

CITIZENS COMMUNITY BANCORP  
Form 10QSB  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2005

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number \_\_\_\_\_

CITIZENS COMMUNITY BANCORP

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

(State or other jurisdiction of incorporation or organization) 20-0663325

(IRS Employer Identification Number) 2174 EastRidge Center, Eau Claire, WI 54701

(Address of principal executive offices) 715-836-9994

Issuer's telephone number)

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

At April 30, 2005, there were 3,015,518 shares of issuer's common stock outstanding.

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

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## CITIZENS COMMUNITY BANCORP

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#### CITIZENS COMMUNITY BANCORP

Consolidated Balance Sheets

as of March 31, 2005 and September 30, 2004

Assets March 31, 2005

(unaudited)

September 30, 2004

(audited)

Cash and cash equivalents \$ 2,888,293 \$ 4,768,007 Loans receivable 170,349,036 152,930,540 Allowance for loan losses (641,343) (554,210) Loans receivable, net 169,707,693 152,376,330  
Office properties and equipment - Net 2,218,231 2,198,809 Federal Home Loan Bank stock 1,200,000 827,700 Accrued interest receivable 515,704 466,399 Intangible assets 335,721 348,486 Other assets  
1,244,740

994,065

TOTAL ASSETS \$178,110,382

\$161,979,796

Liabilities and Equity March 31, 2005

(unaudited)

September 30, 2004

(audited)

Liabilities: Deposits \$133,624,549 \$127,976,262 Federal Home Loan Bank advances 24,000,000 13,500,000 Other Liabilities 1,188,717

897,611

Total Liabilities 158,813,266

142,373,873

Stockholders' Equity: Common Stock 30,418 30,418 Additional Paid-in Capital 9,002,941 9,029,696 Retained Earnings 12,164,673 11,678,549 Treasury Stock (393,742) 0 Unearned ESOP Shares (1,073,100)  
(1,132,740) Unearned Compensation (434,074) 0 Total Stockholders' Equity 19,297,116

19,605,923

TOTAL LIABILITIES AND EQUITY \$178,110,382

\$161,979,796

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CITIZENS COMMUNITY BANCORP Consolidated Statements of Income For the Three and Six Months Ended March 31, 2005 and 2004 (Unaudited)  
 Three Months Ended

Six Months Ended

March 31, 2005

March 31, 2004

March 31, 2005

March 31, 2004

Interest and Dividend Income: Interest and fees on loans \$2,718,624 \$2,325,404 \$5,353,499 \$4,591,961 Other interest and dividend income 21,090

20,981

43,378

39,461

Total interest and dividend income 2,739,714 2,346,385 5,396,877 4,631,422 Interest expense 862,164

722,892

1,648,821

1,471,998

Net Interest Income 1,877,550 1,623,493 3,748,056 3,159,424 Provision for loan losses 102,133

99,999

202,136

195,999

Net interest income after provision for loan losses 1,775,417 1,523,494 3,545,920 2,963,425 Noninterest Income: Service charges on deposit accounts \$ 176,370 \$ 185,861 \$ 370,433 \$ 392,090  
 Insurance commissions 97,905 83,912 196,660 146,216 Loan fees and service charges 80,715 64,876 148,508 130,076 Other 388,572

4,977

392,899

9,237

Total Noninterest Income 743,562 339,626 1,108,500 677,619 Noninterest expense: Salaries and related benefits \$1,121,223 \$ 986,593 \$2,183,639 \$1,911,302 Occupancy - Net 188,925 170,883 349,893 315,377  
 Office 147,289 134,002 299,869 280,600 Data processing 77,466 78,352 154,528 153,848 Other 341,465

187,194

684,215

371,889

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Total noninterest expense 1,876,368

1,557,024

3,672,144

3,033,016

Income before provision for income tax 642,611 306,096 982,276 608,028 Provision for income taxes 258,705

120,843

398,286

240,106

Net income \$ 383,906 \$ 185,253 \$ 583,990 \$ 367,922 Basic and diluted earnings per share \$0.13 NA \$0.20 NA

