Citizens Community Bancorp Inc.
Form 10-K/A
January 11, 2011

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

FORM 10-K/A
(Amendment No. 1)

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________________________ to _________________________________

Commission file number 001-33003

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

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $.01 par value per share	NASDAQ Global MarketSM

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes [ ] No [X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [ ] No [ ]

Indicate by check mark if the disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

1

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average of the bid and asked price of such stock as of the last business day of the registrant's most recently completed second fiscal quarter was $19,692,261. Shares of the registrant's common stock held by any executive officer or director of the registrant have been excluded from this computation because such persons may be deemed to be affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

APPLICABLE ONLY TO CORPORATE ISSUERS

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

At December 23, 2010 there were 5,113,258 shares of the registrant's common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2011 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III of this report.

As used in this report, the terms "we," "us," "our," "Citizens Community Bancorp" and the "Company" mean Citizens Community Bancorp, Inc. and its wholly owned subsidiary, Citizens Community Federal, unless the context indicates another meaning. As used in this report, the term "Bank" means our wholly owned subsidiary, Citizens Community Federal.

Forward Looking Statements

Certain matters discussed in this report contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and the Company intends that these forward-looking statements be covered by the save harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as “anticipate,” “believe,” “could,” “expect,” “intend,” “may,” “planned,” “potential,” “should,” “will,” and “would.” Similarly, statements that describe the Comp future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are inherently subject to many uncertainties in the Company’s operations and business environment.

Factors that could affect actual results or outcomes include the matters described under the caption “Risk Factors” in Item 1A of this report and the following: general economic conditions, in particular, relating to consumer demand for the Bank’s products and services; the Bank’s ability to maintain current deposit and loan levels at current interest rates; competitive and technological developments; deteriorating credit quality, including changes in the interest rate environment reducing interest margins; prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; the Bank’s ability to maintain required capital levels and adequate sources of funding and liquidity; maintaining capital requirements may limit the Bank’s operations and potential growth; changes and trends in capital markets; competitive pressures among depository institutions; effects of critical accounting policies and judgments; changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board (FASB) or other regulatory agencies; further write-downs in the Bank’s mortgage-backed securities portfolio; the Bank’s ability to implement its cost-savings and revenue enhancement initiatives; legislative or regulatory changes or actions, or significant litigation, adversely affecting the Bank; fluctuation of the Bank’s stock price; ability to attract and retain key personnel; ability to secure confidential information through the use of computer systems and telecommunications networks; and the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity. Stockholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date of this filing and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances occurring after the date of this report.

EXPLANATORY NOTE

Citizens Community Bancorp, Inc. is amending Item 8 of Part II and Item 15 of Part IV of the Company's Annual Report on Form 10-K for the year ended September 30, 2010, as filed with the Securities and Exchange Commission ("SEC") on December 23, 2010 (the "Annual Report"). This amendment is being made to amend Note 13 – Stock-based Compensation to the Company's Notes to its Consolidated Financial Statements to include a table that was inadvertently omitted from the Annual Report when it was originally filed with the SEC and to amend the exhibit list as a result of filing this amendment to the Annual Report. The omitted table discloses stock option activity including share data, weighted average exercise price and weighted average remaining contractual term for options outstanding, granted, exercised and forfeited or expired in each of the three fiscal years for which a Statement of Operations is presented as required by ASC 718-10-50-1 through ASC 718-10-50-4.

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT BY CITIZENS COMMUNITY BANCORP, INC.'S MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining an effective system of internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company's system of internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There are inherent limitations in the effectiveness of any system of internal control over financial reporting, including the possibility of human error and circumvention or overriding of controls. Accordingly, even an effective system of internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the polices or procedures may deteriorate.

Management assessed the Company's systems of internal control over financial reporting as of September 2010. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that as of September 30, 2010, the Company maintained effective internal control over financial reporting based on those criteria.

CITIZENS COMMUNITY BANCORP., INC.
DECEMBER 23, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors
Citizens Community Bancorp, Inc.
Eau Claire, Wisconsin

We have audited the accompanying consolidated balance sheet of Citizens Community Bancorp, Inc. and Subsidiary as of September 30, 2010, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Citizens Community Bancorp, Inc. and Subsidiary as of September 30, 2010 and the consolidated results of its operations and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles in the United States of America.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
December 22, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Citizens Community Bancorp, Inc.
Eau Claire, Wisconsin

We have audited the accompanying consolidated balance sheet of Citizens Community Bancorp, Inc. and Subsidiaries as of September 30, 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended September 30, 2009, and 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens Community Bancorp, Inc. and Subsidiaries as of September 30, 2009, and the results of their operations and their cash flows for the years ended September 30, 2009, and 2008, in conformity with accounting principles generally accepted in the United States.

/s/ Wipfli LLP

December 21, 2009
Eau Claire, Wisconsin

CITIZENS COMMUNITY BANCORP, INC.

Consolidated Balance Sheets
September 30, 2010 and September 30, 2009
(in thousands, except share data)

Assets	September 30, 2010	September 30, 2009
Cash and cash equivalents	$ 72,438	$ 43,191
Other interest-bearing deposits	-	2,458
Securities available-for-sale (at fair value)	41,708	56,215
Federal Home Loan Bank stock	5,787	6,040
Loans receivable	456,232	442,470
Allowance for loan losses	(4,145)	(1,925)
Loans receivable - net	452,087	440,545
Office properties and equipment - net	7,216	8,029
Accrued interest receivable	1,977	2,179
Intangible assets	816	1,148
Goodwill	-	5,593
Other assets	12,336	10,008
TOTAL ASSETS	$ 594,365	$ 575,406

Liabilities and Stockholders' Equity	September 30, 2010	September 30, 2009
Liabilities:		
Deposits	$ 476,302	$ 409,311
Federal Home Loan Bank advances	64,200	106,805
Other liabilities	3,986	3,925
Total liabilities	544,488	520,041
Stockholders' equity:		
Common stock - 5,113,258 and 5,471,780 shares, respectively	51	55
Additional paid-in capital	53,823	56,877
Retained earnings	1,130	8,221
Unearned ESOP shares	-	(3,070)
Unearned deferred compensation	(1)	(23)
Accumulated other comprehensive loss	(5,126)	(6,695)
Total stockholders' equity	49,877	55,365
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 594,365	$ 575,406

See accompanying notes to consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Operations
Years Ended September 30, 2010, 2009, and 2008
(in thousands, except per share data)

