

CITIZENS COMMUNITY BANCORP
Form 10QSB
August 11, 2005

OMB APPROVAL
OMB Number: 3235-0416
Expires: February 28, 2006
Estimated Average burden
Hours per response.....182

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended **June 30, 2005**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____
Commission file number _____

CITIZENS COMMUNITY BANCORP

(Exact name of small business issuer as specified in its charter)

United States

20-0663325

(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

Issuer's telephone number)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 and 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

At July 31, 2005, there were 3,721,068 shares of the issuers' common stock outstanding.

Transitional Small Business Disclosure Format (Check one): Yes / / No /X/

SEC2334 (1-04) **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.**

Next Page

CITIZENS COMMUNITY BANCORP

INDEX

	Page Number
Part I - FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets as of June 30, 2005 and September 30, 2004	3
Consolidated Statements of Income For the Three and Nine Months Ended June 30, 2005 and 2004	4
Consolidated Statements of Cash Flow For the Nine Months ended June 30, 2005 and 2004	5
Consolidated Statements of Stockholders' Equity For the Nine Months ended June 30, 2005 and 2004	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis	10
Item 3. Controls and Procedures	16
Part II - OTHER INFORMATION	17
SIGNATURES	18
EXHIBITS	19

2

[Next Page](#)**CITIZENS COMMUNITY BANCORP****Consolidated Balance Sheets
as of June 30, 2005 and September 30, 2004**

<i>Assets</i>	<i>June 30, 2005 (unaudited)</i>	<i>September 30, 2004 (audited)</i>

3

[Next Page](#)**CITIZENS COMMUNITY BANCORP****Consolidated Statements of Income
For the Three and Nine Months Ended June 30, 2005 and 2004
(Unaudited)**

	Three Months Ended		Nine Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Interest and Dividend Income:				
Interest and fees on loans	\$2,891,496	\$2,392,816	\$8,244,995	\$6,984,777
Other interest and dividend income	\$24,474	\$17,734	\$67,852	\$57,195
<i>Total interest and dividend income</i>	<i>\$2,915,970</i>	<i>\$2,410,550</i>	<i>\$8,312,847</i>	<i>\$7,041,972</i>
Interest expense:				
Interest on deposits	\$810,231	\$654,123	\$2,266,181	\$2,096,872
Notes Payable Interest	\$210,756	\$15,417	\$403,627	\$44,666
<i>Total interest expense</i>	<i>\$1,020,987</i>	<i>\$669,540</i>	<i>\$2,669,808</i>	<i>\$2,141,538</i>

3

Edgar Filing: CITIZENS COMMUNITY BANCORP - Form 10QSB

<i>Net Interest Income</i>	\$1,894,983	\$1,741,010	\$5,643,039	\$4,900,434
Provision for loan losses	\$103,200	\$99,999	\$305,336	\$295,998
<i>Net interest income after provision for loan losses</i>	<i>\$1,791,783</i>	<i>\$1,641,011</i>	<i>\$5,337,703</i>	<i>\$4,604,436</i>
Noninterest Income:				
Service charges on deposit accounts	\$195,017	\$195,508	\$565,450	\$587,598
Insurance commissions	\$77,298	\$95,854	\$273,958	\$242,070
Loan fees and service charges	\$83,134	\$63,017	\$231,642	\$193,093
Other	\$67,484	\$4,476	\$460,383	\$13,713
<i>Total noninterest income</i>	<i>\$422,933</i>	<i>\$358,855</i>	<i>\$1,531,433</i>	<i>\$1,036,474</i>
Noninterest expense:				
Salaries and related benefits	\$1,127,902	\$1,021,253	\$3,311,541	\$2,932,555
Occupancy - Net	\$179,692	\$161,291	\$529,585	\$476,668
Office	\$148,719	\$124,869	\$448,588	\$405,469
Data processing	\$66,284	\$66,843	\$220,812	\$220,691
Other	\$255,955	\$228,294	\$940,170	\$600,183
<i>Total noninterest expense</i>	<i>\$1,778,552</i>	<i>\$1,602,550</i>	<i>\$5,450,696</i>	<i>\$4,635,566</i>
Income before provision for income tax	\$436,164	\$397,316	\$1,418,440	\$1,005,344
Provision for income taxes	\$163,655	\$156,667	\$561,941	\$396,773
Net income	\$272,509	\$240,649	\$856,499	\$608,571
<i>Basic and diluted earnings per share</i>	<i>\$0.09</i>	<i>\$0.08</i>	<i>\$0.29</i>	<i>NA</i>