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CITIZENS COMMUNITY BANCORP

Consolidated Statements of Cash Flows  
For the Six Months ended March 2005 and 2004

March 31, 2005  
(unaudited)

March 31, 2004  
(unaudited)

Increase (decrease) in cash and cash equivalents: Cash flows from operating activities: Net Income \$ 583,990

\$ 367,922

Adjustments to reconcile net income to net cash provided by operating activities: Provision for depreciation 123,051 130,395 Provision for loan losses 202,136 195,999  
Amortization of core deposit intangible 12,765 11,565 Amortization of Restricted Stock 14,968 0 Federal Home Loan Bank stock dividends (23,900) (22,700)  
ESOP contribution expense in excess of shares released 25,327 0 Increase (decrease) in accrued interest receivable and other assets (299,979) (103,642) Increase in other liabilities 291,105

45,892

Total adjustments 345,473

257,509

Net cash provided by operating activities 929,463

625,431

Cash flows from investing activities: Purchase of Federal Home Loan Bank stock (348,400) 0 Net increase in loans (17,533,499) (9,981,743) Capital expenditures (142,474) (57,165)  
Cash received for branch acquisition 0

6,970,198

Net cash used in investing activities (18,024,373)

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(3,068,710)

Cash flows from financing activities: Increase (decrease) in Borrowings 10,500,000 (3,700,000) Increase (decrease) in deposits 5,648,288 (2,676,439) Purchase 59,618 shares of common stock for RRP (894,866) 0 Proceeds from sale of common stock 0 9,166,656 Formation of CCMHC 0 (100,000) Loan to ESOP for purchase of common stock 0 (1,192,360) Reduction in unallocated shares held by ESOP 59,640 0 Cash dividends paid (97,866)

0

Net cash provided by financing activities 15,215,196

1,497,857

Net increase (decrease) in cash and cash equivalents (1,879,714) (945,422) Cash and cash equivalents at beginning 4,768,007

3,074,024

Cash and cash equivalents at end \$2,888,293

\$2,128,602

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## CITIZENS COMMUNITY BANCORP CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY For the Six Months ended March 31, 2005 and 2004 (UNAUDITED)

Six Months Ended March 31, 2005

Shares

Common  
Stock

Treasury  
Stock

Capital  
Surplus

Retained  
Earnings

Unearned  
ESOP  
Shares

Unearned  
Compensation

Total

Balance - Beginning of period 3,041,750 \$30,418 \$ 0 \$9,029,696 \$11,678,549 \$(1,132,740) \$ 0 \$19,605,923 Comprehensive Income: Net Income 583,990 583,990 Other Comprehensive Income 0 0  
Total Comprehensive Income 583,990 583,990 59,618 Shares of Common Stock purchased  
for Recognition and Retention Plan (894,866) (894,866) Committed ESOP shares 25,327 59,640 84,967 33,386 Shares of Common Stock Awarded for  
Recognition and Retention Plan 501,124 (52,082) (449,042) 0 Amortization of Restricted Stock 14,968 14,968 Cash dividends (\$0.05 per share)

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(97,866)

(97,866)

Balance - End of Period 3,041,750

\$30,418

\$(393,724)

\$9,002,941

\$12,164,673

\$(1,073,100)

\$(434,074)

\$19,297,116

Six Months Ended March 31, 2004

Shares

Common  
Stock

Treasury  
Stock

Capital  
Surplus

Retained  
Earnings

Unearned  
ESOP  
Shares

Total

Balance - Beginning of period 0 \$ 0 \$ 0 \$ 0 \$10,990,936 \$ 0 \$10,990,936 Comprehensive Income: Net Income 367,922 367,922 Other Comprehensive Income 0 0  
Total Comprehensive Income 367,922 367,922 Sale of Common Stock 978,650 9,787 9,156,869 9,166,656 119,236 shares of common stock  
acquired by ESOP (1,192,360) (1,192,360) Committed ESOP shares 0 0 Capitalization of CCMHC 2,063,100 20,631 (20,631) (100,000) (100,000) Cash dividends (\$0.05 per share)

