

Altra Holdings, Inc.
Form 4
December 04, 2007

FORM 4

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

Check this box
if no longer
subject to
Section 16.
Form 4 or
Form 5
obligations
may continue.
See Instruction
1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF
SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
Section 17(a) of the Public Utility Holding Company Act of 1935 or Section
30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB
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(Print or Type Responses)

1. Name and Address of Reporting Person *
HURT MICHAEL L

(Last) (First) (Middle)

2. Issuer Name **and** Ticker or Trading
Symbol
Altra Holdings, Inc. [AIMC]

3. Date of Earliest Transaction
(Month/Day/Year)
12/03/2007

5. Relationship of Reporting Person(s) to
Issuer

(Check all applicable)

☒ Director ☐ 10% Owner
☒ Officer (give title below) ☐ Other (specify below)

Chairman and CEO

(Street)

4. If Amendment, Date Original
Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check
Applicable Line)
☒ Form filed by One Reporting Person
☐ Form filed by More than One Reporting
Person

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
common stock, par value, \$0.001	12/03/2007		S	19,000 (1)	D \$ 16 454,549	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repor Trans (Instr
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HURT MICHAEL L	X		Chairman and CEO	

Signatures

Todd Patriacca,
Attorney-in-Fact
12/04/2007

__Signature of Reporting Person Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Sold pursuant to a 10b 5-1 plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays
a currently valid OMB number. gn="top" width="15%" style="border-bottom: medium none;">

Leased

July 31, 2006⁽¹⁾

N/A

BRANCH OFFICES:

Westside Branch

2125 Cameron Street
Eau Claire, WI 54703

Owned

N/A

\$305,800

Eastside Branch

1028 N. Hillcrest Parkway
Altoona, WI 54720

Owned

N/A

\$363,750

Fairfax Branch

219 Fairfax Street
Altoona, WI 54720

Owned

N/A

\$822,000

Mondovi Branch

695 E. Main Street
Mondovi, WI 54755

Leased

June 30, 2007⁽²⁾

N/A

Rice Lake Branch

2462 S. Main Street
Rice Lake, WI 54868

Leased

April 30, 2007

N/A

Chippewa Falls Branch

427 W. Prairie View Road
Chippewa Falls, WI 54729

Owned

N/A

\$262,000

Baraboo Branch

S2423 Highway 12
Baraboo, WI 53913

Owned⁽³⁾

N/A

\$ 1,000

Black River Falls Branch

W9036 Highway 54 E.
Black River Falls, WI 54615

Owned⁽³⁾

N/A

\$ 31,000

Mankato Branch

1410 Madison Avenue
Mankato, MN 56001

Leased

October 30, 2010

N/A

Oakdale Branch

7035 10th Street North
Oakdale, MN 55128

Leased

September 30, 2009

N/A

Lake Orion Branch⁽⁴⁾

688 S. Lapeer Road
Lake Orion, MI 48362

Leased

February 28, 2012

N/A

Rochester Hills Branch

310 West Tienken Road
Rochester Hills, MI 48306

Owned

N/A

\$608,000

-
- (1) Lease converts to month-to-month status on August 1, 2006.
 - (2) Citizens Community Federal has a right to extend this lease beyond June 30, 2007.
 - (3) The building is owned and the land is leased.
 - (4) Citizens Community Federal has a right to cancel this lease on or after March 1, 2007, with the cancellation to take effect 90 days after it exercises the right to cancel.

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Management believes that the current facilities are adequate to meet the present and immediately foreseeable needs of Citizens Community Federal and Citizens Community Bancorp, Inc.

Citizens Community Federal currently utilizes Fiserv-Information Tech Inc., an in-house data processing system. The net book value of the data processing and computer equipment utilized by Citizens Community Federal at March 31, 2006 was \$891,771.

On September 9, 2005, Citizens Community Federal entered into a data processing services agreement with Fiserv Solutions, Inc. for a period of five years, subject to automatic extensions of one year unless written notice of non-renewal is provided by either party at least 180 days prior to expiration. Citizens Community Federal also entered into a series of purchase agreements and software user agreements, for a corresponding period, with Information Technology Inc. for the computer equipment and software to be operated by Fiserv Solutions, Inc. on behalf of Citizens Community Federal. Data processing expenses are not expected to change materially under this new Fiserv contract.