4

Next Page

CITIZENS COMMUNITY BANCORP

**Consolidated Statements of Cash Flows
For the Nine Months ended June 30, 2005 and 2004**

June 30, 2005 *June 30, 2004*
(unaudited) *(unaudited)*

5

4

[Next Page](#)

CITIZENS COMMUNITY BANCORP
CONSOLIDATED STATEMENTS OF
STOCKHOLDERS' EQUITY
For the Nine Months ended June 30, 2005 and 2004
(UNAUDITED)

Nine Months Ended June 30, 2005	Shares	Common Stock	Treasury Stock	Capital Surplus	Retained Earnings	Unearned	Unearned	Total
						ESOP Shares	Compensation	
Balance - Beginning of period	3,041,750	\$30,418	\$0	\$9,029,696	\$11,678,549	(\$1,132,740)	\$0	\$19,605,923
Comprehensive Income:								
Net Income					\$856,499			\$856,499
Other Comprehensive Income					\$0			\$0
Total Comprehensive Income					\$856,499			\$856,499
59,618 Shares of Common Stock purchased for Recognition and Retention Plan			(\$894,866)					(\$894,866)
Committed ESOP shares				\$34,919		\$89,460		\$124,379
33,386 Shares of Common Stock Awarded for Recognition and Retention Plan			\$501,124	(\$52,082)			(\$449,042)	\$0
19 Shares of Common Stock Purchased from Employee 401K Retirement Plan			(\$269)					(\$269)
Amortization of Restricted Stock							\$37,420	\$37,420
Cash dividends (\$0.05 per share)					(\$145,487)			(\$145,487)
Balance - End of Period	3,041,750	\$30,418	(\$394,011)	\$9,012,533	\$12,389,561	(\$1,043,280)	(\$411,622)	\$19,583,599

Nine Months Ended June 30, 2004	Shares	Common Stock	Treasury Stock	Capital Surplus	Retained Earnings	Unearned	Total
						ESOP Shares	
Balance - Beginning of period	0	\$0	\$0	\$0	\$10,990,936	\$0	\$10,990,936
Comprehensive Income:							
Net Income					\$608,571		\$608,571
Other Comprehensive Income					\$0		\$0
Total Comprehensive Income					\$608,571		\$608,571
Sale of Common Stock	978,650	\$9,787		\$9,038,403			\$9,048,190
119,236 shares of common stock acquired by ESOP						(\$1,192,360)	(\$1,192,360)
Committed ESOP shares						\$21,105	\$21,105
Capitalization of CCMHC	2,063,100	\$20,631		(\$20,631)	(\$100,000)		(\$100,000)
Cash dividends (\$0.05 per share)							
Balance - End of Period	3,041,750	\$30,418	\$0	\$9,017,772	\$11,499,507	(\$1,171,255)	\$19,376,442

[Next Page](#)

CITIZENS COMMUNITY BANCORP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 -Organization

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

Proceeds from the stock offering, net of the ESOP loan of \$1,192,360, totaled \$7,974,296. \$4,533,328 was used to purchase 100% (3,041,750 shares) of Citizens Community Federal stock and \$3,340,968 was retained by the Company 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 is a majority-owned subsidiary of Citizens Community MHC. Members of Citizens Community Federal became members of Citizens Community MHC and continue to have the same voting rights in Citizens Community MHC as they had in Citizens Community Federal. Citizens Community MHC owns 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.

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 and Minnesota. The Bank acquired a branch in Mankato, Minnesota in November of 2003 and opened a new branch office in Oakdale, Minnesota on October 1, 2004. 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.