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Balance - End of Period 3,041,750

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\$30,418

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\$ 0

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\$9,136,238

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\$11,258,858

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\$(1,192,360)

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\$19,233,154

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## CITIZENS COMMUNITY BANCORP

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### NOTE 1 - Organization

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

Proceeds from the stock offering, net of the ESOP loan of \$1,192,360, totaled \$7,974,296. \$4,533,328 was used to purchase 100% (3,041,750 shares) of Citizens Community Federal stock and \$3,340,968 was retained by the Company for short-term investments and general corporate purposes. The restructuring included a series of transactions by which the corporate structure of Citizens Community Federal was converted from a mutual savings bank to the mutual holding company form of ownership. Upon completion, Citizens Community Federal became a federal stock savings bank subsidiary of Citizens Community Bancorp. Citizens Community Bancorp is a majority-owned subsidiary of Citizens Community MHC. Members of Citizens Community Federal became members of Citizens Community MHC and continue to have the same voting rights in Citizens Community MHC as they had in Citizens Community Federal. Citizens Community MHC owns 67.83% or 2,063,100 shares of the common stock of Citizens Community Bancorp and the remaining 32.17% of the stock was sold to the public.

The consolidated income of the Company is principally from the income of the Bank. The Bank originates residential and consumer loans and accepts deposits from customers primarily in Wisconsin and Minnesota. The Bank acquired a branch in Mankato, Minnesota in November of 2003 and opened a new branch office in Oakdale, Minnesota on October 1, 2004. The Bank is subject to competition from other financial institutions and non-financial institutions providing financial products. Additionally, the Bank is subject to the regulations of certain regulatory agencies and undergoes periodic examination by those regulatory agencies.

#### NOTE 2 - PRINCIPLES OF CONSOLIDATION

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

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The accompanying unaudited consolidated financial statements of Citizens Community Bancorp have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of Management, all adjustments (consisting of normal recurring adjustments) considered necessary for the fair presentation have been included. Operating results for the three and six months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending September 30, 2005. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

#### NOTE 3 - STOCK AWARD PLANS

In February 2005, the 2004 Recognition and Retention Plan was approved by the Company's shareholders. The plan provides for the grant of up to 59,618 shares. At March 31, 2005, 33,386 restricted shares had been granted under this plan. Restricted shares are issued at no cost to the employee and have a five-year vesting period. The fair value of the restricted shares on the date of issue was \$13.45 per share. Compensation expenses related to these awards was \$14,968 for the three and six months ended March 31, 2005.

In February 2005, the 2004 Stock Option and Incentive Plan was approved by the Company's shareholders. The plan provides for the grant of nonqualified and incentive stock options, and stock appreciation rights.

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The total number of shares available for future grants at March 31, 2005 under the plan was 149,046. At March 31, 2005, 105,827 options had been granted under this plan at a weighted average exercise price of \$13.45 per share. Options vest over a five-year period. Unexercised nonqualified stock options expire in 15 years and unexercised incentive stock options expire in 10 years. None of the options granted were vested, exercised, or forfeited during the period and all options granted remain outstanding at March 31, 2005.

### NOTE 4 - STOCK-BASED COMPENSATION

The Company accounts for stock-based employee compensation using the intrinsic value method prescribed under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. Accordingly, the Company would record compensation expense if the quoted market price on the date of grant exceeds the exercise price. Compensation expense for stock options is calculated as the number of options granted multiplied by the amount the market price exceeds the exercise price. For options with a vesting period, the expense, if applicable, is recognized over the vesting period. Compensation expense is recognized immediately for options that are fully vested on the date of grant. The Company has not recognized any stock option related employee compensation expense during the three and six months ended March 31, 2005 and 2004.

