Citizens Community Bancorp Inc.
Form 10-Q
August 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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

2174 EastRidge Center, Eau Claire, WI 54701
(Address of principal executive offices)
715-836-9994
(Registrant s telephone number, including area code)

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

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

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 þ No o

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 o	Accelerated filer o	Non-Accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company þ

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

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 August 15, 2011 there were 5,123,414 shares of the registrant s common stock, par value $0.01 per share, outstanding.

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ITEM 1. FINANCIAL STATEMENTS

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Balance Sheets
June 30, 2011 unaudited and September 30, 2010 derived from audited financial statements
(in thousands, except share data)

	June 30, 2011	*September 30, 2010*
Assets		
Cash and cash equivalents	$ 37,523	$ 72,438
Other interest-bearing deposits	9,543	
Securities available-for-sale (at fair value)	52,861	41,708
Federal Home Loan Bank stock	5,787	5,787
Loans receivable	431,457	456,232
Allowance for loan losses	(4,655)	(4,145)
Loans receivable net	426,802	452,087
Office properties and equipment net	6,888	7,216
Accrued interest receivable	1,644	1,977
Intangible assets	566	815
Foreclosed assets	1,413	448
Other assets	8,651	11,889
TOTAL ASSETS	**$551,678**	**$ 594,365**
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	$459,074	$ 476,302
Federal Home Loan Bank advances	35,300	64,200
Other liabilities	4,364	3,986
Total liabilities	**498,738**	**544,488**
Stockholders equity:		
Common stock 5,123,414 and 5,113,258 shares, respectively	51	51
Additional paid-in capital	53,880	53,823
Retained earnings	1,147	1,130
Unearned deferred compensation	(55)	(1)
Accumulated other comprehensive loss	(2,083)	(5,126)
Total stockholders equity	**52,940**	**49,877**

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$551,678**	**$ 594,365**

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Operations Unaudited
Three and Nine Months Ended June 30, 2011 and 2010
(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Interest and dividend income:				
Interest and fees on loans	$6,773	$7,482	$21,038	$22,114
Interest on investments	431	781	1,646	2,416
Total interest and dividend income	7,204	8,263	22,684	24,530
Interest expense:				
Interest on deposits	1,711	1,979	5,545	6,208
Interest on borrowed funds	433	771	1,494	2,480
Total interest expense	2,144	2,750	7,039	8,688
Net interest income	5,060	5,513	15,645	15,842
Provision for loan losses	1,364	1,331	4,614	3,493
Net interest income after provision for loan losses	3,696	4,182	11,031	12,349
Noninterest income:				
Total other-than-temporary impairment (losses)/recoveries	126	(847)	(1,288)	(2,547)
Portion of loss/(recoveries) recognized in other comprehensive loss (before tax)	(126)	722	717	1,336
Net gains from sale of securities	281		516	
Net gains / (losses) on available-for-sale securities recognized in earnings	281	(125)	(55)	(1,211)
Service charges on deposit accounts	386	395	1,095	1,123
Insurance commissions	25	39	73	159
Loan fees and service charges	70	60	349	288
Other	4	4	8	9
Total noninterest income	766	373	1,470	368
Noninterest expense:				
Salaries and related benefits	2,128	1,984	6,238	5,811
Occupancy net	606	638	1,915	1,896
Office	311	363	1,019	1,057
Data processing	116	59	249	244
Amortization of core deposit	84	84	250	250

Advertising, marketing and public relations	26	53	94	124
FDIC premium assessment	279	225	822	689
Professional services	299	329	865	899
Other	310	539	990	1,286
Total noninterest expense	4,159	4,274	12,442	12,256
Income before provision for income tax	303	281	59	461
Provision for income taxes	127	119	42	203
Net income	$ 176	$ 162	$ 17	$ 258
Per share information:				
Basic earnings	$ 0.03	$ 0.03	$	$ 0.05
Diluted earnings	$ 0.03	$ 0.03	$	$ 0.05
Dividends paid	$	$	$	$

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of
Changes in Stockholders Equity and Comprehensive
Gain/(Loss) Unaudited
Nine Months Ended June 30, 2011
(in thousands, except Shares)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (loss)	Total Equity
Balance, September 30, 2010	5,113,258	$51	$53,823	$1,130	$ (1)	$ (5,126)	$49,877
Comprehensive gain:							
Net income				17			17
Amortization of unrecognized prior service costs and net gains/losses, net of tax							
Net unrealized gain on available for sale securities, net of tax						2,391	2,391
Change in unrealized gain arising from sale of securities, net of tax						310	310
Change for realized losses on securities available for sale for OTTI write-down, net of tax						342	342
Total comprehensive gain							3,060
Common stock awarded for recognition and retention plan - 10,156 shares	10,156		56		(56)		
Stock option expense			1				1
Amortization of restricted stock					2		2
Balance, June 30, 2011	5,123,414	$51	$53,880	$1,147	$ (55)	$ (2,083)	$52,940

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows Unaudited
Nine Months Ended June 30, 2011 and 2010
(in thousands, except per share data)

	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Cash flows from operating activities:		
Net income attributable to common stockholders	$ 17	$ 258
Adjustments to reconcile net income to net cash provided by operating activities:		
Net securities amortization	(20)	(281)
Depreciation	840	839
Provision for loan losses	4,614	3,493
Net realized gain on sale of securites	(516)	0
Impairment on mortgage-backed securities	620	1,211
Amortization of core deposit intangible	250	250
Amortization of restricted stock	2	20
Provision for stock options	1	12
Provision for deferred income taxes	0	583
Decrease (increase) in accrued interest receivable and other assets	2,287	(3,794)
Increase (decrease) in other liabilities	378	(89)
Total adjustments	8,456	2,244
Net cash provided by operating activities	8,473	2,502
Cash flows from investing activities:		
Net decrease (increase) in interest-bearing deposits	(9,543)	2,458
Proceeds from sale of securities available-for-sale	45,041	0
Principal payments on securities available for sale	9,791	10,328
Purchase of securities available-for-sale	(60,998)	0
Net decrease (increase) in loans	18,959	(18,052)
Net capital expenditures	(510)	(215)
Net cash provided by (used in) investing activities	2,740	(5,481)
Cash flows from financing activities:		
Net decrease in Federal Home Loan Bank advances	(28,900)	(31,705)
Net increase (decrease) in deposits	(17,228)	31,705
Net cash provided by (used in) financing activities	(46,128)	0
Net decrease in cash and cash equivalents	(34,915)	(2,979)
Cash and cash equivalents at beginning of period	72,438	43,191

Cash and cash equivalents at end of period	$ 37,523	$ 40,212
Supplemental cash flow information:		
Cash paid during the year for:		
Interest on deposits	$ 5,558	$ 6,207
Interest on borrowings	$ 1,581	$ 2,579
Income taxes	$ 8	$ 5
Supplemental noncash disclosure:		
Transfers from loans to foreclosed properties	$ 1,750	$ 394

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 (loss) of the Company is principally derived from the Bank s income (loss). 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 consisting of 7 stand-alone locations and 19 in-store branch locations.

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 August 15, 2011, the date on which the financial statements were available to be issued.

The accompanying interim financial statements are unaudited. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

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 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 consolidated financial statements in any individual reporting period.

Securities Securities are classified as available-for-sale when they might be sold before maturity. Although we generally intend to hold most of the securities in our investment portfolio until maturity, we may, from time to time, sell any of our investment securities as part of our overall management of our investment portfolio. As such, we classify all investment securities as available-for-sale. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses and losses deemed other-than-temporarily impaired

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due to non-credit issues being reported in other comprehensive income, net of tax. Unrealized losses deemed other-than-temporarily impaired due to credit issues are reported in current period 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 accompanying Consolidated 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 Bank 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. Loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered unlikely. 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 to less than 92 days delinquent. Interest on impaired loans considered troubled debt restructurings that are not more than 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 in the Bank s loan portfolio. 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.

A loan is impaired when full payment under the loan terms is not expected. Troubled debt restructurings are individually evaluated to determine the need for a specific allowance. If a specific allowance is warranted, 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.

The Bank manages its loan portfolio in two segments; real estate loans and consumer loans. Real estate loans are secured by single family or 1-4 family real estate, and include first and second mortgage loans along with home equity lines of credit. Consumer loans consist mainly of loans secured by personal property as collateral. Approximately 80% of the Bank s consumer loan portfolio consists of indirect paper loans. Indirect paper loans are secured consumer loans originated by the Bank where the borrowers are identified through the Bank s relationships with various consumer product dealer networks mainly within the Bank s market area. These loans are approved based on the Bank s current underwriting standards. Management believes that bifurcation of the Bank s loan portfolio into these two segments for credit quality, impairment and ALL disclosures provides the most meaningful presentation, consistent with how each portfolio is managed.

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 to the Company s consolidated financial statements included in the Company s Form 10-K/A filed with the Securities and Exchange Commission on January 11, 2011 for details on the Company s income taxes.

The Company includes in Other Assets the tax effect of differences in recorded bases of assets and liabilities for financial reporting and tax reporting purposes. At each measurement date, to the extent this tax effect represents a net benefit, the Company assesses the ability to realize that net benefit based on existing tax carryback opportunities, projected future taxable income, arid intended income tax strategies. As of June 30, 2011 and September 30, 2010, the Company believes it is more likely than not that the aggregate amount of these considerations will be sufficient to enable the Company to realize those benefits. Accordingly, the Company has not recorded any valuation allowance related to this net benefit at either date.

Earnings (Loss) Per Share Basic earnings (loss) per common share is calculated as 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.

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

Adoption of New Accounting Standards In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This ASU allows an entity the option to present the total of comprehensive income, the component of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. An entity is required to present each component of net income along with total net income, each component of other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance in the ASU is effective for fiscal years, and interim periods within those years, beginning after The fair value of foreclosed assets is determined by obtaining market price

December 15, 2011. The provisions of this guidance are not expected to have a significant impact on the Company s consolidated financial condition, results of operation or liquidity.