Next Page

The accompanying unaudited consolidated financial statements of Citizens Community Bancorp 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-QSB. 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 the fair presentation have been included. Operating results for the three and nine months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending September 30, 2005. 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 AWARD PLANS

In February 2005, the Recognition and Retention Plan was approved by the Company's shareholders. The plan provides for the grant of up to 59,618 shares. At June 30, 2005, 33,386 restricted shares had been granted under this plan. 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 \$13.45 per share. Compensation expenses related to these awards were \$22,452 for the three months and \$37,420 for the nine months ended June 30, 2005.

In February 2005, the 2004 Stock Option and Incentive Plan was approved by the Company's shareholders. The plan provides for the grant of nonqualified, incentive stock options, and stock appreciation rights. The total number of shares available for future grants at June 30, 2005 under the plan was 149,046. At June 30, 2005, 105,827 options had been granted under this plan at a weighted average exercise price of \$13.45 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. None of the options granted were vested, exercised, or forfeited during the period and all options granted remain outstanding at June 30, 2005.

NOTE 4 - STOCK-BASED COMPENSATION

The Company accounts for stock-based employee compensation using the intrinsic value method prescribed under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. Accordingly, the Company would record compensation expense if the quoted market price on the date of grant exceeds the exercise price. Compensation expense for stock options is calculated as the number of options granted multiplied by the amount the market price exceeds the exercise price. For options with a vesting period, the expense, if applicable, is recognized over the vesting period. Compensation expense is recognized immediately for options that are fully vested on the date of grant. The Company has not recognized any stock option related employee compensation expense during the three and nine months ended June 30, 2005 and 2004.

If the company had elected to recognize compensation expense for its employee stock-based compensation plans based on the fair values at the grant dates, consistent with the methodology prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation", net earnings and earnings per share would have been reported as follows:

[Next Page](#)

	Three months ended June 30,		Nine months ended June 30,	
	2005	2004	2005	2004
Net Earnings:				
As Reported	\$272,509	\$240,649	\$856,499	\$608,571
Additional compensation cost under the fair value method, net of related tax effects	16,716	0	\$27,860	0
Pro forma	\$255,793	\$240,649	\$828,639	\$608,571
Basic Earnings Per Share:				
As Reported	\$ 0.09	N.A.	\$ 0.29	N.A.
Pro forma	0.09	N.A.	0.28	N.A.
Diluted Earnings Per Share:				
As reported	\$ 0.09	N.A.	\$ 0.29	N.A.
Pro forma	0.09	N.A.	0.28	N.A.

For purposes of the pro forma disclosures above, the weighted average fair value per stock option granted was \$3.66. The fair value was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: (1) annual volatility factor of 16%, (2) risk-free interest rate of 4.16%, (3) expected dividend yield of 1.5% and (4) expected option term of ten years.

NOTE 5 - EARNINGS PER SHARE

Basic and diluted earnings per share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period, excluding unallocated shares of the Employee Stock Ownership Plan (ESOP). The weighted average number of shares outstanding was 2,922,806 for the three months ended June 30, 2005, and 2,919,824 for the nine months ended June 30, 2005. Earnings per share of \$0.09 were reported for the three months ended June 30, 2005, compared to \$0.08 per share for the prior year quarter. Basic earnings per share of \$0.29 were reported for the nine months ending June 30, 2005. Earnings per share data for the prior nine-month period is not meaningful, as Citizens Community Federal was a mutual savings bank with no stock outstanding prior to March 29, 2004.

NOTE 6 - NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123(R), "Share-Based Payments." This Statement is a revision to SFAS 123, "Accounting for Stock-Based Compensation," and supersedes

APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123(R) requires the recognition of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render the required service period. The Statement is effective for the Company beginning October 1, 2007. While the Company is still in the process of evaluating the effect of SFAS No. 123(R) on the financial statements, Note 4 does disclose the effect on earnings had SFAS No. 123(R) been adopted in prior periods. Since the statements will be adopted using the modified-prospective method, the effect the adoption will have on the financial statements can be materially impacted by the number of options granted in future periods.

NOTE 7 - SUBSEQUENT EVENT

On July 1, 2005, the acquisition of Community Plus Savings Bank ("CPSB") by Citizens Community Bancorp ("CCB") in a merger of CPSB with and into Citizens Community Federal ("CCF") was completed. In accordance with the Agreement, CCB issued 705,569 additional shares to Citizens Community MHC, as determined under the Agreement by dividing \$9.25 million (the independently appraised value of CPSB) by \$13.11, which was the average closing bid price of CCB's common stock for the 20th through the 5th trading days prior to the July 1, 2005 closing date.

