

Citizens Community Bancorp Inc.
Form 10-K
December 23, 2008

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

FORM 10-K

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

For the fiscal year ended September 30, 2008 OR

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

Commission File Number: 001-33003

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

Maryland
(State or other jurisdiction of incorporation or organization)

20-5120010
(I.R.S. Employer Identification
No.)

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

54701
(Zip Code)

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

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.01 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark whether disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

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 \$55,187,753. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of December 18, 2008, there were issued and outstanding 6,095,561 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part II of Form 10-K B Annual Report to Stockholders for the fiscal year ended September 30, 2008.
Part III of Form 10-K B Portions of the Proxy Statement for the 2009 Annual Meeting of Stockholders.

PART I

Item 1. Description of Business

General

Historically, Citizens Community Federal (the "Bank") was a federal credit union. The Bank accepted deposits and made loans to members, who live, work or worship 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, the Bank 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 for credit unions. As a federal savings bank, the Bank has expanded authority in structuring residential mortgage and consumer loans, and the ability to make commercial loans, although the Bank does not currently have any immediate plans to commence making commercial loans. In 2004, Citizens Community Federal reorganized into the mutual holding company form of organization.

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

On October 31, 2006, Citizens Community MHC (the "MHC") completed its reorganization into stock form and Citizens Community Bancorp, Inc. (the "Company") succeeded to the business of Citizens Community Bancorp, the MHC's former stock holding company subsidiary. Each outstanding share of common stock of the former mid-tier stock holding company (other than shares held by the MHC which were canceled) was converted into 1.91067 shares of common stock of the Company. As part of the second-step mutual to stock conversion transaction, the Company sold a total of 5,290,000 shares to eligible depositors of the Bank in a subscription offering at \$10.00 per share, including 341,501 shares purchased by the Bank's employee stock ownership plan with funds borrowed from the Company.

The Bank is a federally chartered stock savings institution with 20 full-service offices - nine stand-alone locations and 11 in-store Wal-Mart Supercenter branches. Citizens acquired a branch in Chippewa Falls, Wisconsin, in November 2002, as well as a branch in Mankato, Minnesota in November of 2003, opened a new branch office in Oakdale, Minnesota on October 1, 2004, and, as noted, acquired Community Plus Savings Bank's Lake Orion and Rochester Hills, Michigan, branches on July 1, 2003.

On January 22, 2008, the Bank signed a letter of intent with Wal-Mart to open seven branches during 2008 in Wal-Mart Supercenters in Wisconsin and Minnesota. To date, the Bank has opened new Wal-Mart Supercenter in-store branches in Brooklyn Park, Faribault, Hutchinson and Red Wing, Minnesota. The Bank has moved its existing branches in Black River Falls, Rice Lake and Wisconsin Dells, Wisconsin to the new Wal-Mart Supercenter locations in those respective communities. An additional letter of intent was signed with Wal-Mart to open a branch in Winona, Minnesota, which opened on November 3, 2008. On October 30, 2008, the Bank signed an agreement with Wal-Mart to open six branches during 2009 in Wal-Mart Supercenters in Oak Park Heights, Minnesota, and Menomonie, Neenah, Plover, Shawano and Wisconsin Rapids, Wisconsin.

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On April 9, 2008, the Bank announced that it had entered into an agreement with American National Bank (ANB) of Beaver Dam, Wisconsin, to acquire three ANB branches located in Wal-Mart Supercenters located in Appleton, Fond du Lac and Oshkosh, Wisconsin. The Bank completed these branch acquisitions on August 3, 2008.

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

At September 30, 2008, the Company had total assets of \$480 million, total deposits of \$297.2 million and stockholders' equity of \$68.5 million. The Company and the Bank are examined and regulated by the OTS, its primary federal regulator. The Company and the Bank are also regulated by the FDIC. The Bank is required to have certain reserves set by the Federal Reserve Board and is a member of the Federal Home Loan Bank of Chicago, which is one of the 12 regional banks in the Federal Home Loan Bank System.

Forward Looking Statements

This document, including information incorporated by reference, contains forward-looking statements about the Company and its subsidiary which we believe are within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements with respect to anticipated future operating and financial performance, growth opportunities, interest rates, cost savings and funding advantages expected or anticipated to be realized by management. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by the Company and its management are based on beliefs, plans, objectives, goals, expectations, anticipations, estimates and the intentions of management and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. The important factors we discuss below, as well as other factors discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" as identified in our filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this document:

- further developments in the Company's ongoing review of and efforts to resolve possible problem credit relationships, which could result in, among other things, further downgrades of loans, additional provisions to the loan loss reserve and the incurrence of other material non-cash and cash charges;
- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
 - inflation, interest rate, market and monetary fluctuations;
- the timely development of and acceptance of our new products and services, and the perceived overall value of these products and services by users including the features, pricing and quality compared to competitors' products and services;
 - the willingness of users to substitute our products and services for products and services of our competitors;
- the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance);
 - the impact of technological changes;
 - acquisitions;
 - changes in consumer spending and saving habits; and

- our success at managing the risks detailed above.

The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise.

Market Area

The Bank is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. The Bank is headquartered in Eau Claire, Wisconsin, and has 20 branch offices - nine stand-alone locations and 11 Wal-Mart Supercenter in-store branches - primarily serving Wisconsin, central and southern Minnesota, and the northern suburbs of Detroit and Oakland and Macomb counties in Michigan.

Competition

The Bank faces strong competition in originating real estate and other loans, and in attracting deposits. Competition in originating real estate loans comes primarily from other savings institutions, commercial banks, credit unions and mortgage bankers. Other savings institutions, commercial banks, credit unions and finance companies provide vigorous competition in consumer lending.