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

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Three months ended

Six months ended

March 31,  
2005

March 31,  
2004

March 31,  
2005

March 31,  
2004

Net Earnings: As Reported \$383,906 \$185,253 \$583,990 \$367,922 Additional compensation cost under the fair value method, net of related tax effects \$ 11,144

0

\$ 11,144

0

Pro forma \$372,762

\$185,253

\$572,846

\$367,922

Basic Earnings Per Share: As Reported \$ 0.13 \$ N.A. \$ 0.20 \$ N.A. Pro forma 0.13 N.A. 0.20 N.A. Diluted Earnings Per Share: As reported \$ 0.13 \$ N.A. \$ 0.20 \$ N.A. Pro forma 0.13 N.A. 0.20 N.A.

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

### NOTE 5 - EARNINGS PER SHARE

Basic and diluted earnings per share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period, excluding unallocated shares of the Employee Stock Ownership Plan (ESOP). The weighted average number of shares outstanding was 2,935,997 for the three months ended March 31, 2005, and 2,933,200 for the six months ended March 31, 2005. Earnings per share of \$0.13 were reported for the three months ended March 31, 2005, and \$0.20 for the six months ended March 31, 2005. Earnings per share data does not apply to the prior year period since



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Citizens Community Federal was a mutual savings bank with no stock outstanding.

## NOTE 6 - NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123(R), "Share-Based Payment." This Statement is a revision to SFAS 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123(R) requires the recognition of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render the required service period. The Statement is effective for the Company beginning in the second quarter of fiscal year 2006. While the Company is still in the process of evaluating the effect of SFAS No. 123(R) on the financial statements, Note 4 does disclose the effect on earnings had SFAS No. 123(R) been adopted in prior periods. Since the statements will be adopted using the modified-prospective method, the effect the adoption will have on the financial statements can be materially impacted by the number of options granted in future periods.

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

### GENERAL

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

In February 2005, the Recognition and Retention Plan was approved by the Company's stockholders. The plan provided for the grant of up to 59,618 shares. At March 31, 2005, 33,386 restricted shares had been granted under the Plan. The Company purchased the 59,618 shares in the open market on February 28, 2005 and March 9, 2005.

The following discussion focuses on the consolidated financial condition of the Company and subsidiary as of March 31, 2005 and the consolidated results of operations for the three and six months ended March 31, 2005, compared to the same period in 2004. This discussion should be read in conjunction with the interim condensed consolidated financial statements and notes thereto included with this report.

Historically, we were a federal credit union. We accepted deposits and made loans to members, who were the people who lived, worked or worshiped in the Wisconsin counties of Chippewa and Eau Claire, and parts of Pepin, Buffalo and Trempealeau. In addition, this included businesses and other entities located in these counties, and members and employees of the Hocak Nation. In December 2001, we converted to a federal mutual savings bank in order to better serve our customers and the local community through the broader lending ability of a federal savings bank, and to expand our customer base beyond the limited field of membership permitted to credit unions. As a federal savings bank, we have expanded authority in structuring residential mortgage and consumer loans, and the ability to make commercial loans, although the Bank does not have any immediate plans to increase commercial lending.

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

In order to differentiate ourselves from our competitors, we have stressed the use of personalized branch-oriented customer service. Rather than building additional electronic means for our customers to conduct banking, we have structured operations around a branch system that is staffed with knowledgeable and well-equipped employees. A key to ensuring a high level of quality customer service is our ongoing commitment to training all levels of our staff.

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### CRITICAL ACCOUNTING POLICIES

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

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

#### Financial Condition

**Total Assets.** Total assets of the Company as of March 31, 2005 were \$178.1 million, compared to \$162.0 million as of September 30, 2004, an increase of \$16.1 million, or 10.0%. Assets increased primarily as a result of an increase in loans receivable. Contributing to the increase was the continued growth of the Mankato, Minnesota branch and the opening of the Oakdale, Minnesota branch.

**Cash and Cash Equivalents.** Cash and cash equivalents decreased from \$4.8 million on September 30, 2004 to \$2.9 million on March 31, 2005, as cash was used to help fund new loan originations along with increased deposits and borrowings. The detail of the change in cash and cash equivalents can be seen on the Consolidated Statements of Cash Flows.