At June 30, 2005 CPSB had total assets of \$46.0 million and deposits and other liabilities of \$41.8 million.

Next Page

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

GENERAL

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

The following discussion focuses on the consolidated financial condition of the Company and subsidiary as of June 30, 2005 and the consolidated results of operations for the three and nine months ended June 30, 2005, compared to the same periods in 2004. This discussion should be read in conjunction with the interim condensed consolidated financial statements and notes thereto included with this report.

Historically, we were a federal credit union. We accepted deposits and made loans to members, who were the people who lived, worked or worshiped in the Wisconsin counties of Chippewa and Eau Claire, and parts of Pepin, Buffalo

and Trempealeau. In addition, this included businesses and other entities located in these counties, and members and employees of the Hocak Nation. In December 2001, we converted to a federal mutual savings bank in order to better serve our customers and the local community through the broader lending ability of a federal savings bank, and to expand our customer base beyond the limited field of membership permitted to credit unions. As a federal savings bank, we have expanded authority in structuring residential mortgage and consumer loans, and the ability to make commercial loans, although the Bank does not have any immediate plans to increase commercial lending.

We have utilized this 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 and 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. Rather than building additional electronic means for our customers to conduct banking, we have structured operations around a branch system that is staffed with knowledgeable and well-equipped employees. A key to ensuring a high level of quality customer service is our ongoing commitment to training all levels of our staff.

Subsequent to the end of the most recently completed reporting period, Citizens Community Federal successfully completed a merger with Michigan-based, Community Plus - a federally chartered mutual savings bank headquartered in Rochester Hills with an additional branch location in Lake Orion, Michigan. As a result of the merger, which became effective July 1, 2005, 705,569 additional shares of common stock of Citizens Community Bancorp were issued to Citizens Community MHC.

[Next Page](#)

CRITICAL ACCOUNTING POLICIES

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collectibility of the principal is unlikely.

The Bank considers loans secured by real estate and all consumer loans to be large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment. The allowance for credit losses attributed to these loans is established via a process that estimates the probable losses inherent in the portfolio, based upon various analyses. These include historical delinquency and credit loss experience and the current aging of the portfolio, together with analyses that reflect current trends and conditions. Management also considers overall portfolio indicators including historical credit losses, delinquent, non-performing and classified loans, and trends in volumes and term of loans; an evaluation of overall credit quality and the credit process, including lending policies and procedures, and economic, geographical, and other environmental factors. In management's judgment, the allowance for loan losses is maintained at a level that represents its best estimate of probable losses relating to specifically identified loans, as well as probable losses inherent in the balance of the loan portfolio.

Financial Condition

Total Assets. Total assets of the Company as of June 30, 2005 were \$191.9 million, compared to \$162.0 million as of September 30, 2004, an increase of \$29.9 million, or 18.5%. Assets increased primarily as a result of an increase in loans receivable. Contributing to the increase was the continued growth of the Mankato, Minnesota branch and the opening of the Oakdale, Minnesota branch.

Cash and Cash Equivalents. Cash and cash equivalents decreased from \$4.8 million on September 30, 2004 to \$4.2 million on June 30, 2005, as cash was used along with increased deposits and borrowings to help fund new loan originations. The detail of the change in cash and cash equivalents can be seen on the Consolidated Statements of Cash Flows.

Loans Receivable. Loans increased by \$29.4 million, or 19.2%, from \$152.9 million as of September 30, 2004 to \$182.3 million as of June 30, 2005. At June 30, 2005, the loan portfolio included real estate loans of \$114.4 million or 62.8% of total loans, consumer loans of \$67.8 million or 37.2% of total loans and commercial loans of \$102,000, less than 1% of total loans.

At September 30, 2004, the loan portfolio included real estate loans of \$95.4 million or 62.4% of total loans, consumer loans of \$57.4 million or 37.5% of total loans and commercial loans of \$115,000, less than 1% of total loans.