	2010	2009	2008
Interest and Dividend Income:			
Interest and fees on loans	$ 29,610	$ 27,007	$ 23,129
Interest on investments	3,149	3,933	3,605
Total interest and dividend income	32,759	30,940	26,734
Interest expense:			
Interest on deposits	8,384	10,158	9,138
Interest on borrowed funds	3,195	4,530	5,001
Total interest expense	11,579	14,688	14,139
Net interest income	21,180	16,252	12,595
Provision for loan losses	6,901	1,369	721
Net interest income after provision for loan losses	14,279	14,883	11,874
Noninterest income:			
Total other-than-temporary impairment losses	(5,770)	(12,502)	-
Portion of loss recognized in other comprehensive loss (before tax)	3,509	5,266	-
Net impairment losses recognized in earnings	(2,261)	(7,236)	-
Goodwill impairment	(5,593)	-	-
Service charges on deposit accounts	1,514	1,361	1,069
Insurance commissions	216	355	344
Loan fees and service charges	362	279	283
Other	11	11	13
Total noninterest income (loss)	(5,751)	(5,230)	1,709
Noninterest expense:			
Salaries and related benefits	7,797	7,263	5,857
Occupancy - net	2,553	2,203	1,313
Office	1,413	1,515	1,133
Data processing	308	396	359
Amortization of core deposit	332	333	307
Advertising, marketing and public relations	173	242	148
FDIC premium assessment	944	962	176
Professional services	1,160	728	589
Other	1,894	1,283	1,219
Total noninterest expense	16,574	14,925	11,101
Income (loss) before provision for income tax	(8,046)	(5,272)	2,482
Provision (benefit) for income taxes	(955)	(2,089)	1,008
Net income (loss) attributable to common stockholders	$ (7,091)	$ (3,183)	$ 1,474
Per share information:			
Basic earnings (loss)	$ (1.39)	$ (0.59)	$ 0.24
Diluted earnings (loss)	$ (1.39)	$ (0.59)	$ 0.24

Dividends paid	$ -	$ 0.20	$ 0.20

See accompanying notes to consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of
Changes in Stockholders' Equity
Years ended September 2010, 2009 and 2008
(in thousands, except Shares)

	Common Stock		Additional Paid-in	Retained	Unearned ESOP	Unearned	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Capital	Earnings	Shares	Compensation	(loss)	Equity
Balance, October 1, 2007	7,118,205	$ 71	$ 69,934	$ 12,420	$ (3,877)	$ (207)	$ (192)	$ 78,149
Comprehensive loss:								
Net income				1,474				1,474
Amortization of unrecognized prior service costs and net gains/losses, net of tax							102	102
Net unrealized gain on available for sale securities, net of tax							(2,696)	(2,696)
Change for realized losses on securities available for sale for OTTI write-down, net of tax								-
Total comprehensive loss								(1,120)
Common stock repurchased	(890,300)	(9)	(7,846)					(7,855)
Stock option expense			71					71
Committed ESOP shares					461			461
Appreciation in fair value of ESOP shares			22					22
Cancellation of unvested restricted stock	(910)		11			(11)		-
						92		92

Amortization of restricted stock								
Cash dividends ($0.20 per share)				(1,344)				(1,344)
Balance, September 30, 2008	6,226,995	62	62,192	12,550	(3,416)	(126)	(2,786)	68,476
Comprehensive loss:								
Net loss				(3,183)				(3,183)
Pension curtailment, net of tax							194	194
Amortization of unrecognized prior service costs and net gains/losses, net of tax							(144)	(144)
Net unrealized gain on available for sale securities, net of tax							(8,662)	(8,662)
Change for realized losses on securities available for sale for OTTI write-down, net of tax							4,703	4,703
Total comprehensive loss								(7,092)
Common stock repurchased	(749,520)	(7)	(5,253)					(5,260)
Stock option expense			48					48
Committed ESOP shares					346			346
Depreciation in fair value of ESOP shares			(70)					(70)
Cancellation of unvested restricted stock	(5,695)		(40)			40		-
Amortization of restricted stock						63		63
Cash dividends ($0.20 per share)				(1,146)				(1,146)
Balance, September 30, 2009	5,471,780	55	56,877	8,221	(3,070)	(23)	(6,695)	55,365
Comprehensive loss:								

Net loss				(7,091)				(7,091)
Amortization of unrecognized prior service costs and net gains/losses, net of tax							(12)	(12)
Net unrealized gain on available for sale securities, net of tax							215	215
Change for realized losses on securities available for sale for OTTI write-down, net of tax							1,366	1,366
Total comprehensive loss								(5,522)
Stock option expense			12					12
Termination of ESOP	(358,502)	(4)	(3,066)		3,070			-
Forfeiture of unvested shares	(20)							-
Amortization of restricted stock						22		22
Balance, September 30, 2010	5,113,258	$ 51	$ 53,823	$ 1,130	$ -	$ (1)	$ (5,126)	$ 49,877

See Accompanying notes to consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows - Audited
Years Ended September 30, 2010, 2009 and 2008
(in thousands, except per share data)

	2010	2009	2008
Cash flows from operating activities:			
Net income (loss) attributable to common stockholders	$(7,091)	$(3,183)	$1,474
Adjustments to reconcile net loss to net cash provided by operating activities:			
Net securities amortization	(379)	(341)	(274)
Provision for depreciation	1,122	959	533
Provision for loan losses	6,901	1,369	721
Impairment on mortgage-backed securities	2,261	7,236	0
Impairment on goodwill	5,593	0	0
Amortization of core deposit intangible	332	333	307
Amortization of restricted stock	22	63	92
Provision for stock options	12	48	71
Benefit for deferred income taxes	(1,054)	(631)	(184)
ESOP contribution benefit in excess of shares released	0	(70)	22
Increase in accrued interest receivable and other assets	(1,337)	(1,908)	(682)
Decrease (increase) in other liabilities	49	(97)	288
Total adjustments	13,522	6,961	894
Net cash provided by operating activities	6,431	3,778	2,368
Cash flows from investing activities:			
Purchase of Federal Home Loan Bank stock	0	(253)	(965)
Purchase securities available for sale	0	(20,004)	(31,839)
Net (increase) decrease in interest-bearing deposits	2,458	(2,087)	0
Proceeds from principal repayments on securities available for sale	14,418	12,580	5,780
Proceeds from sale of FHLB stock	253	0	0
Net increase in loans	(18,393)	(73,987)	(49,162)
Net capital expenditures	(306)	(3,070)	(2,555)
Net cash received from branch acquisition	0	0	17,509
Net cash used in investing activities	(1,570)	(86,821)	(61,232)
Cash flows from financing activities:			
Net increase (decrease) in borrowings	(42,605)	(3,440)	13,799
Net increase in deposits	66,991	112,068	71,115
Repurchase shares of common stock	0	(5,260)	(7,855)
Reduction in unallocated shares held by ESOP	0	346	461
Cash dividends paid	0	(1,146)	(1,344)
Net cash provided by financing activities	24,386	102,568	76,176
Net increase in cash and cash equivalents	29,247	19,525	17,312
Cash and cash equivalents at beginning of year	43,191	23,666	6,354
Cash and cash equivalents at end of year	$72,438	$43,191	$23,666
Supplemental cash flow information:			
Cash paid during the year for:			
Interest on deposits	$8,382	$10,155	$9,137
Interest on borrowings	3,316	4,594	4,991

Income taxes	851	925	1,312
Supplemental noncash disclosure:			
Transfers from loans to foreclosed properties	$456	$641	$315

See accompanying notes to consolidated financial statements.

10

CITIZENS COMMUNITY BANCORP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Citizens Community Federal (the "Bank") included herein have been included by its parent company, Citizens Community Bancorp, Inc. (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Citizens Community Bancorp ("CCB") was a successor to Citizens Community Federal as a result of a regulatory restructuring into the mutual holding company form, which was effective on March 29, 2004. Originally, Citizens Community Federal was a credit union. In December 2001, Citizens Community Federal converted to a federal mutual savings bank. In 2004, Citizens Community Federal reorganized into the mutual holding company form of organization. In 2006, Citizens Community Bancorp completed its second-step mutual to stock conversion.

