowance for loan losses to absorb probable incurred losses in the 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 losses, management considers 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, estimated value of any underlying collateral and prevailing economic conditions.

At June 30, 2008, the allowance for loan losses was $1.1 million, or 0.32%, of the total loan portfolio. 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, that may be susceptible to significant change. In the opinion of management, the allowance, when taken as a whole, reflects estimated probable loan losses in the Company's loan portfolio. Given the historical performance of its lending portfolio, the Company's allowance for loan losses is well below comparable peer levels. Citizens is able to maintain a lower loan loss allowance, in part, because it does not participate in any higher risk sub-prime lending or construction lending.

FINANCIAL CONDITION

Total Assets. Total Company assets as of June 30, 2008, were $455.7 million, compared with $386.1 million as of September 30, 2007, a year-to-date increase of $69.6 million, or 18 percent. Assets increased primarily as a result of increases in: loans receivable of $33.5 million; securities available for sale of $26.6 million; and, cash and cash equivalents of $6.0 million.

Securities Available for Sale. Securities available for sale grew from $39.6 million on September 30, 2007, to $66.2 million on June 30, 2008, an increase of $26.6 million, or 67.2%. During fiscal 2008, management continued to selectively purchase non-agency mortgage-backed security investments ("MBS") that either met or exceeded the Company's underwriting guidelines, to complement consumer loan underwriting. Strong demand in consumer lending required managing the mix of the Bank's balance sheet to comply with consumer lending limits imposed on federally chartered savings banks. Management chose to increase the asset base by purchasing MBS funded by FHLB advances, as

12

well as deposit growth. This strategy allows the Company to continue making consumer loans within its regulatory limits.

Cash and Cash Equivalents. Cash and cash equivalents increased from $6.4 million on September 30, 2007, to $12.4 million on June 30, 2008. The increase was a result of deposit growth exceeding loan growth during the period.

Loans Receivable. Loans increased by $33.5 million, or 10.4 percent, to $354.5 million at June 30, 2008, from $321.0 million as of September 30, 2007. At June 30, 2008, the loan portfolio was comprised of $200.2 million of loans secured by real estate, or 56.5 percent of total loans, and $154.3 million of consumer loans, or 43.5 percent of total loans. The Company's new Red Wing, Minn. Wal-Mart in-store branch opened on March 1, 2008. After the first four months of operation, the branch had $3.6 million in loans receivable. The Company's relocated Rice Lake, Wis.Wal-Mart in-store branch opened on May 1, 2008. After the first two months of operation at the new location, the branch had $19.4 million in loans receivable, an increase of $621,000 since the relocation.

At September 30, 2007, the loan portfolio mix included real estate loans of $188.0 million, or 58.6 percent of total loans, and consumer loans of $132.7 million, or 41.1 percent of total loans.

Allowance for Loan Losses. The following table is an analysis of the activity in the allowance for loan losses for the three- and nine-month periods ended June 30, 2008, and June 30, 2007.

	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Balance at Beginning	$1,068	$ 857	$ 926	$835
Provisions Charged to Operating Expense	182	135	543	325
Loans Charged Off	(134)	(113)	(367)	(301)
Recoveries on Loans	12	8	26	28
Balance at End	$1,129	$887	$1,129	$887

Office Properties and Equipment. Total investment in office properties and equipment was $4.1 million on June 30, 2008, and $3.5 million on September 30, 2007. The increase was primarily the result of the new Wal-Mart in-store branches opened or in the process of opening.

Deposits. Deposits grew to $269.3 million at June 30, 2008, from $207.7 million at September 30, 2007. The increase of $61.6 million, 29.7%, was primarily the result of CD growth of $53.9 million, combined with core deposit growth from the Company's newly opened Wal-Mart Supercenter in-store branch locations, as well as the Company's traditional Minnesota branch office locations.

Sequentially, deposits grew $19.9 million, or 8%, from $249.4 million at March 31, 2008, as a result of CD growth and core deposit growth. $2.6 million, or 13 percent, of the sequential increase, came from core deposit growth at the Company's newly opened Wal-Mart Supercenter in-store branch locations. Additional money market deposit growth of $1 million was targeted in the Minnesota markets, as it was the most effective market from a cost and re-pricing standpoint.