**Loans Receivable.** Loans increased by \$17.4 million, or 11.4%, from \$152.9 million as of September 30, 2004 to \$170.3 million as of March 31, 2005. Our growth has been primarily in real estate lending, which has resulted in a change in our loan portfolio mix. At March 31, 2005, the loan portfolio included \$109.3 million or 64.2% of loans secured by real estate, \$60.9 million or 35.8% of consumer loans and commercial loans of \$106,000, or less than 1% of total loans.

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

Although our consumer loan portfolio continues to grow, our real estate loan portfolio is growing at a faster pace. As noted, a contributing factor to the loans receivable increase was the loan production at the Mankato and Oakdale, Minnesota branches. At March 31, 2005 loans receivable were \$7.8 million at Mankato and \$6.2 million at Oakdale, compared to \$4.6 million at Mankato and \$1.8 million at Oakdale at

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September 30, 2004.

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*Allowance for Loan Losses.* Based on loss estimates described in "Critical Accounting Policies - Allowance for Loan Losses," Management's evaluation of these factors resulted in an allowance for loan losses of \$641,343 or .38 % of total loans at March 31, 2005, compared to \$554,210, or .36 % of total loans as of September 30, 2004.

The provisions for loan losses are the amounts required to maintain the allowance for loan losses at a level deemed necessary by management after taking into consideration charge-offs and recoveries and the quality of the remaining portfolio. The provisions for loan losses for the six months ended March 31, 2005 and 2004 were \$202,136 and \$195,999, respectively. The provisions for loan losses for the three months ended March 31, 2005 and 2004 were \$102,133 and \$99,999. During the three months ended March 31, 2005, we incurred \$57,263 in net charge-offs, compared to \$76,924 in net charge-offs during the same period in 2004. During the six months ended March 31, 2005, we incurred \$115,003 in net charge-offs, compared to \$155,689 for the same period ended March 31, 2004. Management recognizes that these are estimates of inherent losses in the process and the actual losses could be different from the current estimates.

*Office Properties and Equipment.* Total investment in office properties and equipment was \$2.2 million on September 30, 2004 and remained \$2.2 million on March 31, 2005.

*Deposits.* Deposits as of March 31, 2005 were \$133.6 million, compared to \$128.0 million as of September 30, 2004, an increase of \$5.6 million, or 4.4 %. The majority of the deposit growth came from the two Minnesota branch offices, as our marketing efforts have been concentrated there.

*Borrowed Funds.* Federal Home Loan Bank advances increased from \$13.5 million at September 30, 2004 to \$24 million on March 31, 2005, as the need to fund strong loan demand increased.

*Liquidity and Asset Liability Management.* The Company must maintain an adequate liquidity position in order to respond to the short-term demand for funds caused by withdrawals from deposit accounts, extensions of credit and for payments of operating expenses. Maintaining this position of adequate liquidity is accomplished through the management of a combination of liquid assets; those which can be converted into cash and access to additional sources of funds. Primarily, liquid assets of the Company are cash and due from interest bearing deposits and maturing loans. Loans from the Federal Home Loan Bank system represent the Company's primary source of immediate additional liquidity, and were maintained at a level needed to meet needs. Assets and liabilities are maintained to provide the proper balance between liquidity, safety and profitability. This monitoring process is done on a continuing basis. The Company manages its interest rate sensitive assets and liabilities on a daily basis to lessen the impact of interest rate change. As part of managing liquidity, the Company monitors its maturing deposits and maturing loans, loan to deposit ratio, competitor's rates and the cost to borrow funds versus attract deposits. The Company manages its rate sensitivity position to avoid wide swings in margins and to minimize risk. The Company's management believes its liquidity sources are adequate to meet its operating needs.

*Off-Balance Sheet Liabilities.* The Company has financial instruments with off-balance sheet risk. These instruments include unused commitments for credit cards, lines of credit, overdraft protection and home equity lines of credit, as well as commitments to extend credit. As of March 31, 2005, the Company has \$5.4 million in unused commitments compared to \$5.5 million in unused commitments as of September 30, 2004.