The consolidated income of the Company is principally derived from the Bank's income. The Bank originates residential and consumer loans and accepts deposits from customers, primarily in Wisconsin, Minnesota and Michigan. The Bank operates 26 full-service offices; eight stand-alone locations and 18 branches located inside Walmart Supercenters.

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

In preparing these financial statements, we evaluated the events and transactions that occurred through December 22, 2010, the date on which the financial statements were available to be issued. As of December 22, 2010, there were no subsequent events which required recognition or disclosure.

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

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

Cash and Cash Equivalents – For purposes of reporting cash flows in the consolidated financial statements, cash and cash equivalents include cash, due from banks, and interest-bearing deposits with original maturities of three months or less.

11

Securities – Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses and losses deemed other-than-temporarily impaired due to non-credit issues being reported in other comprehensive income, net of tax. Unrealized losses deemed other-than-temporarily due to credit issues are reported in operations. Interest income includes amortization of purchase premium or accretion of purchase discount. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives of the securities.

Declines in the fair value of securities below their cost that are other than temporary due to credit issues are reflected as “Net impairment losses recognized in earnings” in the statement of operations. In estimating other-than-temporary impairment, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the Company’s ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. The difference between the present values of the cash flows expected to be collected and the amortized cost basis is the credit loss. The credit loss is the portion of the other-than-temporary impairment that is recognized in earnings and is a reduction to the cost basis of the security. The portion of other-than-temporary impairment related to all other factors is included in other comprehensive income (loss), net of the related tax effect.

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

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

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

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

12

A loan is impaired when full payment under the loan terms is not expected. Troubled debt restructurings and classified mortgage and consumer loans are individually evaluated for impairment. If a loan is impaired, a specific allowance is established so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the underlying collateral of the loan. Large groups of smaller balance homogeneous loans, such as non-classified consumer and residential real estate loans are collectively evaluated for impairment, and accordingly, are not separately identified for impairment disclosures.

Federal Home Loan Bank (FHLB) Stock – The Bank is a member of the FHLB system. Members are required to own a certain amount of FHLB stock based on the Bank's level of borrowings from the FHLB and other factors, and may invest in additional amounts of FHLB stock. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; (2) the impact of legislative and regulatory changes on the FHLB; and (3) the liquidity position of the FHLB. Both cash and stock dividends are reported as income. The stock is pledged as collateral for outstanding FHLB borrowings.

FHLB stock is evaluated quarterly for impairment. The FHLB of Chicago is currently under a regulatory order for its capital level which requires approval for dividend payments and stock redemptions. However, based on management's quarterly evaluation, no impairment has been recorded on these securities.

Foreclosed Assets - Assets acquired through or instead of loan foreclosure are initially recorded at the lower of carrying cost or fair value, less estimated costs to sell, which establishes a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs incurred after acquisition are expensed, and included in Non-interest Expense, Other on the statement of operations. Foreclosed assets are included in Other Assets on the balance sheets. Foreclosed asset balances were $448 and $636 at September 30, 2010 and 2009, respectively.

Office Properties and Equipment – Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Maintenance and repair costs are charged to expense as incurred. Gains or losses on disposition of office properties and equipment are reflected in income. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 10 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line (or accelerated) method with useful lives ranging from 3 to 10 years. Leasehold improvements are depreciated using the straight-line (or accelerated) method with useful lives based on the lesser of (a) the estimated life of the lease, or (b) the estimated useful life of the leasehold improvement.

Goodwill and Other Intangible Assets – Goodwill arises from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets.

During 2010, in light of the persistent depressed trading price of the Company's common stock relative to the net book value per common stock share, the Company, with the assistance of a third party valuation firm, determined an estimated cash fair value of the Company's common stock. Consideration was given to the nature and history of the Company, the competitive and economic outlook for the Bank's markets and the banking industry in general, the book value and financial condition of the Company, the future earnings and dividend paying potential, the Company's market capitalization, and the prevailing market prices of comparative bank stocks. The following valuation methodologies were considered: (1) comparable transactions approach –comparing acquisition pricing multiples or ratios relative to reported earnings, book value, tangible book value, assets and core deposits paid for other banking franchises in recent periods; (2) control premium approach – utilizing the quoted trading price for the Company's common stock and applying an adjustment based on the control premiums paid in recent merger transactions to derive a fair value for the Company; and (3) discounted cash flow approach – deriving value based on the present value of estimated future dividends over the commonly accepted five-year time horizon and a projected terminal value at the end of the fifth year.

When consideration was given to the three valuation methodologies, as well as all other relevant valuation variables and factors, the fully-diluted cash fair value range of the Company's common shares was considered to be consistently less than the book value. Further, the estimated fair value of the Company was $49 million, which was less than stockholders' equity of approximately $56.6 million and tangible stockholders' equity of approximately $50.1 million as of the goodwill valuation date of August 31, 2010. Therefore, management concluded that goodwill was fully impaired, and subsequently $5,593 of goodwill was charged to goodwill impairment on the statement of operations.

Other intangible assets consist of core deposit intangible assets arising from branch acquisitions. They were initially measured at fair value and amortized over their estimated useful lives, ranging from 7 to 15 years. The balance of core deposit intangible assets, were $816 and $1,148 at September 30, 2010 and 2009, respectively. Amortization expense related to these core deposit intangible assets was $332 and $333 for the years ended September 30, 2010 and 2009, respectively. Accumulated amortization on core deposit intangible assets was $1,704 and $1,372, respectively.

Interest Bearing Deposits- Other interest-bearing deposits mature within one year and are carried at cost, which approximates fair value.

Advertising Expense – The Company expenses all advertising costs as they are incurred. Total advertising costs for the years ended September 30, 2010, 2009, and 2008 were $173, $242, and $148, respectively.

Income Taxes – The Company accounts for income taxes in accordance with ASC Topic 740, "Income Taxes". Under this guidance, deferred taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that will apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. See Note 14 below for details on the Company's income taxes.

The Company regularly reviews the carrying amount of its deferred tax assets to determine if the establishment of a valuation allowance is necessary. If based on the available evidence, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized in future periods, a deferred tax valuation allowance would be established. Consideration is given to various positive and negative factors that could affect the realization of the deferred tax assets. In evaluating this available evidence, management considers, among other things, historical performance, expectations of future earnings, the ability to carry back losses to recoup taxes previously paid, length of statutory carry forward periods, experience with utilization of operating loss and tax credit carry forwards not expiring, tax planning strategies and timing of reversals of temporary differences. Significant judgment is required in assessing future earnings trends and the timing of reversals of temporary differences. The Company's evaluation is based on current tax laws as well as management's expectations of future performance.

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

Loss Contingencies – Loss contingencies, including claims and legal actions arising in the normal course of business, are recorded as liabilities when the likelihood of loss is probable and an amount of loss can be reasonably estimated.

Off-Balance-Sheet Financial Instruments – In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and commitments under credit card arrangements. Such financial instruments are recorded in the financial statements when they become payable.

Other Comprehensive Loss – Accumulated and comprehensive loss is comprised of the unrealized and realized losses on securities available for sale and pension liability adjustments, net of tax, and is shown on the Consolidated Statements of Stockholders' Equity.

Operating Segments – While the chief decision makers monitor the revenue streams of the various banking products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment.