In June 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this ASU are intended to result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The guidance in the ASU is effective for the first interim or annual period beginning after December 15, 2011. The provisions of this guidance are not expected to have a significant impact on the Company s consolidated financial condition, results of operation or liquidity.

In May 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective control for Repurchase Agreements*. This ASU is intended to improve financial reporting of repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments to the Codification in this ASU are intended to improve the accounting for these transactions by removing from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets. The guidance in the ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The provisions of this guidance are not expected to have a significant impact on the Company s consolidated financial condition, results of operation or liquidity.

In April 2011, the FASB issued ASU No. 2011-02 Receivables (Topic 310): *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*. This ASU is intended to improve financial reporting by creating greater consistency in how GAAP is applied for various types of debt restructurings. It is intended to assist creditors in determining whether a modification of terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. The new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. The provisions of this guidance are not expected to have a significant impact on our consolidated financial condition, results of operations or liquidity.

NOTE 2 FAIR VALUE ACCOUNTING

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.

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The fair value of securities available for sale is determined by obtaining market price quotes from independent third parties wherever such quotes are available (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs). Where such quotes are not available, we utilize independent third party valuation analyses to support our own estimates and judgments in determining fair value.

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Assets Measured on a Recurring Basis (000 s)

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011:				
Securities available for sale:				
U.S. Agency mortgage-backed securities	$11,574	$	$11,574	$
U.S. Agency floating Rate Bonds	30,904		30,904	
Non-agency mortgage-backed securities	10,383			10,383
Total	$52,861	$	$42,478	$10,383
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

Assets Measured on a Nonrecurring Basis (000 s)

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011:				
Foreclosed assets	$1,413	$	$	$ 1,413
Loans restructured in a troubled debt restructuring	6,294			6,294
Total	$7,707	$	$	$ 7,707
September 30, 2010:				
Foreclosed assets	$ 448	$	$	$ 448
Loans restructured in a troubled debt restructuring	3,178			3,178
Total	$3,626	$	$	$ 3,626

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. 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 Bank, 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 $620 during the nine months ended June 30, 2011.

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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 Bank measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine month periods ended June 30, 2011 and 2010 (000 s):

	Nine Months Ended	
	June 30, 2011	June 30, 2010
Balance beginning of period	$ 24,999	$36,517
Total gains or losses (realized/unrealized):		
Included in earnings	(620)	(1,211)
Included in other comprehensive loss	5,417	40
Sales	(13,633)	
Payments, accretion and amortization	(5,780)	(7,848)
Balance end of period	$ 10,383	$27,498

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 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

Fair value of interest bearing deposits is estimated based on their carrying amounts.

Loans Receivable

Fair value is estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as real estate 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 Bank s repayment schedules for each loan classification.

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 to the Company s consolidated financial statements included in the Company s Form 10-K/A filed with the Securities and Exchange Commission on January 11, 2011 for additional information).

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.

Federal Home Loan Bank Advances

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 borrowing 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 (000 s):

	June 30, 2011		September 30, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 37,523	$ 37,523	$ 72,438	$ 72,438
Interest-bearing deposits	9,543	9,543		
Securities available for sale	52,861	52,861	41,708	41,708
Loans receivable	426,802	452,272	452,087	477,039
FHLB stock	5,787	5,787	5,787	5,787
Accrued interest receivable	1,644	1,644	1,977	1,977
Financial liabilities:				
Deposits	459,074	465,306	476,302	482,337
FHLB advances	35,300	37,927	64,200	68,290
Accrued interest payable	$ 4,364	$ 4,364	$ 232	$ 232

NOTE 3 LOANS, ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

The ALL represents management s estimate of probable and inherent credit losses in the Bank 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. The loan portfolio also represents the largest asset on our consolidated balance sheet. 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.

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, changes in underwriting standards 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 loan 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):

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	Real Estate	Consumer	Total
June 30, 2011 and Nine Months then Ended:			
Allowance for Loan Losses:			
Beginning balance, October 1, 2010	$ 1,562	$ 2,583	$ 4,145
Charge-offs	(1,924)	(2,359)	(4,283)
Recoveries	33	146	179
Provision (1)	2,106	2,508	4,614
Ending balance, June 30, 2011	$ 1,777	$ 2,878	$ 4,655
Ending balance: individually evaluated for impairment	409	$ 287	$ 696
Ending balance: collectively evaluated for impairment	$ 1,368	$ 2,591	$ 3,959
Loans Receivable:			
Ending balance	$266,913	$164,544	$431,457
Ending balance: individually evaluated for impairment	$ 9,585	$ 2,425	$ 12,010
Ending balance: collectively evaluated for impairment	$257,328	$162,119	$419,447
Sepember 30, 2010 and Twelve Months then Ended:			
Allowance for Loan Losses:			
Beginning balance, October 1, 2009	$ 846	$ 1,079	$ 1,925
Charge-offs	(1,331)	(3,445)	(4,776)
Recoveries	44	51	95
Provision (1)	2,003	4,898	6,901
Ending balance, September 30, 2010	$ 1,562	$ 2,583	$ 4,145
Ending balance: individually evaluated for impairment	$ 211	$ 522	$ 733
Ending balance: collectively evaluated for impairment	$ 1,351	$ 2,061	$ 3,412
Loans Receivable:			
Ending balance	$261,357	$194,875	$456,232
Ending balance: individually evaluated for impairment	$ 4,092	$ 4,560	$ 8,652
Ending balance: collectively evaluated for impairment	$257,265	$190,315	$447,580

(1) The Bank does not have historical data disaggregating provision for loan losses between real estate and consumer loans. Therefore, the provision for loan losses has been allocated between real estate and consumer loans for each period presented based on the ratio of real estate and consumer net loan charge-offs for that period.

The Bank has originated substantially all loans currently recorded on its balance sheet. The Bank has not acquired any loans since 2005.

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As an integral part of their examination process, various regulatory agencies review the Bank s 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.

Loans receivable as of the end of the periods shown below are as follows (dollar amounts in thousands):

	Real Estate Loans		Consumer Loans		Total Loans	
	June 30, 2011	September 30, 2010	June 30, 2011	September 30, 2010	June 30, 2011	September 30, 2010
Performing loans						
Performing TDR loans	$ 3,863	$ 2,714	$ 1,058	$ 559	$ 4,921	$ 3,273
Performing loans other	257,328	255,110	162,119	192,765	419,447	447,875
Total performing loans	261,191	257,824	163,177	193,324	424,368	451,148
Nonperforming loans (1)						
Nonperforming TDR loans	$ 1,751		$ 257		$ 2,008	$
Nonperforming loans other	3,971	3,533	1,110	1,551	5,081	5,084
Total nonperforming loans	5,722	3,533	1,367	1,551	7,089	5,084
Total loans	$266,913	$261,357	$164,544	$194,875	$431,457	$456,232

(1) Nonperforming loans are defined as loans that (a) are 91+ days past due and nonaccruing, or (b) TDR loans restructured at a 0% interest rate that were 91+ days past due and nonaccruing at the time of restructuring. `

Impaired loans with a valuation allowance based upon the fair value of the underlying collateral had a carrying amount of $2,938 at June 30, 2011 compared to $2,581 at September 30, 2010. The valuation allowance on impaired loans was $696 at June 30, 2011, compared to $733 at September 30, 2010.

An aging analysis of the Bank s real estate and consumer loans as of June 30, 2011 and September 30, 2010 is as follows (dollar amounts in thousands):

	1 Month Past Due	2 Months Past Due	Greater Than 3 Months	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
June 30, 2011:							
Real estate loans	$3,126	$2,091	$3,971	$ 9,188	$257,725	$266,913	$
Consumer loans	2,949	880	1,110	4,939	159,605	164,544	22
Total	$6,075	$2,971	$5,081	$14,127	$417,330	$431,457	$ 22

Sepember 30, 2010:							
Real estate loans	$5,144	$1,054	$3,322	$ 9,520	$251,837	$261,357	$
Consumer loans	3,920	1,496	3,535	8,951	185,924	194,875	
Total	$9,064	$2,550	$6,857	$18,471	$437,761	$456,232	$

A summary of the Bank s impaired loans as of June 30, 2011 and September 30, 2010 is as follows (dollar amounts in thousands):

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	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2011 and Nine Months then Ended:					
With no related allowance recorded:					
Real estate loans	$3,685	$3,685	$	$2,296	$ 61
Consumer loans	366	366		$ 289	9
With an allowance recorded:					
Real estate loans	1,929	1,929	353	$1,613	17
Consumer loans	949	949	283	$ 954	16
Total:					
Real estate loans	5,614	5,614	353	3,909	78
Consumer loans	$1,315	$1,315	$283	$1,242	$ 25
Sepember 30, 2010 and Twelve Months then Ended:					
With no related allowance recorded:					
Real estate loans	$ 907	$ 907	$	$ 937	$ 4
Consumer loans	211	211		$ 869	5
With an allowance recorded:					
Real estate loans	1,297	1,297	271	$1,884	3
Consumer loans	958	958	294	$2,418	18
Total:					
Real estate loans	$2,204	$2,204	$271	$2,820	$ 7
Consumer loans	$1,169	$1,169	$294	$3,286	$ 23

Troubled Debt Restructuring A troubled debt restructuring (TDR) includes a loan modification where a borrower is experiencing financial difficulty and we grant a concession to that borrower that we would not otherwise consider except for the borrower s financial difficulties. A TDR may be either accrual or nonaccrual status based upon the performance of the borrower and management s assessment of collectability. If a TDR is placed on nonaccrual status, it remains there until a sufficient period of performance under the restructured terms has occurred at which time it is returned to accrual status. A summary of loans modified in a troubled debt restructuring as of June 30, 2011 and during the nine months then ended is as follows:

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	Real Estate	Consumer	Total
June 30, 2011 and Nine Months then Ended:			
Accruing / Performing:			
Beginning balance	$1,402	$ 415	$1,817
Principal payments	58	104	162
Charge-offs		8	8
Advances	27	7	34
New restructured	962	369	1,331
Class Transfers	1,456	124	1,580
Transfers between accrual/non-accrual	(167)	(4)	(171)
Ending balance	$3,738	$1,023	$4,761
Non-accrual / Non-performing:			
Beginning balance	$1,312	$ 144	$1,456
Principal payments	27	24	51
Charge-offs		31	31
Advances	46	4	50
New restructured			
Class Transfers			
Transfers between accrual/non-accrual	491	88	579
Ending balance	$1,876	$ 291	$2,167
Totals:			
Beginning balance	$2,714	$ 559	$3,273
Principal payments	85	128	213
Charge-offs		39	39
Advances	73	11	84
New restructured	962	369	1,331
Class Transfers	1,456	124	1,580
Transfers between accrual/non-accrual	324	84	408
Ending balance	$5,614	$1,314	$6,928

NOTE 4 INVESTMENT SECURITIES

All of our investment securities are classified as available-for-sale and, as such are reported at fair value, determined by obtaining valuations from an independent source. If the fair value of a security is not available from a dealer or third-party pricing service, or if such data appears unreliable, we may estimate the fair value of the security using a variety of methods including other pricing services, discounted cash flow analysis, matrix pricing and other fundamental analyses of observable market factors. All non-agency mortgage-backed securities valuations were based on values provided by third-parties.

The amortized cost, estimated fair value and related unrealized gains and losses on securities available for sale as of June 30, 2011 and September 30, 2010, respectively, are as follows (dollar amounts in thousands):

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Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2011				
U.S. Agency mortgage-backed securities	$11,418	$156	$	$11,574
U.S. Agency Floating Rate Bonds	30,937	17	50	30,904
Non-agency mortgage-backed securities	13,739		3,356	10,383
Total investment securities	$56,094	$173	$3,406	$52,861
September 30, 2010				
U.S. Agency securities	$16,240	$469	$	$16,709
Non-agency mortgage-backed securities	33,772		8,773	24,999
Total investment securities	$50,012	$469	$8,773	$41,708

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 (loss). 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 it is more likely than not, that the Bank will not be required to sell the debt securities before their anticipated recovery and therefore, there is no other-than-temporary impairment during the three months ended June 30, 2011. The non-agency mortgage backed securities with continuous unrealized losses for twelve months or more consist of six specific securities.

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:

	Nine Months Ended June 30, 2011	Twelve Months Ended September 30, 2010
Beginning balance of the amount of OTTI related to credit losses	$ 9,497	$ 7,236
Credit portion of OTTI on securities for which OTTI was not previously recognized	620	2,276
Cash payments received on a security in excess of the security s book value adjusted for previously recognized credit portion of OTTI	(50)	(15)
Credit portion of OTTI previously recognized on securities sold during the period	(7,659)	

Ending balance of the amount of OTTI related to credit losses	$	2,408	$	9,497

On June 8, 2011, the Bank sold seven agency mortgage-backed securities (MBS) with an aggregate book value of approximately $20,500, resulting in a net realized gain of approximately $250. The sale was executed in order to take advantage of current favorable market prices. The Bank intends to reinvest the proceeds in securities of similar yields and durations when market conditions warrant such purchases.

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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 June 30, 2011, there were no borrowings outstanding on the Federal Reserve line of credit.

NOTE 5 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. As of June 30, 2011, 80,771 restricted shares were issued and outstanding under this plan. During the quarter ended June 30, 2011, 10,156 shares were granted to eligible participants under this plan; and 9,338 of previously awarded shares were forfeited. Restricted shares are awarded at no cost to the employee and have a five-year vesting period. The fair value of the restricted shares on the date of award was $7.04 per share for 63,783 shares, $6.18 for 6,832 shares, and $5.48 for 10,156 shares. Compensation expense related to these awards was $1 and $2 for the three and nine months ended June 30, 2011, 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. The plan provides for the grant of awards for up to 284,778 shares of the Company s common stock. At June 30, 2011, 225,416 options had been granted under this plan to eligible participants at a weighted-average exercise price of $6.88 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 June 30, 2011, 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 225,416 options granted, 137,134 remained outstanding as of June 30, 2011.

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. Compensation expense related to these awards was $1 and $1 for the three and nine month periods ended June 30, 2011.

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 June 30, 2011, no grants or awards have been made to eligible participants under the 2008 Equity Incentive Plan.

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

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are considered forward-looking statements within the meaning of 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, Such forward-looking statements in this report are inherently subject to many uncertainties in the Company s operations and business environment. These uncertainties include 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 Company 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. Shareholders, 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. Such uncertainties and other risks that may affect the Company s performance are discussed further in Part I, Item 1A, Risk Factors, in the Company s Form 10-K, as amended, for the year ended September 30, 2010 originally filed with the Securities and Exchange Commission on December 23, 2010. The Company undertakes no obligation to make any revisions to the forward-looking statements contained in this report or to update them to reflect events or circumstances occurring after the date of this report.

GENERAL

The following discussion sets forth management s discussion and analysis of our consolidated financial condition as of June 30, 2011, and the consolidated results of operations for the nine months ended June 30, 2011, compared to the same period in the fiscal year ended September 30, 2010. This discussion should be read in conjunction with the interim consolidated financial statements and the condensed notes thereto included with this report and with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes related thereto included in the Company s annual report on Form 10-K/A filed with the Securities and Exchange Commission on January 11, 2011 and originally filed on December 23, 2010.

PERFORMANCE SUMMARY

The following table sets forth our results of operations and related summary information for the three and nine month periods ended June 30, 2011 and 2010:

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SUMMARY RESULTS OF OPERATIONS
(Dollar amounts in thousands, except for per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net income (loss), as reported	$ 176	$ 162	$ 17	$ 258
EPS basic, as reported	$ 0.03	$ 0.03	$	$ 0.05
EBS diluted, as reported	$ 0.03	$ 0.03	$	$ 0.05
Cash dividends paid	$	$	$	$
Return on average assets (annualized)	0.12%	0.11%	0.00%	0.06%
Reteurn on average equity (annualized)	1.34%	1.16%	0.04%	0.62%
Efficiency ratio, as reported (1)	71.39%	71.10%	70.35%	70.35%

(1) Non-interest expense divided by the sum of net interest income plus non-interest income, excluding net impairment losses recognized in earnings. A lower ratio indicates greater efficiency.

The following is a brief summary of some of the factors that affected our operating results in the three and nine month periods ended June 30, 2011. See the remainder of this section for a more thorough discussion. Unless otherwise stated, all monetary amounts in this Management s Discussion and Analysis of Financial Condition and Results of Operations, other than share and per share amounts, are stated in thousands.

We reported net income of $176 for the three months ended June 30, 2011, compared to net income of $162 for the three months ended June 30, 2010. We reported net income of $17 and $258 for the nine month periods ended June 30, 2011 and 2010, respectively. Both basic and diluted earnings per share were $0.03 for the three months ended June 30, 2011 and June 30, 2010, respectively. Both basic and diluted earnings per share were $0.00 for the nine months ended June 30, 2011, compared to basic and diluted earnings per share of $0.05 for the nine months ended June 30, 2010.

The return on average assets for the three months ended June 30, 2011 and 2010 was 0.12% and 0.11%, respectively. The return on average equity for the nine months ended June 30, 2011 and 2010 was 0.04% and 0.62%, respectively.

No cash dividends were declared or paid in either of the three or nine month periods ended June 30, 2011 and 2010, respectively.

Key factors behind these results were:

Net interest income and net interest margin decreased slightly during the three and nine months ended June 30, 2011 from the comparable periods last year. We continue to see both rate and volume related decreases in both interest income on loans and interest expense on deposits. Reductions in FHLB borrowings led to decreases in interest expense on borrowed funds of $338 and $986 for the three and nine month periods ended June 30, 2011.

Net interest income was $5,060 for the three month period ended June 30, 2011, a decrease of $453 or 8.22% from the three month period ended June 30, 2010. Net interest income was $15,645 for the nine month period ended June 30, 2011, a decrease of $197 or 1.24% from the nine month period ended June 30, 2010.

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The net interest margin of 3.66% for the three months ended June 30, 2011 represents a 35 bp decrease from a net interest margin of 4.01% for the three months ended June 30, 2010. Net interest margins were 3.72% and 3.88% for the nine month periods ended June 30, 2011 and 2010, respectively.

Total loans were $431,457 at June 30, 2011, a decrease of $24,775, or 5.43% from September 30, 2010. Total deposits were $459,074 at June 30, 2011, a decrease of $17,228 or 3.62% from September 30, 2010.

Net loan charge-offs increased from $775 for the three months ended June 30, 2010 to $1,214 for the three months ended June 30, 2011. Net loan charge-offs increased from $1,977 for the nine months ended June 30, 2010 to $4,104 for the nine months ended June 30, 2011. Continued higher levels of net loan charge-offs and non-performing loans led to increased provision for loan losses of $1,364 and $4,614 for the three and nine month periods ended June 30, 2011, respectively. Annualized net loan charge-offs as a percentage of average loans were 1.11% for the three months ended June 30, 2011, compared to 0.58% for the three months ended June 30, 2010. Our new credit policy and more proactive charge-off and collection practices have contributed to increased loan charge-offs. Our customers ability to repay their loans has also been adversely affected by sustained higher unemployment rates. Further, depressed home prices and other collateral values have increased incidences of collateral shortfalls and have contributed to an increase in impaired loans, charge-offs and the need for higher levels of allowance for loan loss.