Under the agreement, Fiserv Solutions, Inc. provides data processing services and resources, and Information Technology Inc. will provide a license to use its database processing software products and licenses for other Information Technology Inc. software and third party interfaces to and from the Information Technology Inc. software to Citizens Community Federal pursuant to the agreements. The services provided by Fiserv to Citizens Community Federal generally include, but are not limited to, the general management of Citizens Community Federal's data processing, installation and enhancement of Information Technology Inc. software, operation of Information Technology Inc. software and software developed by third parties, programming, furnishing, maintaining and operating computer equipment, providing information in various media forms, and the implementation through Information Technology Inc. of automated teller machine/electronic funds transfer processing, electronic bill payment, and e-delivery services.

HOW WE ARE REGULATED

Set forth below is a brief description of certain laws and regulations that are applicable to Citizens Community Bancorp, Inc. and Citizens Community Federal. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere herein, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

Legislation is introduced from time to time in the United States Congress that may affect our operations. In addition, the regulations governing Citizens Community Bancorp, Inc. and Citizens Community Federal may be amended from time to time by the OTS, the FDIC or the SEC, as appropriate. Any such legislative or regulatory changes in the future could adversely affect our operations and financial condition. No assurance can be given as to whether or in what form any such changes may occur.

Citizens Community Federal

Citizens Community Federal, as a federally chartered savings bank, is subject to regulation and oversight by the OTS extending to all aspects of its operations. Citizens Community Federal also is subject to regulation and examination by the FDIC, which insures the deposits of Citizens Community Federal to the maximum extent permitted by law. This regulation of Citizens Community Federal is intended for the protection of depositors and the insurance of accounts fund and not for the purpose of protecting stockholders. Citizens Community Federal is required to maintain minimum levels of regulatory capital and is subject to some limitations on the payment of dividends to Citizens Community Bancorp, Inc. See "- Regulatory Capital Requirements" and "- Limitations on Dividends and Other Capital Distributions."

As a federal savings bank, Citizens Community Federal is required to file periodic reports with the OTS and is subject to periodic examinations by the OTS.

OTS Regulation. Our relationship with our depositors and borrowers is regulated to a great extent by federal laws and OTS regulations, especially in such matters as the ownership of savings accounts and the form and content of our mortgage requirements. In addition, the branching authority of Citizens Community Federal is regulated by the OTS. Citizens Community Federal is generally authorized to branch nationwide.

The investment and lending authority of Citizens Community Federal is prescribed by federal laws and regulations and it is prohibited from engaging in any activities not permitted by such laws and regulations. This includes a 35% of total assets limit on consumer loans, commercial paper and corporate debt securities. When Citizens Community Federal converted from a credit union to a federal savings bank, the OTS granted it a waiver of that 35% limit. The waiver expired December 10, 2005. At March 31, 2006, Citizens Community Federal had 31% of its assets in consumer loans, commercial paper and corporate debt securities, in compliance with the limit.

As a federal savings bank, Citizens Community Federal is required to meet a qualified thrift lender test. This test requires Citizens Community Federal to have at least 65% of its portfolio assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, we may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code. Under either test, we are required to maintain a significant portion of our assets in residential-housing-related loans and investments. Any institution that fails to meet the qualified thrift lender test becomes subject to certain restrictions on its operations and must convert to a national bank charter, unless it re-qualifies as, and thereafter remains, a qualified thrift lender. If such an institution has not requalified or converted to a national bank within three years after the failure, it must divest of all investments and cease all activities not permissible for a national bank. We were not subject to a similar requirement when we were a credit union and were not in compliance with this requirement at the time we became a federal savings bank. As of March 31, 2006, Citizens Community Federal met this requirement with a qualified thrift lender percentage of 85.5%.

Under OTS regulations, Citizens Community Federal is subject to a lending limit for loans to one borrower or group of related borrowers. This lending limit is equal to the greater of \$500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case the limit is increased to 25% of impaired capital and surplus). At March 31, 2006, Citizens Community Federal's lending limit under this restriction was \$2.9 million. Our outstanding loans are in compliance with this lending limit.

The OTS's oversight of Citizens Community Federal includes reviewing its compliance with the customer privacy requirements imposed by the Gramm-Leach-Bliley Act of 1999 and the anti-money laundering provisions of the USA Patriot Act. The Gramm-Leach-Bliley privacy requirements place limitations on the sharing of consumer financial information with unaffiliated third parties. They also require each financial institution offering financial products or services to retail customers to provide such customers with its privacy policy and with the opportunity to "opt out" of the sharing of their personal information with unaffiliated third parties. The USA Patriot Act significantly expands the responsibilities of financial institutions in preventing the use of the United States financial system to fund terrorist activities. Its anti-money laundering provisions require financial institutions operating in the United States to develop anti-money laundering compliance programs and due diligence policies and controls to ensure the detection and reporting of money laundering. These compliance programs are intended to supplement existing compliance requirements under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations.