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

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

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

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

In June 2009, the FASB issued FASB ASC 810-10, Consolidation. The amendments adopted by this codification topic include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. FASB ASC 810-10 is effective for the first annual reporting period beginning after November 15, 2009 and for interim periods within that first annual reporting period. The Company adopted FASB ASC 810-10 starting in fiscal 2010. The adoption of FASB ASC 810-10 did not have any impact on the Company’s consolidated financial statements.

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

NOTE 2 – FAIR VALUE INFORMATION

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

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

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

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

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

Assets Measured on a Recurring Basis

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

	Fair value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2010:				
Securities available for sale:				
U.S. Agency securities	$ 16,709	$ -	$ 16,709	$ -
Non-agency mortgage-backed securities	24,999	-	-	24,999
Total	$ 41,708	$ -	$ 16,709	$ 24,999
September 30, 2009:				
U.S. Agency securities	$ 19,698	$ -	$ 19,698	$ -
Non-agency mortgage-backed securities	36,517	-	-	36,517
Total	$ 56,215	$ -	$ 19,698	$ 36,517

Assets Measured on a Nonrecurring Basis

Fair value of foreclosed assets is determined, initially, by a third-party appraisal. Subsequent to foreclosure, valuations are periodically performed by management to identify potential changes in fair value. Fair value of loans restructured in a troubled debt restructuring is based on the value of the underlying collateral at the time of restructuring, which is determined by either a third-party appraisal for real estate, or a third party price quote on secured consumer loans.

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2010:				
Foreclosed assets	$448	$-	$-	$ 448
Loans restructured in a troubled debt restructuring	3,178	-	-	3,178
Total	$3,626	$-	$-	$ 3,626
September 30, 2009:				
Foreclosed assets	$636	$-	$-	$ 636
Loans restructured in a troubles debt restructuring	1,020	-	-	1,020
Total	$1,656	$-	$-	$ 1,656

Level 3 assets measured on a recurring basis are certain investments for which little or no market activity exists or whose value of the underlying collateral is not market observable. With respect to residential mortgage- backed securities held as investments by the Company, the credit markets continue to be disrupted resulting in a continued dislocation and lack of trading activity. Management's valuation uses both observable as well as unobservable inputs to assist in the Level 3 valuation of mortgage backed securities held by the Company, employing a methodology that considers future cash flows along with risk-adjusted returns. The inputs in this methodology are as follows: ability and intent to hold to maturities, mortgage underwriting rates, market prices/conditions, loan type, loan-to-value, strength of borrower, loan age, delinquencies, prepayment/cash flows, liquidity, expected future cash flows, rating agency actions, and a discount rate, which is assumed to be approximately equal to the coupon rate for each security. We had an independent valuation of all Level 3 securities in the current quarter. Based on this valuation, we recorded pre-tax other-than-temporary impairment of $1,065 in the current quarter, and $2,276 for the year ended September 30, 2010.

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

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

	2010	2009
Balance beginning of year	$36,517	$61,233
Total gains or losses (realized/unrealized):		
Included in earnings	(2,261)	(7,236)
Included in other comprehensive loss	1,487	(6,251)
Purchases, sales, issuances, and settlements, net	(10,744)	(11,229)
Balance end of year	$24,999	$36,517

Fair Values of Financial Instruments

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

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

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

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

18

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

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

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

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

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

The carrying amount and estimated fair value of financial instruments were as follows:

	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 72,438	$ 72,438	$ 43,191	$ 43,191
Interest-bearing deposits	-	-	2,458	2,458
Securities available for sale	41,708	41,708	56,215	56,215
Loans receivable	452,087	477,039	440,545	449,666
FHLB stock	5,787	5,787	6,040	6,040
Accrued interest receivable	1,977	1,977	2,179	2,179
Financial liabilities:				
Deposits	476,302	482,337	409,311	413,511
Borrowed funds	64,200	68,290	106,805	112,009
Accrued interest payable	$ 232	$ 232	$ 351	$ 351

NOTE 3 – SECURITIES

The amortized cost, estimated fair value and related unrealized gains and losses of securities available for sale as of September 30, 2010 and 2009, respectively are as follows:

Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2010				
U.S. Agency securities	$ 16,240	$ 469	$ -	$ 16,709
Non-agency mortgage-backed securities	33,772	-	8,773	24,999
Total temporarily impaired	$ 50,012	$ 469	$ 8,773	$ 41,708
2009				
U.S. Agency securities	$ 19,535	$ 163	$ -	$ 19,698
Non-agency mortgage-backed securities	46,777	-	10,260	36,517
Total temporarily impaired	$ 66,312	$ 163	$ 10,260	$ 56,215

The estimated fair value of securities at September 30, 2010, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities on mortgage backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 69	$ 69
Due after five years through ten years	141	151
Due after ten years	16,030	16,489
Subtotals	16,240	16,709
Mortgage-backed securities	33,772	24,999
Total securities available for sale	$ 50,012	$ 41,708

Securities with unrealized losses at September 30, 2010 and 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2010:						
U.S. agency securities	$ -	$ -	$ -	$ -	$ -	$ -
Residential mortgage-backed securities (non-agency)	-	-	24,999	8,773	24,999	8,773
Total Securities	$ -	$ -	$ 24,999	$ 8,773	$ 24,999	$ 8,773
September 30, 2009:						
U.S. agency securities	$ -	$ -	$ -	$ -	$ -	$ -
Residential mortgage-backed securities (non-agency)	5,852	965	30,665	9,295	36,517	10,260
Total Securities	$ 5,852	$ 965	$ 30,665	$ 9,295	$ 36,517	$ 10,260

The non-agency mortgage backed securities with continuous unrealized losses for twelve months or more consist of 17 specific securities.

We evaluate securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. As part of such monitoring, the credit quality of individual securities and their issuers are assessed. Adjustments to market value that are considered temporary are recorded as separate components of equity, net of tax. If an impairment of a security is identified as other-than-temporary based on information available, such as the decline in the credit worthiness of the issuer, external market ratings, or the anticipated or realized elimination of associated dividends, such impairments are further analyzed to determine if credit loss exists. If there is a credit loss, it will be recorded in the Consolidated Statement of Operations. Losses other than credit will continue to be recognized in other comprehensive income. Unrealized losses reflected in the preceding tables have not been included in results of operations because the unrealized loss was not deemed other-than-temporary. Management has determined that more likely than not, the Company will not be required to sell the debt security before its anticipated recovery and therefore, there is no other-than-temporary impairment.

At September 30, 2010, holdings of securities of any one issuer in an amount greater than 10% of the Company's stockholders' equity were as follows:

	September 30, 2010		September 30, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
JP Morgan Trust	$ 7,885	$ 5,705	$ 10,232	$ 8,242
Wells Fargo MBS	11,718	8,790	15,736	13,155
Total securities available for sale	$ 19,603	$ 14,495	$ 25,968	$ 21,397

There were no sales of available for sale securities during the three-year period ended September 30, 2010.

A summary of the amount of other-than-temporary impairment related to credit losses on available-for-sale securities that have been recognized in earnings follows:

	Year ended September 30,	
	2010	2009
Beginning balance of the amount of OTTI related to credit losses	$ 7,236	$ -
Credit portion of OTTI on securities for which OTTI was not previously recognized	2,276	7,236
Cash payments received on a security in excess of the security's book value adjusted for previously recognized credit portion of OTTI	(15)	-
Ending balance of the amount of OTTI related to credit losses	$ 9,497	$ 7,236

The Bank has pledged certain of its U.S. Agency securities as collateral against a borrowing line with the Federal Reserve Bank. However, as of September 30, 2010, there are no borrowings outstanding on the Federal Reserve line of credit.