Non-interest income increased from $373 for the three months ended June 30, 2010 to $766 for the three months ended June 30, 2011. We also experienced an increase from the nine month period ended June 30, 2010 to the nine month period ended June 30, 2011 from $368 to $1,470. Contributors included other-than-temporary impairment (OTTI) losses on our non-agency mortgage-backed securities portfolio of $0 and $620 for the three and nine month periods ended June 30, 2011. We also experienced gains on sale of securities of $282 and $516 for the three and nine month periods ending June 30, 2011, respectively.

Non-interest expense decreased 2.69%, from $4,274 to $4,159 for the three month period ending June 30, 2010 compared to the three month period ending June 30, 2011 due to modest decreases in occupancy, office and other expenses.

CRITICAL ACCOUNTING POLICIES

We have established certain accounting policies, which require use of estimates and judgment. In addition to the policies included in Note 1, Nature of Business and Summary of Significant Accounting Policies, to the Consolidated Financial Statements included as an exhibit to our Form 10-K/A annual report for the fiscal year ending September 30, 2010, our critical accounting policies are as follows:

Allowance for Loan Losses.

We maintain an allowance for loan losses to absorb probable incurred loss in our loan portfolio. The allowance is based on ongoing, quarterly assessments of the estimated probable incurred losses in the loan portfolio. In evaluating the level of the allowance for loan loss, we consider 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, the estimated value of any underlying collateral and prevailing economic conditions. We follow all applicable regulatory guidance, including the Interagency Policy Statement on the Allowance for Loan and Lease Losses, issued by the Federal Financial Institutions Examination Council (FFIEC). The Bank s Allowance for Loan Losses Policy conforms to all applicable regulatory expectations. However, based on periodic examinations by regulators, the amount of allowance for loan losses recorded during a particular period may be adjusted.

Our determination of the allowance for loan losses is based on (1) specific allowances for specifically identified and evaluated impaired loans and their corresponding estimated loss based on likelihood of default, payment history, and net realizable value of underlying collateral; and (2) a general allowance on loans not

specifically identified in (1) above, based on historical loss ratios which are adjusted for qualitative and general economic factors. We continue to refine our allowance for loan losses methodology, with an increased emphasis on historical performance adjusted for applicable economic and qualitative factors.

Assessing the allowance for loan losses is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received on impaired loans, any of which estimates may be susceptible to significant change. In our opinion, the allowance, when taken as a whole, reflects estimated probable loan losses in our loan portfolio.

Available for Sale Securities.

Securities are classified as available for sale and are carried at fair value, with unrealized gains and losses reported in other comprehensive income (loss). Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives of the securities.

We evaluate all investment securities on a quarterly basis, and more frequently when economic conditions warrant determining if other-than-temporary impairment exists. A debt security is considered impaired if the fair value is less than its amortized cost at the report date. If impaired, we then assess whether the impairment is other-than-temporary.

Current authoritative guidance provides that some portion of an unrealized loss maybe other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component is recorded in earnings as a component of other-than-temporary impairment in the consolidated statements of operations, while the loss component related to other market factors is recognized in other comprehensive income (loss), provided the Bank does not intend to sell the underlying debt security and it is more likely than not that the Bank will not have to sell the debt security prior to recovery of the unrealized loss.

We consider the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time, and extent to which, the fair value has been less than the amortized cost.
- Adverse conditions specifically related to the security, industry or geographic area.
- The historical and implied volatility of the fair value of the security.
- The payment structure of the debt security and the likelihood of the issuer or underlying borrowers being able to make payments that may increase in the future.
- The failure of the issuer of the security or the underlying borrowers to make scheduled interest or principal payments.
- Any changes to the rating of the security by a rating agency.
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

Interest income on securities for which other-than-temporary impairment has been recognized in earnings is recognized at a rate commensurate with the expected future cash flows and amortized cost basis of the securities after the impairment.

Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

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To determine if other-than-temporary impairment exists on a debt security, the Bank first determines if (1) it intends to sell the security or (2) it is more likely than not that it will be required to sell the security before its anticipated recovery. If either of the conditions is met, the Bank will recognize other-than-temporary impairment in earnings equal to the difference between the security s fair value and its adjusted cost basis. If neither of the conditions is met, the Bank determines (a) the amount of the impairment related to credit loss and (b) the amount of the impairment due to all other factors. 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 amount of the other-than-temporary impairment that is recognized in earnings and is a reduction to the cost basis of the security. The amount of the total impairment related to all other factors (excluding credit loss) is included in other comprehensive income (loss).

We monitor our portfolio investments on an on-going basis and we obtain an independent valuation of our non-agency residential mortgage-backed securities. This analysis is utilized to ascertain whether any decline in market value is other-than-temporary. In determining whether an impairment is other-than-temporary, we consider the length of time and the extent to which the market value has been below cost, recent events specific to the issuer including investment downgrades by rating agencies and economic conditions within the issuer s industry, whether it is more likely than not that we will be required to sell the security before there would be a recovery in value, and credit performance of the underlying collateral backing the securities, including delinquency rates, cumulative losses to date, and prepayment speed.

The independent valuation process included:

Obtaining individual loan level data directly from servicers and trustees, and making assumptions regarding the frequency of foreclosure, loss severity and conditional prepayment rate (both the entire pool and the loan group pertaining to the bond we hold).

Projecting cash flows based on these assumptions and stressing the cash flows under different time periods and requirements based on the class structure and credit enhancement features of the bond we hold.

Identifying various price/yield scenarios based on the Bank s book value and valuations based on both hold-to-maturity and current free market trade scenarios. Discount rates were determined based on the volatility and complexity of the security and the yields demanded by buyers in the market at the time of the valuation.

For non-agency residential mortgage-backed securities that are considered other-than-temporarily impaired and for which we have the ability and intent to hold these securities until the recovery of our amortized cost basis, we recognize other-than-temporary impairment in accordance with accounting principles generally accepted in the United States. Under these principles, we separate the amount of the other-than-temporary impairment into the amount that is credit related and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security s amortized cost basis and the present value of expected future cash flows. The amount due to other factors is recognized in other comprehensive income (loss).

Income Taxes.

The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management s current assessment, the impact of which could be material to our consolidated results of our operations and reported earnings. We believe that the tax assets and liabilities are adequate and properly recorded in the accompanying consolidated financial statements. As of June 30, 2011, management does not believe a valuation allowance is necessary.

STATEMENT OF OPERATIONS ANALYSIS

Net Interest Income. Net interest income represents the difference between the dollar amount of interest earned on interest-bearing assets and the dollar amount of interest paid on interest-bearing liabilities. The interest income and expense of financial institutions are significantly affected by general economic conditions, competition, policies of regulatory authorities and other factors.

Interest rate spread and net interest margin are used to measure and explain changes in net interest income. Interest rate spread is the difference between the yield on interest earning assets and the rate paid for interest-bearing liabilities that fund those assets. Net interest margin is expressed as the percentage of net interest income to average earning assets. Net interest margin exceeds interest rate spread because non-interest bearing sources of funds (net free funds), principally demand deposits and stockholders equity, also support interest income earning assets. The narrative below discusses net interest income, interest rate spread, and net interest margin for the three and nine month periods ended June 30, 2011.

Net interest income was $5,060 for the three months ended June 30, 2011, compared to $5,513 for the three months ended June 30, 2010. Net interest income was $15,645 for the nine months ended June 30, 2011, compared to $15,842 for the nine months ended June 30, 2010. The net interest margin for the three months ended June 30, 2011 was 3.66% compared to 4.01% for the three months ended June 30, 2010. The net interest margin for the nine months ended June 30, 2011 was 3.72% compared to 3.88% for the nine months ended June 30, 2010. The decreases in interest margin are attributable to corresponding decreases in interest rate spread. Contributing factors include rate-related decreases in interest earning assets including loans and available-for-sale securities. We also continue to pay interest at higher rates on FHLB borrowings compared to our other funding sources such as customer deposits. These FHLB borrowings were originally obtained to fund the purchase of higher rate non-agency mortgage-backed securities, most of which we subsequently sold or on which we have stopped accruing interest. As the FHLB borrowings mature, we anticipate that they will be replaced with lower rate customer deposits as a source of funding as needed.

As shown in the rate/volume analysis in the following pages, volume changes resulted in increases of $176 and $205 in net interest income for the three and nine months ended June 30, 2011, respectively, compared to the comparable prior year periods. The decrease and changes in the composition of interest earning assets resulted in a $150 decrease in interest income for the three months ended June 30, 2011 and a $389 decrease in interest income for the nine months ended June 30, 2011 compared to comparable prior year periods. Rate changes on interest earning assets decreased interest income by $909 and $1,457 for the three and nine month periods ended June 30, 2011. These decreases were partially offset by rate changes on interest-bearing liabilities that decreased interest expense by $280 and $1,055 over the same periods, for a net impact of $629 and $402 decreases in net interest income due to changes in interest rates during the three and nine month periods ended June 30, 2011. The changes in balances of CDs (increase) and FHLB Advances (decrease), discussed above, are the primary factors affecting volume changes. Rate decreases on loans and all deposit categories are reflective of the current overall lower market interest rate environment versus the same period last year.

For the nine months ended June 30, 2011, the yield on earning assets was 5.39%, compared to 6.00% for the nine months ended June 30, 2010 which was the combined effect of a decrease of 23 bp in the loan yield and a decrease in interest income on securities available for sale. The average loan yield was 6.33% for the nine months ended June 30, 2011 and 6.56% in the nine months ended June 30, 2010. Competitive pricing on new and refinanced loans, tightened credit underwriting standards, as well as increased prepayments due to the current low rate environment, all contributed to reduced loan yields during the three and nine month periods ended June 30, 2011 compared to the comparable prior year periods.

For the nine months ended June 30, 2011, the cost of interest-bearing liabilities decreased 46 bps from 2.26% during in the nine months ended June 30, 2010, to 1.80%, resulting, in part, from a continuing decrease in interest rates, generally, in 2010. The combined average cost of interest-bearing deposits was 1.55% for the nine months ended June 30, 2011, down 43 bp from the nine months ended June 30, 2010, primarily resulting from the continued low short-term interest rate environment.