The Red Wing, Minn. Wal-Mart in-store branch contributed $4.6 million in total deposit growth since its first month of operation in March 2008. The Rice Lake, Wis., Wal-Mart branch has contributed $2.0 million in total deposit growth since its relocation on May 1, 2008.

13

Borrowed Funds. FHLB advances increased from $96.4 million on September 30, 2007, to $112.5 million on June 30, 2008, as funding for additional MBS purchases exceeded payoffs of previous advances.

Asset Quality. The Company's nonperforming assets were $2.8 million at June 30, 2008, or .61 percent of total assets. This was up from $2.1 million, or 0.50 percent of total assets, at March 31, 2008, and $1.6 million, or 0.43 percent, at September 30, 2007. The increase was primarily the result of four residential real estate loans totaling $700,000 that became delinquent. Each property for the four loans was recently appraised at a value that exceeds its loan balance. As a result, the Company anticipates minimal loss related to these loans.

Net charge-offs for the quarter ended June 30, 2008, were $122,000, versus $111,000 for the quarter ended March 31, 2008, and $105,000 for the quarter ended June 30, 2007. The annualized net charge-offs to average loans receivable was 0.14 percent, 0.13 percent and 0.14 percent for the 2008 and 2007 three-month periods, respectively. The Company's net charge-offs remain at levels below comparable peer norms.

For the nine months ended June 30, 2008, net charge-offs were $341,000, compared with $273,000 for the nine-month period ended June 30, 2007. The annualized net charge-offs to average loans receivable was 0.13 percent for the 2008 and 2007 nine-month periods, respectively. The ratio of allowance for loan losses to total loans was .32% on June 30, 2008, compared to .29% on September 30, 2007.

Liquidity and Asset / Liability Management. The Company must maintain an adequate liquidity position in order to respond to the short-term demand for funds caused by withdrawals from deposit accounts, increased loan demand and extensions of credit, and for payment of operating expenses. Maintaining this position of adequate liquidity is accomplished through the management of a combination of liquid assets; those which can be converted into cash and access to additional sources of funds. Primarily, liquid assets of the Company are cash and cash equivalents, other interest-bearing deposits, investments held that are available for sale and maturing loans. Advances from the FHLB system represent the Company's primary source of immediate additional liquidity, and are maintained at a level necessary to fulfill needs. Assets and liabilities are maintained to provide the proper balance between liquidity, safety and profitability. This monitoring process is done on a continuing basis. The Company manages its interest rate sensitive assets and liabilities on a regular basis to lessen the impact of interest rate changes. As part of managing liquidity, the Company monitors its maturing deposits and loans, loan-to-deposit ratio, competitors' rates and the cost of borrowing funds versus the ability to attract deposits. The Company manages its rate sensitivity position to avoid wide swings in margins and to minimize risk.

Whereas the Company's interest spread was negatively impacted in the 2007 three- and nine-month reporting periods by the flat yield curve, the 2008 three- and nine-month reporting periods saw a widening of the yield curve. The widening yield curve contributed to the sequential increase in interest spread from 2.24% for the first fiscal quarter of 2008 to 2.30% for the second fiscal quarter, to 2.43% for the third fiscal quarter of 2008.

Off-Balance Sheet Liabilities. The Company has financial instruments with off-balance sheet risk. These instruments include unused commitments for credit cards, lines of credit, overdraft protection and home equity lines of credit, as well as commitments to extend credit. As of June 30, 2008, the Company had $8.2 million in unused commitments, compared to $7.9 in unused commitments as of September 30, 2007.