NOTE 4 – LOANS / ALLOWANCE FOR LOAN LOSSES

Major classifications of loans as of September 30, 2010 and 2009, respectively are as follows:

		2010	2009
Real estate loans:			
	First mortgages - 1 to 4-family	$ 254,821	$ 230,412
	Multifamily and commercial	196	174
	Second mortgages	7,674	9,639
	Total real estate loans	262,691	240,225
Consumer loans:			
	Automobile	18,542	24,875
	Secured personnal	171,135	172,040
	Unsecured personal	4,636	5,655
	Total consumer loans	194,313	202,570
Gross loans		457,004	442,795
Less:			
	Deferred loan origination fees, net of costs	(772)	(325)
	Allowance for loan losses	(4,145)	(1,925)
Loans receivable, net		$ 452,087	$ 440,545

Certain directors and executive officers of the Company and the Bank are defined as related parties. These related parties, including their immediate families and companies in which they are principal owners, were loan customers of the Bank during 2010 and 2009. A summary of the changes in those loans is as follows:

	September 30,			
		2010		2009
Balance - beginning of year	$	48	$	36
New loan originations		-		27
Repayments		(15)		(15)
Balance - end of year	$	33	$	48

Information regarding impaired loans is as follows:

	September 30,			
		2010		2009
Impaired loans with no allocated allowance for loan loss	$	5,876	$	3,436
Impaired loans with allocated allowance for loan loss		2,581		3,373
Allowance allocated to impaired loans		734	$	918

Interest income on impaired loans is as follows:

	For the year ended September 30,				
		2010	2009		2008
Average impaired loans during the year	$	2,197	510	$	-
Interest income recognized during impairment		30	-		-
Cash-basis interest recognized		26	-	$	-

Non-performing loans as of the end of the periods shown below are as follows:

		2010		2009
Nonaccrual loans (1)	$	5,084	$	5,789
Total non performing loans (2)	$	5,084	$	5,789

(1) Included in nonaccrual loans as of September 30, 2010 and 2009, respectively, are $0 of troubled debt restructurings that are currently in a nonaccrual status.
(2) Non performing loans are defined as non-accrual loans.

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

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

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

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

	2010	2009	2008
Balance at beginning of year	$ 1,925	$ 1,192	$ 926
Provision charged to operations	6,901	1,369	721
Loans charged off	(4,776)	(673)	(492)
Recoveries	95	37	37
Balance at end of year	$ 4,145	$ 1,925	$ 1,192

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

Impaired loans with an allocated allowance based upon the fair value of the underlying collateral totaled $2,581 at September 30, 2010 compared to $3,373 at September 30, 2009. The allocated allowance on impaired loans was $734 at September 30, 2010, compared to $918 at September 30, 2009.

NOTE 5 – OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment at September 30 consists of the following:

		2010		2009
Land	$	653	$	695
Buildings	$	2,833	$	2,825
Furniture, equipment, and vehicles		9,671		9,466
Subtotals		13,157		12,986
Less - Accumulated depreciation		(5,941)		(4,957)
Office properties and equipment - net	$	7,216	$	8,029

Depreciation expense was $1,122 and $959 for the years ended September 30, 2010 and 2009, respectively.

NOTE 6 – GOODWILL AND INTANGIBLE ASSETS

When consideration was given to the three valuation methodologies discussed above in Note 1; “Nature of Business and Summary of Significant Accounting Policies”, as well as all other relevant valuation variables and factors, the fully-diluted cash fair value range of the Company’s common shares was considered to be consistently less than the Company’s book value. Further, the estimated fair value of the Company was $49 million, which was less than stockholders’ equity of approximately $56.6 million and tangible stockholders’ equity of approximately $50.1 million as of the goodwill valuation date of August 31, 2010. Therefore, management concluded that goodwill was fully impaired, and subsequently $5,593 of goodwill was charged to goodwill impairment on the consolidated statement of operations.

A summary of goodwill and related impairment losses for the periods shown below follows:

		2010		2009
Balance at beginning of year	$	5,593	$	5,593
Accumulated impairment losses at beginning of year	$	-	$	-
Impairment losses recognized during the year		(5,593)		-
Balance at end of year	$	-	$	5,593

Other intangible assets consist of core deposit intangibles arising from various bank acquisitions. A summary of core deposit intangibles and related amortization for the periods shown below follows:

		2010		2009
Balance at beginning of year	$	1,148	$	1,481
Capitalized		-		-
Amortization		(332)		(333)
Balance at end of year	$	816	$	1,148

The estimated aggregate amortization expense is as follows:

2011	$ 333
2012	209
2013	57
2014	57
2015	57
After 2015	103
Total	$ 816

NOTE 7 – DEPOSITS

The following is a summary of deposits by type at September 30, 2010 and 2009, respectively:

	2010	2009
Non-interest-bearing demand deposits	$ 15,925	$ 14,943
Interest-bearing demand deposits	5,279	4,788
Savings accounts	31,269	26,387
Money market accounts	155,315	146,709
Certificate accounts	268,514	216,484
Total deposits	$ 476,302	$ 409,311
Brokered certificates of deposit included above:	$ 297	$ 9,845

At September 30, 2010, the scheduled maturities of time deposits were as follows:

2011	$ 154,989
2012	40,704
2013	55,455
2014	17,276
2015	90
After 2015	-
Total	$ 268,514

Deposits from the Company's directors, executive officers, principal stockholders and their affiliates held by the Bank at September 30, 2010, and 2009 amounted to $607 and $348, respectively.

NOTE 8 – FHLB ADVANCES

A summary of Federal Home Loan Bank advances at September 30, 2010 and 2009, respectively is as follows:

Year of Maturity	2010	Weighted Average Rate	2009	Weighted Average Rate
2010	$ -	-	$ 35,400	4.01%
2011	33,800	4.12%	33,800	4.12%
2012	16,000	4.46%	16,000	4.46%
2013	6,750	3.99%	6,750	3.99%
2014	6,150	4.45%	6,150	4.45%
After 2014	1,500	4.05%	1,500	4.05%
Total fixed maturity	$ 64,200		$ 99,600	
Advances with amortizing principal	-		7,205	0.36%
Total	$ 64,200		$ 106,805	

At September 30, 2010, the Bank’s available and unused portion of this borrowing agreement was approximately $117,000.

Maximum month-end amounts outstanding were $64,200 and $106,805 at September 30, 2010 and 2009, respectively.

Each advance is payable at the maturity date, with a prepayment penalty for fixed rate advances. Federal Home Loan Bank advances are secured by $241,500 of real estate mortgage loans. FHLB advances are also secured by FHLB stock owned by the Company of $5,787 and $6,040 at September 30, 2010 and 2009, respectively.