Throughout the second half of fiscal 2010, the Bank sought increases in customer deposits at competitively low interest rates, in part to replace FHLB Advances, which represent a higher interest rate source of funds.

We have remained liability sensitive in the short term during the most recent two fiscal years, in which interest rates have declined to historically low levels. Continued low interest rates will enable us to experience a favorable interest rate margin.

Average Balances, Net Interest Income, Yields Earned and Rates Paid. The following net Interest Income Analysis table presents interest income from average interest earning assets, expressed in dollars and yields, and interest expense on average interest-bearing liabilities, expressed in dollars and rates. Also presented is the weighted average yield on interest-earning assets, rates paid on interest-bearing liabilities and the resultant spread at June 30 for each of the fiscal years shown below. No tax equivalent adjustments were made. Non-accruing loans have been included in the table as loans carrying a zero yield.

Average interest earning assets were $553,904 and $562,588 for the three and nine month periods ending June 30, 2011, compared to $551,097 and $546,510 for comparable prior year periods. Interest income on earning assets was $7,204 and $22,684 for the three and nine month periods ending June 30, 2011 compared to $8,263 and $24,530 for comparable prior year periods. Interest income is comprised primarily of interest income on loans and interest income on available-for-sale securities. Interest income on loans was $6,773 and $21,038 for the three and nine month periods ending June 30, 2011, compared to $7,482 and $22,114 for comparable prior year periods. Interest income on available-for-sale securities was $386 and $1,519 for the three and nine month periods ended June 30, 2011 compared to $779 and $2,400 for the comparable prior year periods. Decreases in loan interest income are due to decreased loan volumes and a continued lower interest rate environment. Decreases in interest income on available-for-sale securities are due to two factors. First, we apply interest payments to principal on specific securities on which we had previously recorded other-than-temporary impairment. Also, we sold several higher risk non-agency mortgage backed securities and reinvested the proceeds in lower risk and lower yielding agency and floating rate bonds.

Average interest bearing liabilities were $511,534 and $522,739 for the three and nine month periods ended June 30, 2011, compared to $518,296 and $513,504 for comparable prior year periods. Interest expense on interest bearing liabilities was $2,144 and $7,039 for the three and nine month periods ending June 30, 2011 compared to $2,750 and $8,688 for comparable prior year periods. Interest expense is comprised primarily of interest expense on money market accounts, certificates of deposit and FHLB advances. Decreases were due to decreased balances of FHLB advances which carry higher interest rates than deposits, and lower rates paid on money market accounts and certificate of deposit.

For the three months ended June 30, 2011, interest expense on interest-bearing deposits increased $222 from the volume and mix changes and decreased $490 from the impact of the rate environment, resulting in an aggregate decrease of $268 in interest expense on interest-bearing deposits. For the nine months ended June 30, 2011, interest expense on interest-bearing deposits increased $969 from the volume and mix changes and decreased $1,632 from the impact of the rate environment, resulting in an aggregate decrease of $663 in interest expense on interest-bearing deposits. Average FHLB Advances decreased $51,850 and $49,601 for the three and nine months ended June 30, 2011 compared to the nine months ended June 30, 2010. Interest expense on FHLB advances was $433 and $1,494 for the three and nine month periods ended June 30, 2011, compared to $771 and $2,480 for the comparable prior year periods. The decreases were due to scheduled payments on certain FHLB advances in 2010 and 2011. As noted above, throughout 2010, the Bank sought increases in customer deposits at competitively low interest rates, in part to replace FHLB Advances, which represent a higher interest rate source of funds.

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NET INTEREST INCOME ANALYSIS
(Dollar amounts in thousands)
Three months ended June 30, 2011 compared to the three months ended June 30, 2010

	Three months ended June 30, 2011			Three months ended June 30, 2010		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Average interest-earning assets:						
Cash and cash equivalents	$ 44,068	$ 27	0.25%	$ 40,795	$ 2	0.02%
Loans	434,586	6,773	6.25%	457,685	7,482	6.56%
Interest-bearing deposits	8,438	17	0.81%			0.00%
Securities available for sale	61,025	386	2.54%	46,577	779	6.71%
FHLB stock	5,787	1	0.07%	6,040		0.00%
Total interest earning assets	$ 553,904	$ 7,204	5.22%	$ 551,097	$ 8,263	6.01%
Average interest-bearing liabilities:						
Savings Accounts	$ 25,194	$ 7	0.11%	$ 26,415	$ 44	0.67%
Demand deposits	23,488	1	0.02%	22,763	8	0.14%
Money Market	167,929	406	0.97%	153,323	615	1.61%
CD s	231,849	1,184	2.05%	205,874	1,193	2.32%
IRA s	23,911	113	1.90%	18,909	119	2.52%
Total deposits	472,371	1,711	1.45%	427,284	1,979	1.85%
FHLB Advances	39,163	433	4.43%	91,013	771	3.40%
Total interest bearing deposits	$ 511,534	$ 2,144	1.68%	$ 518,296	$ 2,750	2.13%
Net interest income		$ 5,060			$ 5,513	
Interest rate spread			3.54%			**3.89%**
Net interest margin			3.66%			4.01%
Average interest-earning assets to average interest-bearing liabilities			1.08			1.06

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NET INTEREST INCOME ANALYSIS
(Dollar amounts in thousands)
Nine months ended June 30, 2011 compared to the nine months ended June 30, 2010

	Nine months ended June 30, 2011			Nine months ended June 30, 2010		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Average interest-earning assets:						
Cash and cash equivalents	$ 60,219	$ 99	0.22%	$ 38,539	$ 4	0.01%
Loans	444,327	21,038	6.33%	450,971	22,114	6.56%
Interest-bearing deposits	4,475	25	0.75%	865	12	1.85%
Securities available for sale	47,780	1,519	4.25%	50,095	2,400	6.41%
FHLB stock	5,787	3	0.07%	6,040		0.00%
Total interest earning assets	562,588	22,684	5.39%	546,510	24,530	6.00%
Average interest-bearing liabilities:						
Savings Accounts	$ 25,462	$ 31	0.16%	$ 25,575	$ 131	0.68%
Demand deposits	22,701	7	0.04%	21,975	22	0.13%
Money Market	161,259	1,265	1.05%	152,992	1,877	1.64%
CD s	243,707	3,889	2.13%	199,526	3,813	2.56%
IRA s	24,075	353	1.96%	18,301	365	2.67%
Total deposits	477,204	5,545	1.55%	418,368	6,208	1.98%
FHLB Advances	45,535	1,494	4.39%	95,136	2,480	3.49%
Total interest bearing deposits	$ 522,739	$ 7,039	1.80%	$ 513,504	$ 8,688	2.26%
Net interest income		$ 15,645			$ 15,842	
Interest rate spread			3.59%			3.74%
Net interest margin			3.72%			3.88%
Average interest-earning assets to average interest-bearing liabilities			1.08			1.06

Rate/Volume Analysis. The following table presents the dollar amount of changes in interest income and interest expense for the components of interest-earning assets and interest-bearing liabilities that are presented in the preceding table. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in volume, which are changes in the average outstanding balances multiplied by the prior period rate (i.e. holding the initial rate constant); and (2) changes in rate, which are changes in average interest rates multiplied by the prior period volume (i.e. holding the initial balance constant). Changes due to both rate and volume which cannot be segregated have been allocated in proportion to the relationship of the dollar amounts of the change in each.

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RATE / VOLUME ANALYSIS
(Dollar amounts in thousands)
Three months ended June 30, 2011 compared to the three months ended June 30, 2010

	Increase (decrease) due to		
	Volume (1)	Rate (1)	Net
Interest income:			
Cash and cash equivalents	$	$ 25	$ 25
Loans	(368)	(341)	(709)
Interest-bearing deposits	17		17
Securities available for sale	200	(593)	(393)
FHLB stock	1		1
Total interest earning assets	(150)	(909)	(1,059)
Interest expense:			
Savings Accounts	(2)	(35)	(37)
Demand deposits		(7)	(7)
Money Market	54	(263)	(209)
CD s	142	(151)	(9)
IRA s	28	(34)	(6)
Total deposits	222	(490)	(268)
FHLB Advances	(548)	210	(338)
Total interest bearing deposits	(326)	(280)	(606)
Net interest income	$ 176	$(629)	$ (453)

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Nine months ended June 30, 2011 compared to the nine months ended June 30, 2010

	Increase (decrease) due to		
	Volume (1)	Rate (1)	Net
Interest income:			
Cash and cash equivalents	$ 3	$ 92	$ 95
Loans	(322)	(754)	(1,076)
Interest-bearing deposits	33	(20)	13
Securities available for sale	(106)	(775)	(881)
FHLB stock	3		3
Total interest earning assets	(389)	(1,457)	(1,846)
Interest expense:			
Savings Accounts	(1)	(99)	(100)
Demand deposits	1	(16)	(15)
Money Market	97	(709)	(612)
CD s	771	(695)	76
IRA s	101	(113)	(12)
Total deposits	969	(1,632)	(663)
FHLB Advances	(1,563)	577	(986)
Total interest bearing deposits	(594)	(1,055)	(1,649)
Net interest income	$ 205	$ (402)	$ (197)

(1) the change in interest due to both rate and volume has been allocated in proportion to the relationship to the dollar amounts of the change in each.

Provision for Loan Losses. We determine our provision for loan losses (provision , or PLL), based on our desire to provide an adequate allowance for loan losses (ALL) to reflect probable incurred credit losses in our loan portfolio. Based on increased historical charge off ratios and the negative influence of certain qualitative and general economic factors discussed above under ***Critical Accounting Policies Allowance for Loan Losses*** , the provision for loan losses necessary to ensure an adequate allowance for loan losses continues to remain at elevated levels. Specifically, our customers ability to repay loans continues to be adversely affected by higher unemployment rates, and depressed housing prices are causing increases in collateral deficiencies on real estate loans. With both local and national unemployment rates improving slightly in the past quarters, we anticipate our actual charge-off experience to stabilize throughout the fiscal year ended September 30, 2011.