Capital Resources. Capital ratios applicable to the Bank as of June 30, 2008, and September 30, 2007, were as follows:

Capital Ratios

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2008 (Unaudited)						
Total capital (to risk weighted assets)	$46,315,000	16.3%	$22,808,000 >=	8.0%	$28,510,000 >=	10.0%
Tier 1 capital (to risk weighted assets)	$45,576,000	16.0%	$11,404,000 >=	4.0%	$17,106,000 >=	6.0%
Tier 1 capital (to adjusted total assets)	$45,576,000	10.1%	$17,990,000 >=	4.0%	$22,488,000 >=	5.0%
Tangible capital (to tangible assets)	$45,576,000	10.1%	$6,746,000 >=	1.5%	NA	NA
As of September 30, 2007 (Audited)						
Total risk-based capital (to risk weighted assets)	$44,416,000	18.0%	$19,757,000 >=	8.0%	$24,696,000 >=	10.0%
Tier 1 capital (to risk weighted assets)	$43,709,000	17.7%	$9,878,000>=	4.0%	$14,817,000 >=	6.0%
Tier 1 capital (to adjusted total assets)	$43,709,000	11.5%	$15,161,000 >=	4.0%	$18,952,000 >=	5.0%
Tangible capital (to tangible assets)	$43,709,000	11.5%	$5,685,000 >=	1.5%	NA	NA

Management intends to maintain capital levels in the well-capitalized category established by regulatory authorities. The Bank was categorized as “well capitalized” under the regulatory framework for capital adequacy as of June 30, 2008, and September 30, 2007.

Results of Operations

Overview. For the first six months of fiscal 2008, the Company saw strong loan demand with balanced growth between real estate and consumer loans. In the third fiscal quarter loan demand remained strong with a shift to more growth in the consumer lending area, as economic conditions slowed real estate lending. Citizens Community

Federal manages its lending portfolio to minimize risk and maximize income, and as such, it does not participate in any higher risk sub-prime lending or construction lending. Combined with loan growth, this management strategy has helped to drive income growth for the quarter and for the fiscal year to date. The Company continues to make traditional loans while maintaining its low delinquency and charge-off results.

Citizens Community Federal anticipates continued loan growth going forward. Additionally, the Company announced in January 2008 and April 2008 plans to expand into select Wal-Mart retail locations in 2008. The Company believes that these new branches will offer excellent potential for additional core deposit and loan growth and are consistent with Citizens Community Federal's targeted expansion strategy. The results from the initial Wal-Mart retail location opening have exceeded the Company's expectations.

Net Income. For the three months ended June 30, 2008, the Company reported net income of $389,000, up 27% from net income of $307,000 for the 2007 third quarter. The year-over-year increase was primarily due to an increase in net interest income.

Net income for the nine months ended June 30, 2008, totaled $1.1 million, versus $349,000 for the prior-year nine months. The improvement was driven by an increase in net interest income. The year-earlier results also included a one-time, after-tax charge of $370,000 ($610,000 pre-tax) related to agreements with two Citizens Community Federal executives who resigned. Excluding the one-time charge, the Company would have reported fiscal 2007 nine-month net income of $719,000. On this basis, fiscal 2008 nine-month net income increased 53% over fiscal 2007.

On a basic and diluted basis, Citizens' fiscal third-quarter earnings were $0.06 per share, up from $0.05 per share for the prior-year third quarter. For the nine months, the Company reported basic and diluted earnings of $0.17 per share, versus earnings of $0.05 per share in 2007. Excluding the charge detailed above, the Company would have reported 2007 nine-month basic and diluted per-share earnings of $0.11.

Net interest margin decreased from 3.74% to 2.98% for the three-month period ended June 30, 2008, compared to the prior-year three months. Sequentially, net interest margin increased slightly from 2.95% at March 31, 2008. For the nine months, net interest margin decreased from 3.74% to 2.98% for the 2008 nine-month period. Interest spread decreased to 2.43% for the 2008 third quarter, from 2.64% for the 2007 third quarter. Sequentially, net interest spread increased from 2.30% at March 31, 2008. For the nine-month period ended June 30, 2008, interest spread decreased to 2.34% from 2.92% for the 2007 nine-months. The decrease in net interest margin and interest spread for both periods was largely a result of the MBS portfolio, which increased as a percentage of total assets, being funded through FHLB advances. The spreads produced from these leveraged investments resulted in consistently lower interest margins than that earned from the loans receivable portfolio. As a result, the overall interest spread and net interest margin were affected,while overall net interest income increased.