NOTE 9 – OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) and related tax effects for the fiscal years ended September 30, 2010, 2009 and 2008, respectively, consist of the following:

	Fiscal Year Ended September 30,					
		2010		2009		2008
Net unrealized gain (loss) on securities available for sale, net of tax expense (benefit) of $116 in 2010, ($4,664) in 2009, and ($1,453) in 2008.	$	215	$	(8,662)	$	(2,696)
Reclassification adjustment for losses realized in income, net of tax expense of $736 in 2010, $2,533 in 2009, and $-0- in 2008		1,366		4,703		-
Pension liability adjustments, net of tax expense (benefit) of ($4) in 2010, $33 in 2009, and $68 in 2008		(12)		50		102
Other Comprehensive loss	$	1,569	$	(3,909)	$	(2,594)
The components of accumulated other comprehensive loss, net of income taxes:						
Net unrealized gain (loss) on securities available for sale, net of tax expense (benefit) of ($3,322) in 2010, ($3,534) in 2009, and ($1,402) in 2008.	$	(4,982)		(6,563)	$	(2,605)
Pension liability adjustments, net of tax expense (benefit) of ($96) in 2010, ($88) in 2009, and ($121) in 2008		(144)	$	(132)		(181)
Accumulated other comprehensive loss	$	(5,126)	$	(6,695)	$	(2,786)

NOTE 10 – CAPITAL MATTERS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At September 30, 2010, the Office of Thrift Supervision categorized the Bank as “Adequately Capitalized”, under the regulatory framework for prompt corrective action, despite the Bank’s calculated Tier 1 and Risk-based capital levels above the “Well Capitalized” thresholds. This categorization is the result of the Memorandum of Understanding still in effect between the OTS and the Bank. However, the Bank has received the OTS’ permission to accept brokered deposits, despite the “Adequately Capitalized” categorization.

The Bank's Tier 1 (leverage) and risk-based capital ratios at September 30, 2010 and 2009, respectively, are presented below:

	Actual		For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
As of September 30, 2010								
Total capital (to risk weighted assets)	$ 56,858,000	11.0%	$ 41,386,000	>=	8.0%	$ 51,732,000	>=	10.0%
Tier 1 capital (to risk weighted assets)	53,447,000	10.3%	20,693,000	>=	4.0%	31,039,000	>=	6.0%
Tier 1 capital (to adjusted total assets)	53,447,000	8.9%	23,941,000	>=	4.0%	29,927,000	>=	5.0%
Tangible capital (to tangible assets)	53,447,000	8.9%	8,978,000	>=	1.5%	NA		NA
As of September 30, 2009								
Total capital (to risk weighted assets)	$ 52,081,000	9.6%	$ 43,630,000	>=	8.0%	$ 54,537,000	>=	10.0%
Tier 1 capital (to risk weighted assets)	51,074,000	9.4%	21,815,000	>=	4.0%	32,722,000	>=	6.0%
Tier 1 capital (to adjusted total assets)	51,074,000	8.9%	23,009,000	>=	4.0%	28,762,000	>=	5.0%
Tangible capital (to tangible assets)	51,074,000	8.9%	8,628,000	>=	1.5%	NA		NA

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance-Sheet Risk – The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include off-balance-sheet credit instruments consisting of commitments to make loans. The face amounts for these items represent the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contract or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Set forth below are the balances of the Company's off-balance-sheet credit instruments consisting of commitments to make loans as of September 30, 2010 and 2009, respectively.

	Contract or Notional Amount at September 30, 2010	2009
Commitments to extend credit - Fixed rate 4.00% - 8.90% in 2010, and 4.25% - 10.25% in 2009	$ 1,655	$ 2,569
Unused lines of credit:		
Real estate equity advance plan (REAP)	734	615
Kwik cash and lines of credit	1,423	2,299
MasterCard and VISA credit cards	4,969	5,210
Totals	$ 8,781	$ 10,693

Loss Contingencies – Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Leases – The Company leases certain branch facilities and its administrative offices under operating leases. Rent expense under these operating leases was $1,093, $897, and $337 for the years ended September 30, 2010, 2009 and 2008, respectively. None of the Company's leases contain contingent rental payment, purchase option, escalation or cancelation clauses or any other significant terms, conditions or restrictions that would affect the future minimum lease payments disclosed below.

Future minimum lease payments by year and in aggregate under the original terms of the non cancelable operating leases consist of the following:

2011	$ 1,079
2012	990
2013	843
2014	431
2015	112
After 2015	35
Total	$ 3,490

NOTE 12 – RETIREMENT PLANS

401(k) Plan – The Company sponsors a 401(k) profit sharing plan that covers all employees who qualify based on minimum age and length of service requirements. Employees may make pretax voluntary contributions to the plan, which are matched, in part, by the Company. Employer matching contributions to the plan were $101, $91, and $85 for 2010, 2009 and 2008, respectively.

Supplemental Executive Retirement Plan – The Company maintained an unfunded Supplemental Executive Retirement Plan (SERP) providing retirement benefits for key employees designated by the Board of Directors. Benefits under the SERP generally were based on the key employees' years of service and compensation during the years preceding retirement. In May 2009, any additional accrual of benefit under the SERP was suspended. In September 2009, members of the executive management team voluntarily surrendered their future SERP benefits earned up to that time. The remaining SERP liability relates to former Executive Management and current and former Directors.

30

Director Retirement Plan – The Company also maintains an unfunded Directors' Retirement Plan. The benefit amounts are determined by individual director agreements.

The components of the SERP and Directors' Retirement plans' cost at September 30, 2010, 2009 and 2008, respectively, are summarized as follows:

	2010	2009	2008
Beginning accrued benefit cost	$ 2,431	$ 2,444	$ 2,149
Service cost	3	19	54
Interest cost	132	166	158
Amortization of prior service costs	1	49	91
Net periodic benefit cost	136	234	303
Benefits paid	(19)	(15)	(8)
Curtailment and settlement	-	(232)	-
Ending accrued benefit cost	$ 2,548	$ 2,431	$ 2,444

The following table sets forth the change in projected benefit obligation and change in plan assets, funded status of the SERP and Directors' Retirement plans, and net liability recognized in the Company's balance sheet at September 30, 2010, 2009 and 2008, respectively:

	2010	2009	2008
Change in benefit obligation:			
Projected benefit obligation, beginning of year	$ 2,654	$ 2,751	$ 2,627
Service cost	3	19	54
Interest cost	132	166	158
Curtailment and settlement	-	(585)	-
Actuarial loss (gain)	17	318	(80)
Benefits paid	(19)	(15)	(8)
Projected benefit obligation, end of year	$ 2,787	$ 2,654	$ 2,751
Change in plan assets:			
Plan assets at fair value, beginning of year	$ -	$ -	$
Actual return on plan assets	-	-	
Company contributions	19	15	8
Benefits paid	(19)	(15)	(8)
Plan assets at fair value, end of year	$ -	$ -	$ -

Weighted average assumptions used in determining the benefit obligation and net pension costs as of September 30, (in actual dollars) are as follows:

	2010	2009	2008
Benefit obligation actuarial assumptions:			
Discount Rate	4.75%	5.00%	6.25%
Rate of compensation increase	N/A	N/A	5.00%
Net pension cost actuarial assumption			
Discount rate	5.00%	6.25%	6.00%
Expected long-term rate of return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	5.00%	5.00%

Estimated future benefit payments as of September 30, 2010, which reflect expected future service, as appropriate, are as follows:

2011	$	22
2012		119
2013		269
2014		270
2015		273
2016-2020		1,389

Employee Stock Ownership (ESOP) Plan – Effective December 31, 2009, the Company terminated its ESOP. All shares of the Company's stock, that were allocated to participant accounts as of that date, were merged into the participant accounts in the Citizens Community Federal
401(k) profit sharing plan. The termination of the ESOP had no material impact on the Company's earnings. However, the Bank's regulatory capital levels increased by approximately $3,100 as a result of the ESOP termination.