We are subject to periodic examinations by the OTS. During these examinations, the examiners may require Citizens Community Federal to provide for higher general or specific loan loss reserves, which can impact our capital and earnings. As a federal savings bank, Citizens Community Federal is subject to a semi-annual assessment, based upon its total assets, to fund the operations of the OTS.

Transactions between Citizens Community Federal and its affiliates generally are required to be on terms as favorable to the institution as transactions with non-affiliates, and certain of these transactions, such as loans to an affiliate, are restricted to a percentage of Citizens Community Federal's capital. In addition, Citizens Community Federal may not lend to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of most affiliates. Citizens Community Bancorp, Inc. will be an affiliate of Citizens Community Federal.

The OTS has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution regulated by the OTS that fails to comply with these standards must submit a compliance plan.

The OTS has extensive enforcement authority over all savings associations and their holding companies, including, Citizens Community Federal and Citizens Community Bancorp, Inc. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS. Except under certain circumstances, public disclosure of final enforcement actions by the OTS is required by law.

FDIC Regulation and Insurance of Accounts. Citizens Community Federal's deposits are insured up to the applicable limits by the FDIC, and such insurance is backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the deposit insurance fund. The FDIC also has the authority to initiate enforcement actions against Citizens Community Federal and may terminate our deposit insurance if it determines that we have engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Citizens Community Bancorp, Inc.

Upon the completion of the Conversion, as a savings association holding company, Community Bancorp, Inc. will be subject to regulation, supervision and examination by the OTS. Applicable federal law and regulations limit the activities of Citizens Community Bancorp, Inc. and require the approval of the OTS for any acquisition or divestiture of a subsidiary, including another financial institution or holding company thereof. Citizens Community Bancorp, Inc. will be an affiliate of Citizens Community Federal, so its transactions with Citizens Community Federal will be subject to regulatory limits and must be on terms as favorable to Citizens Community Federal as in transactions with non-affiliates.

If Citizens Community Federal fails the qualified thrift lender test after the end of its three-year waiver, as discussed above, Citizens Community Bancorp, Inc. must obtain the approval of the OTS prior to continuing after such failure, directly or through other subsidiaries, any business activity other than those approved for bank holding companies or their subsidiaries. In addition, within one year of such failure Citizens Community Bancorp, Inc. must register as, and will become subject to, the restrictions applicable to bank holding companies.

Regulatory Capital Requirements

Capital Requirements for Citizens Community Federal. Citizens Community Federal is required to maintain minimum levels of regulatory capital under regulations of the OTS. These regulations established three capital standards, a tangible capital requirement, a leverage or core capital requirement and a risk-based capital requirement. The OTS is also authorized to impose capital requirements in excess of these standards on a case-by-case basis.

The capital regulations require tangible capital of at least 1.5% of adjusted total assets, as defined by regulation. Tangible capital generally includes common stockholders' equity and retained earnings, and certain noncumulative perpetual preferred stock and related earnings and excludes most intangible assets, which also are deducted from assets for purposes calculating this capital ratio. At March 31, 2006, Citizens Community Federal had tangible capital of \$19.3 million or 7.7% of adjusted total assets, which was approximately \$15.5 million above the required level.

The capital standards require core or Tier 1 capital equal to at least 3.0% of adjusted total assets for the strongest institutions with the highest examination rating and 4.0% of adjusted total assets for all other institutions, unless the OTS requires a higher level based on the particular circumstances or risk profile of the institution. Core capital generally consists of tangible capital, plus certain intangibles. At March 31, 2006, Citizens Community Federal had \$7.4 million of intangibles included in core capital. At March 31, 2006, Citizens Community Federal had core capital equal to \$19.3 million, or 7.7% of adjusted total assets, which was \$9.3 million above the required level of 4%.