Total Interest Income. Total interest income increased by $1.9 million to $6.8 million for the three-month period ended June 30, 2008, from $4.9 million for the same period in 2007. Total interest income increased by $5.8 million to $19.5 million for the nine-month period, from $13.7 million for the year-ago nine months. The increase for both periods was a result of an increase in the average balance of securities available for sale, a result of additional MBS investments, and loans receivable. The average balance of securities available for sale increased from $1.9 million to $60.3 million for the three-month periods ended June 30, 2007 and 2008, respectively. The average balance of loans receivable increased from $290.9 million to $347.9 million for the three-month periods ended June 30, 2007, and 2008, respectively. For the nine-month periods ending June 30, 2007, and 2008, the average balance of securities available for sale increased from $1.1 million to $51.2 million, respectively. Loans receivable increased from $276.3 to $338.6 for the nine-month periods ended June 30, 2007, and 2008, respectively.

Total Interest Expense. Total interest expense increased $1.4 million to $3.6 million for the quarter ended June 30, 2008, from $2.2 million for the year-ago third quarter. The increase was the result of growth in the average balance of interest-bearing liabilities. For the 2008 nine-month period, interest expense increased $4.4 million to $10.4 million, from $6.0 million for the prior-year nine months. The increase in interest expense resulted from increases in the average balance and costs of interest-bearing liabilities. In addition, the average balance of interest-bearing liabilities increased from $259.9 million for the three-month period ended June 30, 2007, to $369.6 million for the three months ended June 30, 2008.

16

The average balance of interest-bearing liabilities for the nine months increased from $241.3 million in 2007 to $343.3 million in 2008. Average balance of FHLB advances increased from $20.0 million for the 2007 three-month period, to $109.1 million for the 2008 three-month period. For the nine-month period, the average balance of FHLB advances rose from $25.4 million in 2007 to $104.2 million in 2008. Management used FHLB advances to fund MBS investments.

The average cost of interest-bearing liabilities decreased from 3.95% for the three months ended June 30, 2007, to 3.90% for the three-month period ended June 30, 2008. For the nine-month period, the average cost of interest-bearing liabilities increased from 3.65% to 4.03% in 2008. The three-month decrease was a result of lower deposit costs due to declining CD yields, partially offset by higher costing FHLB borrowings that were strategically matched to MBS investments. The nine-month period increase stemmed from the increase in cost of FHLB borrowings offsetting the decrease in deposit costs.

Net Interest Income. Net interest income before provision for loan losses increased by $500,000 for the three-month period ended June 30, 2008, to $3.2 million, compared to $2.7 million for the same period in 2007. For the nine months, net interest income increased by $1.4 million to $9.1 million from $7.7 million in 2007. The growth in net interest income for both periods was a result of an increase in the average balance of loans receivable and the average balance of investments, partially offset by higher interest expense.

Provision for Loan Losses. Citizens establishes the provision for loan losses, which is charged to operations, at a level management believes will adjust the allowance for loan losses to reflect probable incurred credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers 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, estimated value of any underlying collateral, and prevailing economic conditions. Based on the Company’s evaluation of these factors, we made provisions of $182,000 and $135,000 for the three-month periods ended June 30, 2008, and June 30, 2007, respectively. For the nine-month period ended June 30, 2008, management made provisions of $543,000 compared to provisions of $325,000 for the prior-year nine months. The 2008 three- and nine-month increases were driven a by higher average balance of loans. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available, or as future events change. We used the same methodology and generally similar assumptions in assessing the loan allowance for both periods.

The allowance level is based on estimates and the ultimate losses may vary from the estimates. Management assesses the allowance for loan loss on a monthly basis and makes provisions for loan losses as necessary in order to maintain the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions or changes in individual account conditions. In addition, various regulatory agencies, as an integral part in their examination process, periodically review the allowance for loan losses and may require the Company to recognize additional provisions based on their judgment of information available to them at the time of their examination.

Non-Interest Income. Non-interest income decreased slightly to $417,000 for the three months ended June 30, 2008, versus $449,000 for the comparable 2007 period. For the nine months, non-interest income decreased to $1.2 million from $1.3 million for the prior-year nine months. The three- and nine-month prior periods included a one-time $25,000 benefit from a vendor contract negotiation.