NOTE 13 – STOCK-BASED COMPENSATION

In February 2005, our stockholders approved the Company's Recognition and Retention Plan. This plan provides for the grant of up to 113,910 shares of the Company's common stock to eligible participants under this plan. As of September 30, 2010, 70,615 restricted shares were issued and outstanding under this plan. During the year ended September 30, 2010 no shares were granted to eligible participants under this plan; and there were no previously awarded shares were forfeited. Restricted shares previously granted were awarded at no cost to the employee and have a five-year vesting period. The fair value of these previously granted restricted shares on the date of award was $7.04 per share for 63,783 shares and $6.18 for 6,832 shares. Compensation expense related to these awards was $22 and $63 for the years ended September 30, 2010 and 2009, respectively.

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
2010				
Outstanding at beginning of year	113,915	$ 7.04		
Granted	-			
Exercised	-			
Forfeited or expired				
Outstanding at end of year	113,915	$ 7.04	7.21	$ -
Exercisable at end of year	113,915	$ 4.43	7.21	
Fully vested and expected to vest	113,915	$ 4.43	7.21	
2009				
Outstanding at beginning of year	185,110	$ 7.04		
Granted	-			
Exercised	-			
Forfeited or expired	(71,195)			
Outstanding at end of year	113,915	$ 7.04	8.21	$ -
Exercisable at end of year	92,836	$ 3.66	8.25	
Fully vested and expected to vest	113,915	$ 3.66	8.21	
2008				
Outstanding at beginning of year	190,806	$ 7.04		
Granted	-			
Exercised	-			
Forfeited or expired	(5,696)			
Outstanding at end of year	185,110	$ 7.04	9.03	$ -
Exercisable at end of year	114,480	$ 6.76	10.06	
Fully vested and expected to vest	185,110	$ 6.76	9.03	

Information related to the stock option plan during each year follows:

	2010	2009	2008
Intrinsic value of options exercised	$ -	$ -	$ -
Cash received from options exercised	$ -	$ -	$ -
Tax benefit realized from options exercised	$ -	$ -	$ -

Set forth below is a table showing information related to the Company's 2004 Stock Option and Incentive Plan:

	2005
Dividend yield	1%
Risk-free interest rate	4%
Weighted average expected life (years)	10
Expected volatility	16%

We account for stock-based employee compensation related to our 2004 Stock Option and Incentive Plan using the fair-value-based method. Accordingly, we record compensation expense based on the value of the award as measured on the grant date and recognize that cost over the vesting period for the award. The compensation cost recognized for stock-based employee compensation for the years ended September 30, 2010, 2009, and 2008 were $12, $48 and $71, respectively.

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

NOTE 14 - INCOME TAXES

Income tax expense (benefit) consists of the following:

	2010	2009	2008
Current tax provision/(benefit)			
Federal	$ 694	$ (1,145)	894
State	8	(313)	298
	702	(1,458)	1,192
Deferred tax benefit			
Federal	(1,341)	(505)	(140)
State	(316)	(126)	(44)
	(1,657)	(631)	(184)
Total	$ (955)	$ (2,089)	$ 1,008

The provision for income taxes differs from the amount of income tax determined by applying statutory federal income tax rate to pretax income as result of the following differences:

	2010		2009		2008	
Tax expense at statutory Rate	$ (2,735)	34.00%	$ (1,794)	34.00%	$ 844	34.00%
State income taxes net of exception	(131)	5.37%	(295)	5.60%	164	6.60%
Goodwill impairment	1,901	(27.37%)	-		-	
Other permanent differences	10	0.13%	-		-	

Total	$	(955)	11.87%	$	(2,089)	39.60%	$	1,008	40.60%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of September 30, 2010 and 2009, respectively:

	2010	2009
Deferred tax assets:		
Allowance for loan losses	$ 1,632	$ 530
Deferred loan costs/fees	250	54
Director/officer compensation plans	1,206	1,178
Net unrealized loss on securities available for sale	3,321	3,534
Impairment loss	1,338	-
Other	173	74
Deferred tax assets	$ 7,920	$ 5,370
Deferred tax liabilities:		
Office properties and equipment	(1,085)	(37)
Federal Home Loan Bank stock	(67)	(67)
Core deposit intangible	(157)	(365)
481a adjustment	(144)	-
Other	(140)	(14)
Deferred tax liabilities	(1,593)	(483)
Net deferred tax assets	$ 6,327	$ 4,887

The Company regularly reviews the carrying amount of its deferred tax assets to determine if the establishment of a valuation allowance is necessary, as further discussed in Note 1 "Nature of Business and Critical Accounting Policies" above. At September 30, 2010 and 2009, respectively, management determined that no valuation allowance was necessary.

The Company's income tax returns are subject to review and examination by federal, state and local government authorities. As of September 30, 2010, years open to examination by the Internal Revenue Service include all taxable years after the taxable year ended September 30, 2006. The years open to examination by state and local government authorities varies by jurisdiction.

The tax effects from uncertain tax positions can be recognized in the financial statements, only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority. At the adoption date, the Bank applied the new accounting standard to all tax positions for which the statute of limitations remained open.

The Company's policy is to recognize interest and penalties related to income tax issues as components of interest expense and miscellaneous expense, respectively. During the years ended September 30, 2010 and 2009, the Company did not recognize any interest or penalties related to income tax issues in its statement of operations. The Company has no accrual for the payments of interest and penalties related to income tax issues as of September 30, 2010 or 2009.

35

NOTE 15 – EARNINGS PER SHARE

Earnings (loss) per share is based on the weighted average number of shares outstanding for the year. A reconciliation of the basic and diluted earnings per share for the last three fiscal years is as follows:

	2010	2009	2008
Basic			
Net income (loss)	$ (7,091)	$ (3,183)	$ 1,474
Weighted average common shares outstanding	5,119,807	5,365,122	6,225,270
Basic earnings (loss) per share	$ (1.39)	$ (0.59)	$ 0.24
Diluted			
Net income (loss)	$ (7,091)	$ (3,183)	$ 1,474
Weighted average common shares outstanding for basic earnings per share	5,119,807	5,365,122	6,225,270
Add: Dilutive stock options outstanding	$ -	$ -	$ 17,370
Average shares and dilutive potential common shares	5,119,807	5,365,122	6,242,640
Diluted earnings (loss) per share	$ (1.39)	$ (0.59)	$ 0.24
Additional common stock option shares that have not been included due to their antidilutive effect	113,915	113,915	185,110

NOTE 16 – CONDENSED FINANCIAL INFORMATION – PARENT COMPANY ONLY

The following condensed balance sheets as of September 30, 2010 and 2009; and condensed statements of operations and cash flows for each of the years in the three-year period ended September 30, 2010, for Citizens Community Bancorp, Inc. should be read in conjunction with the consolidated financial statements and the notes thereto.