Net loan charge-offs for the three and nine month periods ended June 30, 2011 were $1,214 and $4,104, compared to $775 and $1,977 for the comparable prior year periods. Annualized net charge-offs to average loans were 1.23% for the nine months ended June 30, 2011 compared to 1.03% for the twelve months ended September 30, 2010. For the nine months ended June 30, 2011, non-performing loans remained steady at $5,081 at June 30, 2011 compared to $5,084 at September 30, 2010. This is a result of comparable levels of 91+ days delinquent loans. Refer to the Allowance for Loan Losses and Nonperforming Loans, Potential Problem Loans and Foreclosed Properties sections below for more information related to non-performing loans.

We recorded provisions for loan losses of $1,364 and $4,614 for the three and nine month periods ended June 30, 2011, compared to $1,331 and $3,493 for the comparable prior year periods. Management believes that the provision taken for these three and nine month periods is adequate in view of the present condition of the loan portfolio and the sufficiency of collateral supporting non-performing loans. We are continually monitoring non-performing loan relationships and will make provisions, as necessary, if the facts and circumstances change. In addition, a decline in the quality of our loan portfolio as a result of general economic conditions, factors

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affecting particular borrowers or our market areas, or otherwise, could affect the adequacy of our ALL. If there are significant charge-offs against the ALL, or we otherwise determine that the ALL is inadequate, we will need to record an additional PLL in the future. See the section below captioned Allowance for Loan Losses in this discussion for further analysis of the provision for loan losses.

Non-Interest Income (loss). The following table reflects the various components of non-interest income (loss) for the three and nine months ended June 30, 2011 and 2010, respectively.

	Three months ended June 30, 2011	Three months ended June 30, 2010	% Change	Nine months ended June 30, 2011	Nine months ended June 30, 2010	% Change
Non-interest Income (loss):						
Net impairment losses recognized in earnings	$	$(125)	(100.00%)	$ (571)	$(1,211)	(52.85%)
Service charges on deposit accounts	386	395	(0.02)	1,095	1,123	(0.02)
Insurance commissions	25	39	(0.36)	73	159	(0.54)
Loan fees and service charges	70	60	0.17	349	288	0.21
Gain on sale of securities	281		NA	516		NA
Other	4	4	0.00	8	9	(0.11)
Total non-interest income (loss)	$766	$ 373	>100%	$1,470	$ 368	>100%

Non-interest income was $766 and $1,470 for the three and nine month periods ended June 30, 2011, compared to $373 and $368 for the comparable prior year periods. Changes were due primarily to lower other-than-temporary impairment losses on mortgage backed securities portfolio and recognition of realized gains on sale of available-for-sale securities of $281 and $516 for the three and nine month periods ended June 30, 2011.

Non-Interest Expense. The following table reflects the various components of non-interest expense for the three and nine month periods ended June 30, 2011 and 2010, respectively.

	Three months ended June 30, 2011	Three months ended June 30, 2010	% Change	Nine months ended June 30, 2011	Nine months ended June 30, 2010	% Change
Non-interest Expense:						
Salaries and related benefits	$2,128	$1,984	7.26%	$ 6,238	$ 5,811	7.35%
Occupancy net	606	638	(0.05)	1,915	1,896	0.01
Office	311	363	(0.14)	1,019	1,057	(0.04)
Data processing	116	59	0.97	249	244	0.02
Amortization of core deposit	84	84	0.00	250	250	0.00
Advertising, marketing and public relations	26	53	(0.51)	94	124	(0.24)

FDIC premium assessment	279	225	0.24	822	689	0.19
Professional services	299	329	(0.09)	865	899	(0.04)
Other	310	539	(0.42)	990	1,286	(0.23)
Total non-interest expense	$4,159	$4,274	(2.69%)	$12,442	$12,256	1.52%
Non-interest expense (annualized) / Average assets	2.93%	2.97%	(1.02%)	2.90%	2.84%	2.03%

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Non-interest expense decreased $115 (2.69%) for the three month period ended June 30, 2011 compared to the comparable prior year period. Non-interest expense increased $186 (1.52%) for the nine month period ended June 30, 2011 compared to the comparable prior year period. The non-interest expense (annualized) to average assets ratios were 2.93% and 2.90% for the three and nine month periods ended June 30, 2011, respectively; compared to 2.97% and 2.84% for the comparable prior year periods. Increases in Salaries and related benefits were primarily due to continued staff realignment and restructuring efforts**.**

Income Taxes. Income tax expense was $127 for the three months ended June 30, 2011 compared to income tax expense of $42 for the three months ended June 30, 2010. Income tax expense was $119 for the nine months ended June 30, 2011, compared to income tax expense of $203 for the nine months ended June 30, 2010. These changes resulted from the changes in pre-tax income (loss) discussed above.

BALANCE SHEET ANALYSIS

Loans. Loans decreased by $24,775, or (5.43%), to $431,457 as of June 30, 2011 from $456,232 at September 30, 2010. At June 30, 2011, the loan portfolio was comprised of $266,913 of loans secured by real estate, or 61.9% of total loans, and $164,544 of consumer loans, or 38.1% of total loans. At September 30, 2010, the loan portfolio mix included real estate loans of $261,357, or 57.3% of total loans, and consumer loans of $194,875, or 42.7% of total loans. Our decreased loan balances are the result of our recently updated and more conservative underwriting standards, primarily on indirect paper consumer loans. We also continue to experience reduced loan demand in our markets, consistent with decreased loan demand throughout the United States.

Allowance for Loan Losses. The loan portfolio is our primary asset subject to credit risk. To address this credit risk, we maintain an ALL for probable and inherent credit losses through periodic charges to our earnings. These charges are shown in our consolidated statements of operations as Provision for Loan Losses (PFLL). See Provision for Loan Losses earlier in this Report. We attempt to control, monitor and minimize credit risk through the use of prudent lending standards, a thorough review of potential borrowers prior to lending and ongoing and timely review of payment performance. Asset quality administration, including early identification of loans performing in a substandard manner, as well as timely and active resolution of problems, further enhances management of credit risk and minimization of loan losses. Any losses that occur and that are charged off against the ALL are periodically reviewed with specific efforts focused on achieving maximum recovery of both principal and interest.

At least quarterly, we review the adequacy of the ALL. Based on an estimate computed pursuant to the requirements of ASC 450-10, *Accounting for Contingencies* and ASC 310-10, *Accounting by Creditors for Impairment of a Loan*, the analysis of the ALL consists of three components: (i) specific credit allocation established for expected losses relating to specific individual loans for which the recorded investment in the loan exceeds its fair value; (ii) general portfolio allocation based on historical loan loss experience for significant loan categories; and (iii) general portfolio allocation based on qualitative factors such as economic conditions and other factors specific to the markets in which we operate. We continue to refine our ALL methodology by introducing a greater level of granularity to the portfolio. For example, bifurcating consumer loans between indirect paper and other consumer loans; and segmenting real estate loans without an event of delinquency. The additional segmentation of the portfolio is intended to provide a more effective basis for the determination of qualitative factors. In addition, management evaluates its ALL methodology from time to time to assess whether modifications are appropriate in light of underwriting practices, market conditions, identifiable trends, regulatory pronouncements or other factors. Management is currently reviewing its ALL methodology and may make modifications to it as necessary. We believe that any modifications or changes to the ALL methodology would be to enhance the ALL. However, any such modifications could result in materially different allowance levels in future periods.

The specific credit allocation for the ALL is based on a regular analysis of all loans that are considered troubled debt restructurings (TDRs). In compliance with ASC 310-10, the fair value of the loan is determined based on either the present value of expected cash flows discounted at the loan s effective interest rate, the market price of the loan, or, if the loan is collateral dependent, the fair value of the underlying collateral less the cost of sale. We currently have 100 such loans, all secured by real estate or personal property. Their aggregate book value is $6,929 as of June 30, 2011. The total for the 47 such individual loans where estimated fair value was less than their book value (i.e. we deemed impairment to exist) was $2,878 for which $636 in specific ALL was recorded as of June 30, 2011.

At June 30, 2011, the allowance for loan losses was $4,655, or 1.08% of the total loan portfolio, compared to allowance for loan losses of $4,145, or 0.91% of the total loan portfolio at September 30, 2010. This level was based on our analysis of the loan portfolio risk at June 30, 2011, as discussed above.

All of the factors we take into account in determining ALL in general categories are subject to change; thus the allocations are management s estimate of the loan loss categories in which the probable and inherent loss has occurred. Currently, management especially focuses on local and national unemployment rates and home prices, as these factors currently have the most impact on our customers ability to repay loans and our ability to recover potential losses through collateral sales. As loan balances and estimated losses in a particular loan type decrease or increase and as the factors and resulting allocations are monitored by management, changes in the risk profile of the various parts of the loan portfolio may be reflected in the allowance allocated. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. In addition, management continues to refine the ALL estimation process as new information becomes available. These refinements could also cause increases or decreases in ALL. The unallocated portion of the ALL is intended to account for imprecision in the estimation process or relevant current information that may not have been considered in the process.

Nonperforming Loans, Potential Problem Loans and Foreclosed Properties. We practice early identification of non-accrual and problem loans in order to minimize the risk of loss. Non-performing loans are defined as non-accrual loans and restructured loans that were 91+ days past due at the time of their restructure. The accrual of interest income is discontinued when a loan becomes more than 91 days past due as to principal and interest. When interest accruals are discontinued, interest credited to income is reversed. If collection is in doubt, cash receipts on non-accrual loans are used to reduce principal rather than become recorded as interest income. Restructuring a loan typically involves the granting of some concession to the borrower involving a loan modification, such as payment schedule or interest rate changes. Restructured loans may involve loans that have had a charge-off taken against the loan to reduce the carrying amount of the loan to fair market value as determined pursuant to ASC 310-10.