Although our consumer loan portfolio continues to grow, our real estate loan portfolio is growing at a slightly faster pace. As noted, a contributing factor to the loans receivable increase was the loan production at the Mankato and Oakdale, Minnesota branches. At June 30, 2005 loans receivable were \$9.9 million at Mankato and \$9.1 million at Oakdale, compared to \$4.6 million at Mankato and \$1.8 million at Oakdale at September 30, 2004.

[Next Page](#)

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, 2004 and June 30, 2005.

	Three months ended		Nine months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Balance at Beginning	\$641,343	\$506,837	\$554,210	\$466,527
Provisions Charged to Operating Expense	103,200	99,999	305,336	295,998
Loans Charged Off	(41,850)	(86,694)	(170,256)	(260,650)
Recoveries on Loans	10,945	5,068	24,347	23,335
Balance at End	\$713,638	\$525,210	\$713,638	\$525,210

Office Properties and Equipment. Total investment in office properties and equipment was \$2.2 million on September 30, 2004 and remained \$2.2 million on June 30, 2005.

Deposits. Deposits as of June 30, 2005 were \$137.5 million, compared to \$128.0 million as of September 30, 2004, an increase of \$9.5 million, or 7.4 %. The majority of the deposit growth came from the two Minnesota branch offices, as our marketing efforts have been concentrated there.

Borrowed Funds. Federal Home Loan Bank advances increased from \$13.5 million at September 30, 2004 to \$33.5 million on June 30, 2005, as the need to fund strong loan demand increased.

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 extensions of credit, withdrawals from deposit accounts and for payments 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 interest bearing deposits and maturing loans. Loans from the Federal Home Loan Bank system represent the Company's primary source of immediate additional liquidity, and were maintained at a level needed to meet needs. Assets and liabilities are maintained to provide the proper balance between liquidity, safety and profitability. This monitoring process is done on a continuous basis. The Company manages its interest rate sensitive assets and liabilities on a daily basis to lessen the impact of interest rate change. As part of managing liquidity, the Company monitors its maturing deposits and maturing loans, loan to deposit ratio, competitors' rates and the cost to borrow funds versus attract deposits. The Company manages its rate sensitivity position to avoid wide swings in margins and to minimize risk. The Company's management believes its liquidity sources are adequate to meet its operating needs.

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, 2005, the Company had \$5.4 million in unused commitments compared to \$5.5 million in unused commitments as of September 30, 2004.

[Next Page](#)

Capital Resources. Capital ratios applicable to the Bank as of June 30, 2005 and September 30, 2004 were as follows:

Capital Ratios				To Be Well Capitalized Under Prompt Corrective Action Provisions	
Actual		For Capital Adequacy Purposes			
Amount	Ratio	Amount	Ratio	Amount	Ratio

As of June 30, 2005 (Unaudited)

Edgar Filing: CITIZENS COMMUNITY BANCORP - Form 10QSB

Total capital (to risk weighted assets)	\$16,480,000	12.7%	\$10,376,000 >=	8.0%	\$12,970,000 >=	10.0%
Tier 1 capital (to risk weighted assets)	\$15,937,000	12.3%	\$5,188,000 >=	4.0%	\$7,782,000 >=	6.0%
Tier 1 capital (to adjusted total assets)	\$15,937,000	8.3%	\$7,664,000 >=	4.0%	\$9,580,000 >=	5.0%
Tangible capital (to tangible assets)	\$15,937,000	8.3%	\$2,874,000 >=	1.5%	NA	NA
<i>As of September 30, 2004</i>						
Total capital (to risk weighted assets)	\$15,281,000	14.0%	\$8,749,000 >=	8.0%	\$10,936,000 >=	10.0%
Tier 1 capital (to risk weighted assets)	\$14,870,000	13.6%	\$4,374,480 >=	4.0%	\$6,562,000 >=	6.0%
Tier 1 capital (to adjusted total assets)	\$14,870,000	9.2%	\$6,469,000 >=	4.0%	\$8,086,000 >=	5.0%
Tangible capital (to tangible assets)	\$14,870,000	9.2%	\$2,426,000 >=	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, 2005 and September 30, 2004.