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*Capital Resources.* Capital ratios applicable to the Bank as of March 31, 2005 and September 30, 2004 were as follows:

**Capital Ratios**

Actual

For Capital Adequacy Purposes

To Be Well Capitalized Under Prompt Corrective Action Provisions

Amount

Ratio

Amount

Ratio

Amount

Ratio

As of March 31, 2005 (Unaudited)	Total capital (to risk weighted assets) \$16,076,000 13.4%	\$9,590,000 ≥ 8.0%	\$11,987,000 ≥ 10.0%	Tier 1 capital (to risk weighted assets) \$15,592,000 13.0%
\$4,795,000 ≥ 4.0%	\$7,192,000 ≥ 6.0%	Tier 1 capital (to adjusted total assets) \$15,592,000 8.8%	\$7,111,000 ≥ 4.0%	\$8,888,000 ≥ 5.0%
≥ 1.5%	NA	As of September 30, 2004	Total capital (to risk weighted assets) \$15,281,000 14.0%	\$8,749,000 ≥ 8.0%
13.6%	\$4,374,480 ≥ 4.0%	\$6,562,000 ≥ 6.0%	Tier 1 capital (to risk weighted assets) \$14,870,000	≥ 10.0%
\$2,426,000 ≥ 1.5%	NA	NA	Tier 1 capital (to adjusted total assets) \$14,870,000 9.2%	\$6,469,000 ≥ 4.0%
			Tangible capital (to tangible assets) \$14,870,000	9.2%

Management intends to maintain capital levels in the well-capitalized category established by regulatory authorities. The Bank was categorized as "well-capitalized" under the regulatory framework for capital adequacy as of March 31, 2005 and September 30, 2004.

Results of Operation

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*Overview.* For the quarter ended March 31, 2005, the Company continued to see strong loan demand and continued growth trends. The two Minnesota branch offices showed continued strong growth. Loan quality remained strong with a decline in loan delinquency and loan charge offs. Interest rates on deposits increased at a faster pace than the rates on loans. Real estate rates actually declined for several weeks during the quarter, as deposit rates increased. Increased loan growth and fee income helped to offset the decline in interest spread.

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*Net Income.* For the three months ended March 31, 2005, the Company reported net income of \$383,906, an increase of 107.2%, compared to net income of \$185,253 for the three months ended March 31, 2004. Net income was \$583,990 for the six months ended March 31, 2005, as compared to net income of \$367,922 for the same period in 2004, an increase of 58.7%. The increase for both periods came primarily as a result of income generated from the January 12, 2005 merger of PULSE-EFT and Discover Financial Services. Since the Company was a stockholder and member of PULSE-EFT, it received \$384,467 in pre-tax income in the second quarter of fiscal 2005 and anticipates a final payment of \$47,766 in the third quarter.

*Total Interest Income.* Total interest and dividend income increased by \$393,329 for the three-month period ended March 31, 2005, to \$2.7 million from \$2.3 million for the same period in 2004. Total interest income increased by \$765,455 for the six-month period ended March 31, 2005 to 5.4 million from \$4.6 million for the same period ended March 31, 2004. The increase was a result of an increase in the average balance of loans receivable.

The yield on loans receivable in both periods decreased from 7.15% for the three-month period ended March 31, 2004 to 6.64% for the three-month period ended March 31, 2005, and decreased from 7.14% for the six-month period ended March 31, 2004 to 7.05% for the six-month period ended March 31, 2005, reflecting the decrease in market rates of interest.

*Net Interest Income.* Net interest income before provision for loan losses increased by \$254,057 for the three-month period ended March 31, 2005, to \$1.9 million compared to \$1.6 million for the same period in 2004. Total net interest income increased by \$588,632 for the six-month period ended March 31, 2005, to \$3.7 million from \$3.2 million for the same period ended March 31, 2004. The increase in net interest income was due to increased loan volume and an increase in the balance of loans receivable offsetting the increase in interest expense and the decrease in average loan yield.