CONDENSED BALANCE SHEETS
September 30,

	2010	2009
ASSETS		
Cash and cash equivalents	$ 740	$ 943
Investment in subsidiary	$ 49,137	$ 51,120
Note receivable - ESOP	-	3,302
Total assets	$ 49,877	$ 55,365
STOCKHOLDERS' EQUITY		
Total stockholders' equity	$ 49,877	$ 55,365

36

STATEMENT OF OPERATIONS

	2010	2009	2008
Income - interest and dividends	$ -	$ 128	$ 189
Expenses - other	325	459	454
Loss before provision for income taxes and equity in undistributed net income (loss) of subsidiary	(325)	(331)	(265)
Benefit for income taxes	(110)	(140)	(121)
Loss before equity in undistributed net income (loss) of subsidiary	(215)	(191)	(144)
Equity in undistributed net income (loss) of subsidiary	(6,876)	(2,992)	1,618
Net income (loss)	$ (7,091)	$ (3,183)	$ 1,474

STATEMENT OF CASH FLOWS

	2010	2009	2008
Increase (decrease) in cash and cash equivalents:			
Cash flows from operating activities:			
Net income (loss)	$ (7,091)	$ (3,183)	$ 1,474
Provision for stock options	$ 12	$ 48	$ 71
Adjustments to reconcile net income to net cash provided by operating activities - Equity in undistributed (income) loss of subsidiary	6,876	2,992	(1,618)
Net cash provided by (used in) operating activities	(203)	(143)	(73)
Cash flows from investing activities:			
Investment in subsidiary	-	(7,573)	-
Loan to ESOP	-	-	-
Principal received on ESOP loan	-	311	396
Net cash provided by (used in) investing activities	-	(7,262)	396
Cash flows from financing activities:			
Sale of common stock	-	-	-
Repurchase shares of common stock	-	(5,260)	(7,855)
Stock options exercised	-	-	-
Cash dividends paid	-	(1,146)	(1,344)
Net cash provided by (used in) financing activities	-	(6,406)	(9,199)
Net increase (decrease) in cash and cash equivalents	(203)	(13,811)	(8,876)
Cash and cash equivalents at beginning of year	943	14,754	23,630
Cash and cash equivalents at end of year	$ 740	$ 943	$ 14,754

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements:

The following financial statements of the Company are included in Item 8 of this Form 10-K annual report:

Consolidated Balance Sheets as of September 30, 2010, and 2009
Consolidated Statements of Operations for the Years Ended September 30, 2010, 2009 and 2008
Consolidated Statements of Changes in Stockholders' Equity For the Years Ended September 30, 2010, 2009 and 2008
Consolidated Statements of Cash Flows For the Years Ended September 30, 2010, 2009 and 2008
Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules:

All financial statement schedules have been omitted as the information is not required under the related instructions or is not applicable.

(a)(3) Exhibits

3.1 Articles of Incorporation of the Registrant. (Filed as an exhibit to the Company's registration statement filed on June 30, 2006 (File No. 333-135527) pursuant to Section 5 of the Securities Act of 1933 and incorporated herein by reference.)
3.2 Bylaws of the Registrant. (Filed as an exhibit to the Company's registration statement filed on June 30, 2006 (File No. 333-135527) pursuant to Section 5 of the Securities Act of 1933 and incorporated herein by reference.)
10.1+ Citizens Community Bancorp, Inc. 2004 Stock Option and Incentive Plan. (Filed as an exhibit to the Company's registration statement filed on June 30, 2006 (File No. 333-135527) pursuant to Section 5 of the Securities Act of 1933 and incorporated herein by reference.)
10.2+ Citizens Community Bancorp, Inc. 2004 Recognition and Retention Plan. (Filed as an exhibit to the Company's registration statement filed on June 30, 2006 (File No. 333-135527) pursuant to Section 5 of the Securities Act of 1933 and incorporated herein by reference.)
10.3+ Citizens Community Bancorp, Inc. Supplemental Executive Retirement Plan. (Filed as an exhibit to the Company's registration statement filed on June 30, 2006 (File No. 333-135527) pursuant to Section 5 of the Securities Act of 1933 and incorporated herein by reference.)
10.4 Citizens Community Bancorp, Inc. Tax Allocation Agreement. (Filed as an exhibit to the Company's annual report on Form 10-KSB for the fiscal year ended September 30, 2004 and incorporated herein by reference.)
10.5+ Citizens Community Bancorp, Inc. 2008 Equity Incentive Plan. (Filed as an exhibit to the Company's Proxy Statement on Schedule 14A for its 2008 Annual Meeting of Stockholders and incorporated herein by reference.)

10.6+ Employment Agreement by and between Edward H. Schaefer and Citizens Community Federal dated effective as of July 1, 2010. (Filed as Exhibit 99.1 to the Company's current report on Form 8-K dated as of June 25, 2010 and incorporated herein by reference.)

10.7+ Form of Restricted Stock Grant Agreement under the Citizens Community Bancorp, Inc. 2004 Recognition and Retention Plan. (Filed as Exhibit 10.7 to the Company's annual report on Form 10-K for the fiscal year ended September 30, 2010 filed with the Securities and Exchange Commission on December 23, 2010.)

10.8+ Form of Incentive Stock Option Agreement under the Citizens Community Bancorp, Inc. 2004 Stock Option and Incentive Plan. (Filed as Exhibit 10.8 to the Company's annual report on Form 10-K for the fiscal year ended September 30, 2010 filed with the Securities and Exchange Commission on December 23, 2010.)

14 Citizens Community Bancorp, Inc. Code of Conduct and Ethics. (Filed as Exhibit 14 to the Company's annual report on Form 10-K for the fiscal year ended September 30, 2010 filed with the Securities and Exchange Commission on December 23, 2010.)

16 Letter Regarding Change in Auditors (filed as Exhibit 99.1 to the current report on Form 8-K dated and filed with the Securities and Exchange Commission on March 31, 2010).

21 Subsidiaries of the Company as of September 30, 2010. (Filed as Exhibit 21 to the Company's annual report on Form 10-K for the fiscal year ended September 30, 2010 filed with the Securities and Exchange Commission on December 23, 2010.)

23.1 Consent of Independent Registered Public Accounting Firm (Baker Tilly Virchow Krause, LLP).

23.2 Consent of Independent Registered Public Accounting Firm (Wipfli, LLP).

31.1 Rule 13a-15(e) Certification of the Company's Chief Executive Officer.

31.2 Rule 13a-15(e) Certification of the Company's Principal Financial and Accounting Officer.

32.1* Certification of Chief Executive Officer and Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).

+ A management contract or compensatory plan or arrangement

* This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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: January 11, 2011	By: /s/ Edward H. Schaefer Edward H. Schaefer Chief Executive Officer
Date: January 11, 2011	By: /s/ Rebecca L. Johnson Rebecca L. Johnson Principal Financial and Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Richard McHugh Richard McHugh Chairman of the Board	January 10, 2011
By: /s/ Edward H. Schaefer Edward H. Schaefer Chief Executive Officer (Principal Executive Officer)	January 10, 2011
By: /s/ Thomas C. Kempen Thomas C. Kempen Vice Chairman of the Board	January 10, 2011
By: /s/ Brian R. Schilling Brian R. Schilling Director and Treasurer	January 10, 2011
By: /s/ David B. Westrate David B. Westrate Director	January 10, 2011
By: /s/ Timothy A. Nettesheim Timothy A. Nettesheim Director	January 10, 2011
By: /s/ Rebecca L. Johnson Rebecca L. Johnson	January 10, 2011

Controller
(Principal Financial Officer and Principal
Accounting Officer)