The Bank attracts deposits through its branch office system. Competition for those deposits is principally from other savings institutions, commercial banks and credit unions located in the same community, as well as mutual funds and other alternative investments. The Bank competes for these deposits by offering superior service and a variety of deposit accounts at competitive rates.

Internet Website

The Company maintains a Website at www.citizenscommunityfederal.net. The information contained on that Website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K. Citizens Community Bancorp, Inc. currently makes available on or through its Website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K or amendments to these reports. These materials are also available free of charge on the Securities and Exchange Commission's Website at www.sec.gov.

Selected Consolidated Financial Information

This information is incorporated by reference from pages 2 and 3 of the 2008 Annual Report to Stockholders attached hereto as Exhibit 13 ("Annual Report").

Yields Earned and Rates Paid

This information contained under the section captioned "Average Balances, Net Interest Income, Yields Earned and Rates Paid" is incorporated herein by reference from page 14 of the Annual Report.

Rate/Volume Analysis

This information is incorporated by reference from page 15 of the Annual Report.

Average Balance, Interest and Average Yields and Rates

This information contained under the section captioned "Average Balances, Net Interest Income, Yields Earned and Rates Paid" is incorporated herein by reference from page 14 of the Annual Report.

Lending Activities

General. Citizens Community Federal's first mortgage loans currently being originated carry a fixed rate of interest. First mortgage loans generally are long-term and amortize on a monthly basis with principal and interest due each month. A majority of Citizens Community Federal's first mortgage loans also contain a payable-on-demand clause, which allows Citizens Community Federal to call the loan due after a stated period, usually between two and five years from origination. Citizens Community Federal also has home equity loans in its portfolio, which have an interest rate that adjusts based on the prime rate. At September 30, 2008, the net loan portfolio totaled \$368.5 million, which constituted 76.8% of total assets.

Mortgage loans up to \$500,000 and consumer loans may be approved at various levels by loan officers and senior management. The President may approve loans up to our regulatory lending limit, along with recommendations from the Chief Financial Officer and the Executive Vice President. Loans outside our general

underwriting guidelines must be approved by the board of directors. At September 30, 2008, our regulatory lending limit to any one borrower and the borrower's related entities was approximately \$7.0 million. The largest lending relationship to a single borrower or a group of related borrowers consisted of four loans to a single borrower with a total balance of \$654,000. These loans were current as of September 30, 2008.

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Loan Portfolio Composition. The following table presents information concerning the composition of the Citizen Community Federal's loan portfolio in dollar amounts and in percentages (before deductions for allowances for loan losses) as of the dates indicated.

	2008		2007		At September 30, 2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
Real Estate Loans:										
One- to four-family first mortgages	\$193,958	52.5%	\$177,281	55.3%	\$156,235	60.3%	\$136,647	62.5%	\$ 89,841	58.8%
Second mortgages	10,774	2.8	10,461	3.2	9,161	3.5	7,630	3.5	5,398	3.5
Multi-family and commercial	180	0.1	215	0.1	240	0.1	274	0.1	321	0.2
Total real estate loans	204,912	55.4	187,957	58.6	165,636	63.9	144,551	66.1	95,560	62.5
Consumer Loans:										
Automobile (1)	25,887	7.0	27,168	8.5	24,445	9.4	25,980	11.9	25,808	16.9
Other secured personal loans (2)	133,181	36.0	100,966	31.5	64,384	24.9	43,460	19.8	27,607	18.0
Unsecured personal loans (3)	5,797	1.6	4,610	1.4	4,774	1.8	4,743	2.2	3,955	2.6
Total consumer loans	164,865	44.6	132,744	41.4	93,603	36.1	74,183	33.9	57,370	37.5
Gross loans	369,777	100.0%	320,701	100.0%	259,239	100.0%	218,734	100.0%	152,930	100.0%
Net deferred loan costs	(67)		252		63		---		---	
Allowance for loan losses	(1,192)		(926)		(835)		(803)		(554)	
Total loans receivable, net	\$368,518		\$320,027		\$258,467		\$217,931		\$152,376	

(1) Includes both direct and indirect lending activities.

(2) Includes both direct and indirect lending activities for personal items other than automobiles.

(3) Includes only direct lending.

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The following table shows the composition of Citizen Community Federal's loan portfolio by fixed- and adjustable-rate at the dates indicated.

	2008		2007		At September 30, 2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
Fixed Rate Loans:										
Real estate										
One- to four-family first mortgages(1)	\$ 189,247	51.1%	\$ 170,127	53.0%	\$ 148,211	57.0%	\$ 128,300	58.7%	\$ 89,841	58.8%
Second mortgages	10,373	2.8	9,989	3.1	8,367	3.2	6,189	2.8	4,772	3.1
Multi-family and commercial	180	0.1	215	0.1	240	0.1	274	0.1	321	0.2
Total fixed-rate real estate loans	199,800	54.0	180,331	56.2	156,818	60.3	134,763	61.6	94,934	62.1
Consumer loans	164,865	44.6	132,744	41.4	93,603	36.3	74,183	33.9	57,370	37.5
Total fixed rate loans	364,665	98.6	313,075	97.6	250,421	96.6	208,946	95.5	152,304	99.6
Adjustable Rate Loans:										
Real estate										
One- to four-family first mortgages	4,711	1.3	7,154	2.2	8,024	3.1	8,347	3.8	---	---
Second mortgages	401	0.1	472	0.2	794	0.3	1,441	0.7	626	0.4
Multi-family and commercial	---	---	---	---	---	---	---	---	---	---
Total adjustable rate real estate loans	5,112	1.4	7,626	2.4	8,818	3.4	9,788	4.5	626	0.4
Consumer	---	---	---	---	---	---	---	---	---	---