*Interest Expense.* The interest expense increased by \$139,272 in the three-month period ended March 31, 2005, from \$722,892 for the same period in 2004. The interest expense increased by \$176,823 for the six-month period ended March 31, 2005, from \$1.5 million for the same period ended March 31, 2004.

The increase for both periods was a result of an increase in deposit growth and an increase in the cost of interest-bearing liabilities. The cost of borrowed funds increased from \$21,942 for the three-month period ended March 31, 2004 to \$128,119 for the same period in 2005. The cost of borrowed funds increased \$29,250 for the six-month period ended March 31, 2004 to \$192,871 for the same period ended March 31, 2005. The increase was primarily a result of utilization of advances from the Federal Home Loan Bank of Chicago to fund increased loan demand as management sought the most cost-effective source of funds. The use of borrowed funds was more cost effective than obtaining additional deposits at a higher cost.

*Provision for Loan Losses.* We establish the provision for loan losses, which is charged to operations, at a level management believes will reflect probable incurred credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers the types of loans and the amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. Based on our evaluation of these factors, we made provisions of \$102,133 and \$99,999 for the three months ended March 31, 2005 and March 31, 2004, respectively. For the six-month period ended March 31, 2005, we made provisions of \$202,136 compared to provisions of \$195,999 for the same period a year ago. The provisions for fiscal 2005 are primarily a result of the loan growth for the three to six month periods. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available, or as future events change. We used the same methodology and generally similar assumptions in assessing the loan allowance for both periods.

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The level of the allowance is based on estimates and the ultimate losses may vary from the estimates. Management assesses the allowance for loan losses on a monthly basis and makes provisions for loan losses as necessary in order to maintain the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions or changes in individual account conditions. In addition, various regulatory agencies, as an integral part in their examination process, periodically review the allowance for loan losses and may require us to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of March 31, 2005 is maintained at a level that represents management's best estimate of probable losses inherent in the loan portfolio.

*Non-Interest Income.* Total non-interest income was \$743,562 for the three months ended March 31, 2005, compared to \$339,626 for the same period in 2004. Total non-interest income for the six-month period ended March 31, 2005 was \$1,108,500, compared to \$677,619 for the six-month period ended March 31, 2004. The increase came primarily from the merger of PULSE -EFT with Discover, and the subsequent income it generated for the Company, as a stockholder of PULSE-EFT, in the second quarter of fiscal 2005.

*Non-Interest Expense.* Non-interest expense increased from \$1.6 million to \$1.9 million for the three months ended March 31, 2005. Non-interest expense increased from \$3.0 million for the six-month period ended March 31, 2004 to \$3.7 million for the same period in 2005. The increase was due to the additional operating costs associated with the Mankato branch office and the Oakdale branch office, normal salary increases and the cost associated with compliance with the Sarbanes-Oxley Act of 2002, Section 404-Management's Assessment of Internal Controls.

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

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## ITEM 3. CONTROLS AND PROCEDURES

An evaluation of the Company's disclosure controls and procedures (as defined in Section 13(a)-15(e) under the Securities Exchange Act of 1934 (the "Act") as of March 31, 2005 was carried out under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer and several other members of our senior management. The Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2005, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports the Company files or submits under the Act is (i) accumulated and communicated to management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the quarter ended March 31, 2005 that have materially affected, or are reasonably likely to materially effect, our internal controls over financial reporting.

The Company does not expect that its disclosure controls and procedures will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that companies evaluate and annually report on their systems of internal control over financial reporting. In addition, our independent accountants must report on management's evaluation. We are in the process of evaluating, documenting and testing our system of internal control over financial reporting to provide the basis for our report that is anticipated to be a required part of our annual report on Form 10-KSB for the fiscal year ending September 30, 2006. Due to the ongoing evaluation and testing of our internal controls, there can be no assurance that if any control deficiencies are identified they will be remediated before the end of the 2006 fiscal year, or that there may not be significant deficiencies or material weaknesses that would be required to be reported. In addition, we expect the evaluation process and any required remediation, if applicable, to increase our accounting, legal and other costs and divert management resources from core business operations.