The following table identifies the various components of non-performing assets and other balance sheet information as of the dates indicated below and changes in the allowance for loan losses for the periods then ended:

	June 30, 2011 and Nine Months Then Ended	September 30, 2010 and Twelve Months Then Ended
Nonperforming assets:		
Nonaccrual loans	$ 5,059	$ 5,084
Nonperforming troubled debt restructure loans	1,838	
Accruing loans past due 90 days or more	22	
Total nonperforming loans (NPLs) (1)	6,919	5,084
Other real estate owned	1,259	372
Other collateral owned	154	76
Total nonperforming assets (NPAs)	$ 8,332	$ 5,532
Average outstanding loan balance	$443,845	$452,696
Loans, end of period	431,457	456,232
Total assets, end of period	551,678	594,365
ALL, at beginning of period	4,145	1,925
Loans charged off:		
Real estate loans	(1,924)	(1,168)
Consumer loans	(2,359)	(3,608)
Total loans charged off	(4,283)	(4,776)
Recoveries of loans previously charged off:		
Real estate loans	33	44
Consumer loans	146	51
Total recoveries of loans previously charged off:	179	95

Net loans charged off (NCOs)	(4,104)	(4,681)
Additions to ALL via provision for loan losses charged to operations	4,614	6,901
ALL, at end of period	$ 4,655	$ 4,145
Ratios:		
ALL to NCOs (annualized)	1.13	0.89
NCOs (annualized) to average loans	1.23%	1.03%
ALL to total loans	1.08%	0.91%
NPLs to total loans	1.60%	1.11%
NPAs to total assets	1.51%	0.93%

(1) Included in the nonperforming loan total for June 30, 2011 and September 30, 2010 were $1,838 and $0 of troubled debt loan restructurings, respectively. As noted below the Bank now defines non-performing loans to include troubled debt restructure loans that were 91+ days past due at the time of their restructure.

Non-performing loans of $6,919 at June 30, 2011, which included $1,838 of non-performing troubled debt restructured loans reflected an increase of $1,835 over $5,084 of non-performing loans at September 30, 2010. The non-performing loan relationships are secured primarily by collateral including residential real estate or the consumer assets financed by the loans.

Our non-performing assets were $8,332 at June 30, 2011, or 1.51% of total assets. This was up from $5,532, or 0.93% of total assets, at September 30, 2010. The increase since September 30, 2010 was a result of two primary factors: (1) we changed our definition of non-performing loans to include all TDRs that were 91+ days delinquent at the time of restructure, regardless of whether the loan was currently performing under the restructured loan terms; and (2) increases in non-performing one-to-four family residential loans, as well as new non-real estate consumer loans moving into the non-performing category, as our customers and we continue to be impacted by higher unemployment rates and decreasing property values.

Other real estate owned increased by $887 and other collateral owned increased $78 during the nine months ended June 30, 2011 to $1,259 and $154, respectively from their balances as of September 30, 2010. The increase in other real estate owned was primarily due to several large residential real estate properties foreclosed upon and not yet sold. The increase in other collateral owned is due to more aggressive credit monitoring and collection practices along with general economic deterioration in the communities we serve.

Despite our increases in charge offs and non-performing assets, we anticipate that we will continue to perform favorably compared to our peers due to the following three key factors: (1) recent improvements to our underwriting practices requiring higher average credit scores; (2) the average balance of our individual consumer loans is $7,895 (not in thousands), and the average balance of our individual real estate loans is $86,462 (not in thousands), limiting our loss exposure on any one loan; and (3) as of June 30, 2011, our unsecured loan exposure was limited to $2,684, or 0.49% of total assets. We believe our current allowance for loan loss is adequate to cover these probable losses on our loan portfolio.

Net charge offs for the three months ended June 30, 2011 were $1,214 compared to $2,703 for the three months ended June 30, 2010. Net charge offs for the nine months ended June 30, 2011 were $4,104 compared to $1,977 for the nine months ended June 30, 2010.

The ratio of annualized net charge-offs to average loans receivable was 1.23% for the nine months ended June 30, 2011, compared to 1.03% for the twelve months ended September 30, 2010.

Based on current economic conditions, we anticipate continued elevated levels of loan charge-offs and we will monitor and maintain an adequate allowance for loan loss levels, accordingly.

Securities Available for Sale. We manage our securities portfolio in an effort to enhance income, improve liquidity, and meet the Qualified Thrift Lender test.

Our total investment portfolio was $52,861 at June 30, 2011 compared with $41,708 at September 30, 2010. The securities in our non-agency residential mortgage-backed securities (MBS) portfolio were originally purchased throughout 2007 and early 2008 and are generally secured by prime 1-4 family residential mortgage loans. These securities were all rated AAA or the equivalent by major credit rating agencies at the time of their original purchase. As of June 30, 2011, $10,645 of the remaining book value of the non-agency residential MBS portfolio has been downgraded from investment grade to below investment grade. The market for these securities has depressed in response to stress and illiquidity in the financial markets and a general deterioration in economic conditions. Taking into consideration these developments, we have determined that it is likely the Bank will not collect all amounts due according to the contractual terms of these securities.

As part of our asset and liability management activities, we review our non-agency MBS portfolio on a monthly basis. We analyze credit risk, i.e. the likelihood of potential future OTTI adjustments and current market prices relative to our current book value. We also analyze the impact of these securities on regulatory risk-based capital.

During the quarter ended June 30, 2011, the results of our analysis indicated none of our remaining non-agency residential MBS, with aggregate book value of approximately $13,739, had additional other-than-temporary impairment (OTTI).

Despite more favorable market prices in recent months on certain non-agency MBS, we believe that the remaining fair value of our non-agency MBS portfolio, totaling $10,383, is still subject to numerous risk factors outside of our control, such as market volatility and changes in the credit quality of underlying collateral. Future evaluations of fair value could result in additional OTTI losses.

On June 30, 2011, all six of our remaining securities included in our non-agency residential MBS portfolio have unrealized losses currently included in accumulated other comprehensive income. These losses represent a 24.4% decline in value in comparison to our amortized cost basis of these securities. While performance of the non-agency residential mortgage-backed securities has deteriorated and the securities have been subject to downgrades, these unrealized losses relate principally to the continued volatility of the securities markets and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements.

The amortized cost and market values of our available-for-sale securities as of the periods indicated below were as follows:

	Amortized Cost	Fair Value
June 30, 2011		
Floating Rate Agency Bonds	$30,937	$30,904
Residential Agency MBS	11,418	11,574
Residential Non-agency MBS	13,739	10,383
Totals	$56,094	$52,861
September 30, 2010		
Residential Agency MBS	$16,240	$16,709
Residential Non-agency MBS	33,772	24,999
Totals	$50,012	$41,708

As noted above, over the past several quarters, the rating agencies have revised downward their original ratings on thousands of mortgage-backed securities which were issued during the 2001-2007 time period. As of June 30, 2011, we held $8,469 in fair value of investments that were originally rated Investment Grade but have been downgraded to Below Investment Grade by at least one of three recognized rating agencies.

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The composition of our available-for-sale portfolios by credit rating as of the periods indicated was as follows:

	June 30, 2011		September 30, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Floating Rate Agency Bonds	$30,937	$30,904	$	$
Residential Agency MBS	11,418	11,574	16,240	16,709
AAA			4,514	4,380
A			6,041	5,444
B	3,094	1,914		
Below investment grade	10,645	8,469	23,217	15,175
Total	$56,094	$52,861	$50,012	$41,708

Based on management s impairment testing, during the quarter ended June 30, 2011 we determined that no additional other-than-temporary impairment loss was required. At June 30, 2011, the approximate aggregate fair value of the five remaining non-agency securities, for which other-than-temporary impairment of $2,407 has been previously recorded, was $8,537. The following table is a roll forward of the amount of other-than-temporary impairment, related to credit losses, recognized in earnings.

September 30, 2010, balance of OTTI related to credit losses	$ 9,497
Credit portion of OTTI recognized during the quarter ended December 31, 2010	620
Credit portion of OTTI previously recognized on securities sold during the period	(7,709)
June 30, 2011, balance of OTTI related to credit losses	$ 2,408

No securities were pledged as of June 30, 2011. Utilizing a third party firm, we will continue to obtain an independent valuation of our non-agency MBS portfolio on a quarterly basis. Our management and Board of Directors will review and consider additional testing to determine if additional write-downs of the MBS portfolio are warranted.

Deposits. Deposits decreased to $459,074 at June 30, 2011, from $476,302 at September 30, 2010 due to institutional certificate maturities. Deposit growth by product and generated by in-store versus traditional branch locations is as follows:

	In-store	Traditional	Institutional	Total
Non-CD deposits	$3,583	$ 9,145	$	$ 12,728
CD deposits customer	2,726	(9,244)		(6,518)
CD deposits institutional			(22,903)	(22,903)
Total deposit growth	$6,309	$ (99)	$(22,903)	$(16,693)

We continue to grow core deposit relationships through effective execution of our in-store branch growth strategy, and by expanding our deposit product offerings. We also continue to reduce our reliance upon institutional certificates of deposit as a funding source.

The Bank has made a deliberate effort to eliminate its reliance on brokered deposits as a source of funding. Brokered deposits decreased from $297 at September 30, 2010 to $0 at June 30, 2011. These deposits have been replaced by core deposits.

Borrowed Funds. FHLB advances decreased from $64,200 as of September 30, 2010, to $35,300 as of June 30, 2011, primarily as a result of payments of various FHLB borrowings as they matured.

Stockholders Equity. Total stockholders equity was $52,940 at June 30, 2011, versus $49,877 at September 30, 2010. Total stockholders equity increased by $3,063, primarily as a result of a decrease in accumulated other comprehensive loss due to favorable market value adjustments to our MBS portfolio of $3,043.