Non-Interest Expense. Non-interest expense increased from $2.5 million for the third quarter ended June 30, 2007, to $2.8 million for the quarter ended June 30, 2008. The increase was primarily related to cost-of-living increases and planned expenses associated with the current and future openings of

17

the Company's Wal-Mart Supercenter in-store branches. Non-interest expense decreased from $8.0 million for the nine-month period ended June 30, 2007, to $7.9 million for the comparable 2008 period. The decrease was primarily due to the one-time charge recorded in fiscal 2007 detailed previously, partially offset by planned costs associated with the Wal-Mart Supercenter branches.

Income Tax Expense. Income tax expense increased to $284,000 for the three-month period ended June 30, 2008, from $227,000 for the year-ago three months. For the year-to-date nine months, income tax expense increased to $757,000, versus $255,000 for the prior year nine-month period. The increase for both periods came as a result of the improvement in overall earnings reflected in the current periods versus prior-year comparisons.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our Risk When Interest Rates Change. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is our most significant market risk.

How We Measure Our Risk of Interest Rate Changes. As part of our attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor our interest rate risk. In monitoring interest rate risk we continually analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities, and their sensitivity to actual or potential changes in market interest rates.

In order to manage the potential for adverse effects of material and prolonged increases in interest rates on our results of operations, we adopted asset and liability management policies to better align the maturities and repricing terms of our interest-earning assets and interest-bearing liabilities. These policies are implemented by the asset and liability management committee. The asset and liability management committee is comprised of members of senior management. The asset and liability management committee establishes guidelines for and monitors the volume and mix of assets and funding sources, taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk and profitability goals. The asset and liability management committee generally meets on a weekly basis to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate risk exposure limits versus current projections pursuant to net present value of portfolio equity analysis. At each meeting, the asset and liability management committee recommends strategy changes, as appropriate, based on this review. The committee is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the board of directors on a monthly basis.

In order to manage our assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, we have focused our strategies on:

- originating shorter-term consumer loans;
- originating prime-based home equity lines of credit;
- managing our deposits to establish stable deposit relationships;
- using FHLB advances to align maturities and repricing terms;

- attempting to limit the percentage of long-term, fixed-rate loans in our portfolio which do not contain a payable-on-demand clause; and
- originating first mortgage loans, with a clause allowing for payment on demand after a stated period of time.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the asset and liability management committee may determine to increase Citizens Community Federal's interest rate risk position somewhat in order to maintain or improve its net interest margin.

As of June 30, 2008, $159.3 million of loans in our portfolio included a payable-on-demand clause. We have not utilized the clause since fiscal 2000 because, in management's view, it has not been appropriate. Therefore, the clause has had no impact on our liquidity and overall financial performance for the periods presented. The purpose behind the payable-on-demand clause is to provide Citizens Community Federal with some protection against the impact on net interest margin of sharp and prolonged interest rate increases. It is Citizens Community Federal’s policy to write the majority of its real estate loans with a payable-on-demand clause. The factors considered in determining whether and when to utilize the payable-on-demand clause include a significant, prolonged increase in market rates of interest; liquidity needs; desire to restructure the balance sheet; an individual borrowers unsatisfactory payment history; and, the remaining term to maturity.

As part of its procedures, the asset and liability management committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity. Market value of portfolio equity is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and market value of portfolio equity that are authorized by the board of directors of Citizens Community Federal.

The following table sets forth, at March 31, 2008, (the most recent date for which information is available) an analysis of Citizen Community Federal's interest rate risk as measured by the estimated changes in NPV resulting from instantaneous and sustained parallel shifts in the yield curve (up 300 basis points and down 200 basis points, measured in 100 basis point increments). As of March 31, 2008, due to the current level of interest rates, the OTS no longer provided NPV estimates for decreases in interest rates greater than 100 basis points.