Results of Operation

Overview. For the quarter ended June 30, 2005, the Company continued to see strong loan demand and continued growth trends. The two Minnesota branch offices showed continued strong growth. Loan quality remained strong with a decline in loan delinquency and loans charged off. Interest rates on deposits increased at a faster pace than the rates on loans. In fact, rates on real estate loans actually declined for several weeks during the quarter as deposit rates increased. Increased loan growth and fee income helped to offset the decline in interest rate spread.

Net Income. For the three months ended June 30, 2005, the Company reported net income of \$272,509, an increase of 13.2%, compared to net income of \$240,649 for the three months ended June 30, 2004. Net income was \$856,499 for the nine months ended June 30, 2005, as compared to net income of \$608,571 for the same period in 2004, an increase of 40.7%. The increase for both periods came primarily as a result of income generated from the January 12, 2005 merger of PULSE-EFT and Discover Financial Services. Since the Company was a stockholder and member of PULSE-EFT, it received \$384,467 in pre-tax income in the second quarter of fiscal 2005 and a final payment of \$63,562 in the third quarter.

[Next Page](#)

Total Interest Income. Total interest and dividend income increased by \$505,420 for the three-month period ended June 30, 2005, to \$2.9 million from \$2.4 million for the same period in 2004. Total interest income increased by \$1.3 million for the nine-month period ended June 30, 2005 to \$8.3 million from \$7.0 million for the same period ended June 30, 2004. The increase was a result of an increase in the average balance of loans receivable.

The yield on loans receivable in both periods decreased from 6.91% for the three-month period ended June 30, 2004 to 6.62% for the three-month period ended June 30, 2005, and decreased from 7.0% for the nine-month period ended June 30, 2004 to 6.59% for the nine-month period ended June 30, 2005, reflecting the decrease in market rates of interest.

Net Interest Income. Net interest income before provision for loan losses increased by \$153,973 for the three-month period ended June 30, 2005, to \$1.9 million compared to \$1.7 million for the same period in 2004. Total net interest income increased by \$742,605 for the nine-month period ended June 30, 2005, to \$5.6 million from \$4.9 million for the same period ended June 30, 2004. The increase in net interest income was due to increased loan volume and an increase in the balance of loans receivable offsetting the increase in interest expense and the decrease in average loan yield.

Interest Expense. Interest expense increased by \$351,477 in the three-month period ended June 30, 2005, from \$669,540 for the same period in 2004. Interest expense increased by \$528,270 for the nine-month period ended June 30, 2005, from \$2.1 million for the same period ended June 30, 2004.

The increase for both periods was a result of deposit growth and an increase in the cost of interest-bearing liabilities. The cost of borrowed funds increased from \$15,417 for the three-month period ended June 30, 2004 to \$210,756 for the same period in 2005. The cost of borrowed funds increased \$358,961 for the nine-month period ended June 30, 2005 to \$403,627, compared to \$44,666 for the same period ended June 30, 2004. The increase was primarily a result of utilization of advances from the Federal Home Loan Bank of Chicago to fund increased loan demand as management sought the most cost-effective source of funds. The use of borrowed funds was more cost effective than obtaining additional deposits at a higher cost.

Provision for Loan Losses. We establish the provision for loan losses, which is charged to operations, at a level management believes will 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 our evaluation of these factors, we made provisions of \$103,200 and \$99,999 for the three months ended June 30, 2005 and June 30, 2004, respectively. For the nine-month period ended June 30, 2005, we made provisions of \$305,336 compared to provisions of \$295,998 for the same period a year ago. The provisions for fiscal 2005 are primarily a result of the loan growth for the three and nine month periods. 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.

[Next Page](#)

The level of the allowance is based on estimates and the ultimate losses may vary from the estimates. Management assesses the allowance for loan losses 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 us to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of June 30, 2005 is maintained at a level that represents management's best estimate of probable losses inherent in the loan portfolio. Non-performing assets were approximately \$696,000 at June 30, 2005, or 0.36% to total assets, compared to

\$697,000, or 0.43% to total assets at September 30, 2004.