Liquidity and Asset / Liability Management. Liquidity management refers to our ability to ensure cash is available in a timely manner to meet loan demand and depositors needs, and meet other financial obligations as they become due without undue cost, risk or disruption to normal operating activities. We manage and monitor our short-term and long-term liquidity positions and needs through a regular review of maturity profiles, funding sources, and loan and deposit forecasts to minimize funding risk. A key metric we monitor is our liquidity ratio, calculated as cash and investments with maturities less than one-year divided by deposits with maturities less than one-year. At June 30, 2011, our liquidity ratio was 24.35%, above our targeted liquidity ratio of 10%.

Our primary sources of funds are deposits; amortization, prepayments and maturities of outstanding loans; and other short-term investments and funds provided from operations. We use our sources of funds primarily to meet ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, and to fund loan commitments. While scheduled payments from the amortization of loans and maturing short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Although $101,811 of our $241,057 (42.2%) CD portfolio will mature within the next 12 months, we have historically retained over 75% of our maturing CD s. However, due to strategic pricing decisions regarding rate matching, our retention rate may decrease in the future due to our philosophy of building customer relationships not just deposit accounts. Through new deposit product offerings to our branch customers, we are currently attempting to strengthen customer relationships while lengthening deposit maturities. In our present interest rate environment, and based on maturing yields this should also improve our cost of funds. We believe that the expansion of our in-store branch network in attracting core deposits will enhance long-term liquidity, and is a key component to our broader liquidity management strategy.

We maintain access to additional sources of funds including FHLB borrowings and lines of credit with both the Federal Reserve Bank and the United Bankers Bank. We utilize FHLB borrowings to leverage our capital base, to provide funds for our lending and investment activities, and to manage our interest rate risk. Our borrowing arrangement with the FHLB calls for pledging certain qualified real estate loans, and borrowing up to 75% of the value of those loans, not to exceed 35% of the Bank s total assets. Currently, we have approximately $141,000 available under this arrangement. We also maintain lines of credit of $2,000 with the Federal Reserve Bank, and $5,000 with United Bankers Bank as part of our contingency funding plan. The Federal Reserve Bank line of credit is based on the collateral value of the agency securities being held at the Federal Reserve Bank. The United Bankers Bank line of credit is a discretionary line of credit.

Off-Balance Sheet Liabilities. Some of our financial instruments have off-balance sheet risk. These instruments include unused commitments for credit cards, lines of credit, overdraft protection lines of credit and home equity lines of credit, as well as commitments to extend credit. As of June 30, 2011, the Company had $3,412 in unused commitments, compared to $8,781 in unused commitments as of September 30, 2010. The decrease was primarily due to a decrease in (a) real estate mortgage loan commitments from $1,566 at September 30, 2010 to $912 at June 30, 2011; and (b) unused available credit commitments on our credit card portfolio from $4,969 at September 30, 2010 to $0 at June 30, 2011.

Capital Resources. As of June 30, 2011, we were well capitalized under applicable Prompt Corrective Action Provisions standards in all regulatory measured categories. Current OTS guidance requires the Bank to apply significantly increased risk weighting factors to certain non-agency mortgage-backed securities whose prevailing bond agency ratings have been downgraded due to perceived increases in credit risk. This results in

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required risk based capital levels that are, in some cases, many times greater than the adjusted par value of the securities.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2011 (Unaudited)						
Total capital (to risk weighted assets)	$57,848,000	13.5%	$34,375,000>=	8.0%	$42,969,000>=	10.0%
Tier 1 capital (to risk weighted assets)	53,889,000	12.5%	17,187,000>=	4.0%	25,781,000>=	6.0%
Tier 1 capital (to adjusted total assets)	53,889,000	9.7%	22,122,000>=	4.0%	27,653,000>=	5.0%
Tangible capital (to tangible assets)	53,889,000	9.7%	8,296,000>=	1.5%	NA	NA
As of September 30, 2010 (Audited)						
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

The Bank and the Company each continue to operate under Memoranda of Understanding (the MOU), issued December 23, 2009, by the Office of Thrift Supervision (the OTS). The MOU resulted from issues noted during the examination of the Bank conducted by the OTS, the report on which was dated July 27, 2009. The MOU identified the need for improved management and monitoring of (a) business and capital planning, (b) asset quality, (c) liquidity, and (d) concentrations of credit. The MOU also called for a formalized internal audit and compliance plan and prohibits the Bank from declaring dividends, and the Company from issuing debt without prior consent of the OTS. We believe that both the Company and the Bank have adequate plans in place to satisfactorily address all of the issues raised by the MOU in appropriate timeframes agreed upon with the OTS.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

- originating shorter-term secured consumer loans;
- managing our funding needs by focusing on core deposits and reducing our reliance on brokered deposits and borrowings;
- originating first mortgage loans, with a clause allowing for payment on demand after a stated period of time;
- reducing non-interest expense and managing our efficiency ratio;
- realigning supervision and control of our branch network by modifying their configuration, staffing, locations and reporting structure;
- improved asset and collateral disposition practices; and
- focusing on sound and consistent loan underwriting practices based primarily on borrowers debt ratios, credit score and collateral values.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the Asset and Liability Management Committee may determine to increase the Bank s interest rate risk position somewhat in order to maintain or improve its net interest margin.

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As of June 30, 2011, $228,294 of loans in our portfolio included a payable-on-demand clause. We have not utilized the clause since fiscal 2000 because, in our view, it has not been appropriate. Therefore, the clause has had no impact on our liquidity and overall financial performance for the periods presented. The purpose behind the payable-on-demand clause is to provide the Bank with some protection against the impact on net interest margin of sharp and prolonged interest rate increases. It is the Bank s policy to write the majority of its real estate loans with a payable-on-demand clause. The factors considered in determining whether and when to utilize the payable-on-demand clause include a significant, prolonged increase in market rates of interest; liquidity needs; a desire to restructure the balance sheet; an individual borrower s unsatisfactory payment history; and, the remaining term to maturity.

The following table sets forth, at March 31, 2011 (the most recent date available), an analysis of our interest rate risk as measured by the estimated changes in NPV resulting from instantaneous and sustained parallel shifts in the yield curve (up 300 basis points and down 100 basis points, measured in varying increments). As of March 31, 2011, due to the current level of interest rates, NPV estimates for decreases in interest rates greater than 100 basis points are not meaningful.

Change in Interest Rates in Basis	Net Portfolio Value			Net Portfolio Value as $ of	
Points (bp) Rate Shock in Rates (1)	Amount	Change	Change	NPV Ratio	Change
	(Dollars in thousands)				
+300 bp	$43,428	$(708)	(2%)	7.63%	6bps
+200 bp	43,908	(228)	(1%)	7.65%	8
+100 bp	44,580	444	1%	7.70%	13
+50 bp	44,485	349	1%	7.65%	9
0 bp	44,136			7.57%	
-50 bp	43,479	(657)	(1%)	7.43%	(13)
-100 bp	43,618	(518)	(1%)	7.43%	(14)

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

The assumptions used to measure and assess interest rate risk include interest rates, loan prepayment rates, deposit decay (runoff) rates, and the market values of certain assets under differing interest rate scenarios.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial and Accounting Officer, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have designed our disclosure controls and procedures to reach a level of reasonable assurance of achieving the desired control objectives. We carried out an evaluation as of June 30, 2011, under the supervision and with the participation of the Company s management, including our Chief Executive Officer and Principal Financial and Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that our disclosure controls and procedures were effective as of June 30, 2011 at reaching a level of reasonable assurance.

There was no change in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the Company s most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On January 4, 2010, we received notice of a demand for arbitration by James G. Cooley, the Company s former President and Chief Executive Officer, from the American Arbitration Association in connection with our termination of his employment and his employment agreement. As part of the demand, Mr. Cooley asserted claims against the Company (and certain members of the Company s Board of Directors) related to breach of contract, wrongful discharge, defamation of character and intentional infliction of emotional distress. Mr. Cooley sought relief in the form of actual damages, punitive damages, attorneys fees, interest and reimbursement of costs. On March 1, 2010, Mr. Cooley initiated a declaratory judgment action in Wisconsin circuit court seeking a court determination as to whether the Company and certain members of the Company s Board of Directors have a legal obligation to submit Mr. Cooley s arbitration claims to an arbitrator. The declaratory judgment was dismissed on August 26, 2010, and the request for arbitration was subsequently withdrawn on August 26, 2010 as well.

On September 27, 2010, Mr. Cooley filed a lawsuit in the Eau Claire County Circuit court against the Company and the Bank and individual directors thereof, seeking damages for breach of employment contract, violation of public policy in the State of Wisconsin, defamation of character and intentional infliction of emotional distress, and punitive damages.

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On January 24, 2011, the court dismissed the defamation and infliction of emotional distress claims. The court subsequently reinstated post-termination claims of defamation, infliction of emotional distress and punitive damages.

Management continues to believe that the remaining aforementioned claims are without merit. Although the Company intends to vigorously defend against the remaining claims, no assurances can be given regarding the outcome of this matter.

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

***Item 1A.* RISK FACTORS**

There are no material changes from the risk factors disclosed in Part I, Item 1A, Risk Factors, of the Company s Form 10-K, as amended, for the fiscal year ended September 30, 2010. Please refer to that section for disclosures regarding the risks and uncertainties relating to our business.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

***Item 3*. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

***Item 4.* [REMOVED AND RESERVED]**

Not applicable.

***Item 5.* OTHER INFORMATION**

Not applicable.

***Item 6.* EXHIBITS**

(a) Exhibits

31.1 Rule 13a-14(a) Certification of the Company s Chief Executive Officer

31.2 Rule 13a-14(a) 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).

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* 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.

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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, INC.
Date: August 15, 2011	By: /s/ Edward H. Schaefer Edward H. Schaefer Chief Executive Officer
Date: August 15, 2011	By: /s/ Rebecca L. Johnson Rebecca L. Johnson Principal Financial and Accounting Officer