Change in Interest Rates in Basis Points ("bp") (Rate Shock in Rates)(1)	Net Portfolio Value			Net Portfolio Value as % of Present Value of Assets	
	Amount	Change	Change	NPV Ratio	Change
	(Dollars in thousands)				
+300 bp	$34,738	$(4,702)	(12)%	8.54%	(100) bp
+200 bp	36,864	(2,576)	(7)%	8.94	(40) bp
+100 bp	38,469	(972)	(2)%	9.21	(13) bp
+50 bp	39,055	(386)	(1)%	9.30	(4) bp
0 bp	39,441			9.34	
-50 bp	39,627	187	09%	9.33	0bp
-100 bp	39,696	255	1%	9.31	(34)bp

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

20

For comparative purposes, the table below sets forth, at September 30, 2007, an analysis of Citizen Community Federal's interest rate risk as measured by the estimated changes in NPV resulting from instantaneous and sustained parallel shifts in the yield curve (up 300 basis points and down 200 basis points, measured in 100 basis point increments). As of September 30, 2007, due to the current level of interest rates, the OTS no longer provided NPV estimates for decreases in interest rates greater than 200 basis points.

Change in Interest Rates in Basis Points ("bp") (Rate Shock in Rates)(1)	Net Portfolio Value			Net Portfolio Value as % of Present Value of Assets	
	Amount	Change	Change	NPV Ratio	Change
				(Dollars in thousands)	
+300 bp	$36,641	$(7,080)	(16)%	10.01%	(148) bp
+200 bp	39,118	(4,603)	(11)%	10.55	(95) bp
+100 bp	41,514	(2,207)	(5)%	11.05	(44) bp
+50 bp	42,631	(1,090)	(2)%	11.28	(22) bp
0 bp	43,721			11.50%	
- 50 bp	44,689	968	2%	11.68	19 bp
-100 bp	45,442	1,721	4%	11.81	32 bp
-200 bp	46,445	2,724	6%	11.96	46 bp

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

The OTS uses certain assumptions in assessing the interest rate risk of savings associations. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the market values of certain assets under differing interest rate scenarios, among others.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation of the Company's disclosure controls and procedures (as defined in Section 13(a)-15(e) under the Securities Exchange Act of 1934 (the "Act") as of June 30, 2008, was carried out under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer and several other members of our senior management. The Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2008, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports the Company files or submits under the Act is (i) accumulated and communicated to management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the quarter ended June 30, 2008, that have materially affected, or are reasonably likely to materially effect, our internal controls over financial reporting.

The Company does not expect that its disclosure controls and procedures will prevent all errors and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by

the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that companies evaluate and annually report on their systems of internal control over financial reporting. In addition, our independent accountants must report on management's evaluation. We are in the process of evaluating, documenting and testing our system of internal control over financial reporting to provide the basis for our report that will, for the first time, be a required part of our annual report on Form 10-K for the fiscal year ending September 30, 2010. Due to the ongoing evaluation and testing of our internal controls, there can be no assurance that if any control deficiencies are identified they will be re-mediated before the end of the 2010 fiscal year, or that there may not be significant deficiencies or material weaknesses that would be required to be reported. In addition, we expect the evaluation process and any required remediation, if applicable, to increase our accounting, legal and other costs and divert management resources from core business operations.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In the normal course of business, the Company occasionally becomes involved in various legal proceedings. In the opinion of management, any liability from such proceedings would not have a material adverse effect on the business or financial condition of the Company.

Item 1A. RISK FACTORS

There are no material changes from the risk factors disclosed in the Company's Form 10K for the fiscal year ended September 30, 2007.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes our share repurchase activity during the three months ended June 30, 2008.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plan
April 1, 2008, through April 30, 2008	-	-	-	676,320
May 1, 2008, through May 31, 2008	535,300	8.50	535,300	141,020
June 1, 2008, through June 30, 2008	-	-	-	141,020
Total	535,300	8.50	535,300	141,020

Subsequent to March 31, 2008, a new stock repurchase plan was approved, and the Company announced its intention to repurchase up to 10 percent of its outstanding shares in the open market or in privately negotiated transactions. These shares will be purchased from time to time over a 12-month period depending upon market conditions.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

(a) Exhibits

31.1	Rule 13a-15(e) Certification of the Company’s President and Chief Executive Officer
31.2	Rule 13a-15(e) Certification of the Company’s Chief Financial Officer
32.0	Certification

SIGNATURES

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

CITIZENS COMMUNITY BANCORP, INC.

Date: 2008	August 8,	By:	/s/ James G. Cooley James G. Cooley President and Chief Executive Officer
Date: 2008	August 8,	By:	/s/ John Zettler John Zettler Chief Financial Officer