Non-Interest Income. Total non-interest income was \$422,933 for the three months ended June 30, 2005, compared to \$358,855 for the same period in 2004. Total non-interest income for the nine-month period ended June 30, 2005 was \$1,531,433, compared to \$1,036,474 for the nine-month period ended June 30, 2004. The increase came primarily from the merger of PULSE -EFT with Discover, and the subsequent income it generated for the Company, as a stockholder of PULSE-EFT, in the second and third quarters of fiscal 2005.

Non-Interest Expense. Non-interest expense increased from \$1.6 million to \$1.8 million for the three months ended June 30, 2005. Non-interest expense increased from \$4.6 million for the nine-month period ended June 30, 2004 to \$5.5 million for the same period in 2005. The increase was due to the additional operating costs associated with the Oakdale branch office, the costs associated with the growth of the Mankato office, normal salary increases and the cost associated with being a public company.

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.

[Next Page](#)

ITEM 3. 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 December 31, 2004 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, 2005, 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, 2005 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 error 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 is anticipated to be a required part of our annual report on Form 10-KSB for the fiscal year ending September 30, 2006. 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 remediated before the end of the 2006 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.

[Next Page](#)

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 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, 2005.

Edgar Filing: CITIZENS COMMUNITY BANCORP - Form 10QSB

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, 2005 through April 30, 2005	NA	NA	NA	NA
May 1, 2005 through May 31, 2005	NA	NA	NA	NA
June 1, 2005 through June 30, 2005	NA	NA	NA	NA
Total	NA	NA	NA	NA

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

At a Special Meeting of Shareholders, dated June 16, 2005, one item of business was voted upon: The issuance on July 1, 2005 of 705,569 shares of common stock, \$0.01 par value, of Citizens Community Bancorp to Citizens Community MHC pursuant to the Agreement and Plan of Merger, dated as of January 6, 2005, by and among Citizens Community MHC, Citizens Community Bancorp, Citizens Community Federal and Community Plus Savings Bank, pursuant to which Community Plus Savings Bank will merge with and into Citizens Community Federal. Results of the voting were as follows:

Issuance of Additional Shares Pursuant to Merger (Without MHC Vote)

<i>FOR</i>	<i>AGAINST</i>	<i>ABSTAIN</i>	<i>NON-VOTE</i>
			70.3%3.3%0.4%0.00%

Issuance of Additional Shares Pursuant to Merger (Including MHC Vote)

<i>FOR</i>	<i>AGAINST</i>	<i>ABSTAIN</i>	<i>NON-VOTE</i>
			90.6%1.1%0.1%0.00%

Item 5. OTHER INFORMATION

Item 6. EXHIBITS

See Exhibit Index.

Next Page

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

Date: August 11, 2005

By: /s/ James G. Cooley

James G. Cooley
President and Chief Executive Officer

Date: August 11, 2005

By: /s/ John Zettler

John Zettler
Chief Financial Officer

18

Next Page

EXHIBIT INDEX

Regulation S-B Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto
3(i)	Certificate of Incorporation of the Registrant	*
3(ii)	Amended Bylaws of the Registrant	**

Edgar Filing: CITIZENS COMMUNITY BANCORP - Form 10QSB

10	Material contracts:	
	(a) Registrant's 2004 Stock Option Plan	***
	(b) Registrant's 2004 Recognition and Retention Plan	***
	(c) Employment Agreements:	
	(i) James G. Cooley	*
	(ii) Johnny W. Thompson	*
	(iii) John D. Zettler	*
	(iv) Timothy J. Cruciani	*
	(v) Rebecca Johnson	*
	(e) Tax Allocation Agreement	**
11	Statement Regarding Computation of Per Share Earnings	11
13	2004 Annual Report to Stockholders	Not Required
14	Code of Conduct and Ethics	**
21	Subsidiaries of the Registrant	**
23	Consent of Auditors	Not Required
31	Rule 13a-14(a)/15d-14(a) Certifications	31
32	Section 1350 Certifications	32

* Filed as exhibit to the Company's Form SB-2 registration statement filed on December 29, 2003 (File No.333-111588) pursuant to Section 5 of the Securities Act of 1933.

** Filed as exhibit to the Company's Form 10-KSB filed with the SEC on December 29, 2004.

*** Filed as exhibit to the Company's Definitive Proxy Materials filed with the SEC on December 23, 2004.