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## PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS In the normal course of business, the Company occasionally becomes involved in various legal proceedings. In the opinion of management, any liability from such proceedings would not have a material adverse effect on the business or financial condition of the Company. Item 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

The following table summarizes our share repurchase activity during the three months ended March 31, 2005.

Period	Total Number of Shares Purchased	Average Price Paid per Share
January 1, 2005 through January 31, 2005	NA	NA
February 1, 2005 through February 28, 2005	26,000	\$15.01
March 1, 2005 through March 31, 2005	33,618	\$15.01
<b>Total</b>	<b>59,618</b>	<b>\$15.01</b>

Item 3. DEFAULTS UPON SENIOR SECURITIES Not applicable Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS At the Annual Meeting of Shareholders, dated February 4, 2005, four items of business were voted upon: The nominees to serve on the Board of Directors for terms to expire in the year 2008; the adoption of the Citizens Community Bancorp 2004 Stock Option and Incentive Plan; the adoption of the Citizens Community Bancorp 2004 Recognition and Retention Plan; and the ratification of the appointment of Wipfli, LLP as independent auditors for the Company for the fiscal year ending September 30, 2005. Results of the voting were as follows:

Election of Directors FOR WITHHOLD Richard McHugh 98.9% 1.1% Thomas C. Kempen 99.0% 1.0%

2004 Stock Option and Incentive Plan (voting by minority stockholders) FOR AGAINST ABSTAIN NON-VOTE  
61.9% 16.6% 0.3% 17.2%

2004 Recognition and Retention Plan (voting by minority stockholders) FOR AGAINST ABSTAIN NON-VOTE  
59.8% 18.8% 0.3% 17.2%  
In addition, the MHC, which holds 67.83% of the outstanding shares, voted all its shares in favor of both proposals.

Ratification of Auditors FOR AGAINST ABSTAIN 99.3% 0.6% 0.1%

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Item 5. OTHER INFORMATION As described in the Company's Form 8-K filing, on January 6, 2005 an agreement and plan of merger has been announced between the Company and Community Plus Savings Bank, a federally chartered mutual savings bank based in Rochester Hills, Michigan. Item 6. EXHIBITS See Exhibit List.

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SIGNATURES

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

CITIZENS COMMUNITY BANCORP

Date: May 11, 2005 By: /s/ James G. Cooley

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James G. Cooley  
President and Chief Executive Officer Date: May 11, 2005 By: /s/ John Zettler

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John Zettler  
Chief Financial Officer

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Regulation S-B  
Exhibit Number

Document

Reference to  
Prior Filing  
or Exhibit Number  
Attached Hereto

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3(i) Certificate of Incorporation of the Registrant \* 3(ii) Amended Bylaws of the Registrant \*\* 10 Material contracts: (a) Registrant's 2004 Stock Option Plan \*\*\* (b) Registrant's 2004 Recognition and Retention Plan \*\*\* (c) Employment Agreements: (i) James G. Cooley \* (ii) Johnny W. Thompson \* (iii) John D. Zettler \* (iv) Timothy J. Cruciani \* (v) Rebecca Johnson \* (e) Tax Allocation Agreement \*\* 11 Statement Regarding Computation of Per Share Earnings 11 13 2004 Annual Report to Stockholders Not Required 14 Code of Conduct and Ethics \*\* 21 Subsidiaries of the Registrant \*\* 23 Consent of Auditors Not Required 31 Rule 13a-14(a)/15d-14(a) Certification 32 Section 1350 Certifications 32

\* Filed as exhibit to the Company's Form SB-2 registration statement filed on December 29, 2003 (File No.333-111588) pursuant to Section 5 of the Securities Act of 1933\* Filed as exhibit to the Company's Form 10-KSB filed with the SEC on December 29, 2004. \*\*\* Filed as exhibit to the Company's Definitive Proxy Materials filed with the SEC on December 23, 2004.

20 End.

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