The OTS also requires Citizens Community Federal to have total capital of at least 8.0% of risk-weighted assets. Total capital consists of core or Tier 1 capital, as defined above, and Tier 2 capital, which consists of certain permanent and maturing capital instruments that do not qualify as Tier 1 capital and of the allowance for possible loan and lease losses up to a maximum of 1.25% of risk-weighted assets. Tier 2 capital may be used to satisfy this risk-based requirement only to the extent of Tier 1 capital. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet items, will be multiplied by a risk weight, ranging from 0% to 100%, based on the risk inherent in the type of asset. The OTS is authorized to require Citizens Community Federal to maintain an additional amount of total capital to account for concentration of credit risk, level of interest rate risk, equity investments in non-financial companies and the risk of non-traditional activities. At March 31, 2006, Citizens Community Federal had \$164.6 million in risk-weighted assets and total capital of \$19.9 million, or 12.1% of risk-weighted assets, which was \$6.7 million above the required level.

The OTS is authorized and, under certain circumstances, required to take certain actions against savings banks that fail to meet these capital requirements, or that fail to maintain an additional capital ratio of Tier 1 capital of at least 4.0% of risk weighted-assets. The OTS is generally required to take action to restrict the activities of an "undercapitalized institution," which is an institution with less than either a 4.0% core capital ratio, a 4.0% Tier 1 risk-based capital ratio or an 8.0% total risk-based capital ratio. Any such institution must submit a capital restoration plan and until such plan is approved by the OTS may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The OTS is authorized to impose the additional restrictions on undercapitalized institutions.

Any institution that fails to comply with its capital plan or has Tier 1 risk-based or core capital ratios of less than 3.0% or a total risk-based capital ratio of less than 6.0% is considered "significantly undercapitalized" and must be made subject to one or more additional specified actions and operating restrictions that may cover all aspects of its operations and may include a forced merger or acquisition of the institution. An institution with tangible equity to total assets of less than 2.0% is "critically undercapitalized" and becomes subject to further mandatory restrictions on its. The OTS generally is authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition. The imposition by the OTS of any of these measures on Citizens Community Federal may have a substantial adverse effect on its operations and profitability.

Institutions with at least a 4.0% core capital ratio, a 4.0% Tier 1 risk-based capital ratio and an 8.0% total risk-based capital ratio are considered "adequately-capitalized." An institution is deemed "well-capitalized" institution if it has at least a 5% leverage capital ratio, a 6.0% Tier 1 risk-based capital ratio and an 10.0% total risk-based capital ratio. At March 31, 2006, Citizens Community Federal was considered a "well-capitalized" institution.

The OTS is also generally authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition. The imposition by the OTS of any of these measures on Citizens Community Federal may have a substantial adverse effect on its operations and profitability.

Capital Requirements for Citizens Community Bancorp, Inc. Citizens Community Bancorp, Inc. is not subject to any specific capital requirements. The OTS, however, will expect Citizens Community Bancorp, Inc. to support Citizens Community Federal, including providing additional capital when Citizens Community Federal does not meet its capital requirements. As a result of this expectation, the OTS regulates the ability of Citizens Community Federal to pay dividends to Citizens Community Bancorp, Inc.

Limitations on Dividends and Other Capital Distributions

OTS regulations impose various restrictions on savings institutions with respect to the ability of Citizens Community Federal to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Citizens Community Federal must file a notice or application with the OTS before making any capital distribution. Citizens Community Federal generally may make capital distributions during any calendar year in an amount up to 100% of net income for the year-to-date plus retained net income for the two preceding years, so long as it is well-capitalized after the distribution. If Citizens Community Federal, however, proposes to make a capital distribution when it does not meet its current minimum capital requirements (or will not following the proposed capital distribution) or that will exceed these net income limitations, it must obtain OTS approval prior to making such distribution. The OTS may always object to any distribution based on safety and soundness concerns.

Citizens Community Bancorp, Inc. will not be subject to OTS regulatory restrictions on the payment of dividends. Dividends from Citizens Community Bancorp, Inc., however, may depend, in part, upon its receipt of dividends from Citizens Community Federal. In addition, Citizens Community Federal may not make a distribution that would constitute a return of capital during the three-year term of the business plan submitted in connection with this mutual holding company reorganization and stock issuance. No insured depository institution may make a capital distribution if, after making the distribution, the institution would be undercapitalized. See "Our Policy Regarding Dividends."

Federal Securities Law

The stock of Citizens Community Bancorp, Inc. is registered with the SEC under the Securities Exchange Act of 1934, as amended. Citizens Community Bancorp, Inc. will be subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Securities Exchange Act of 1934.

Citizens Community Bancorp, Inc. stock held by persons who are affiliates of Citizens Community Bancorp, Inc. may not be resold without registration unless sold in accordance with certain resale restrictions. Affiliates are generally considered to be officers, directors and principal stockholders. If Citizens Community Bancorp, Inc. meets specified current public information requirements, each affiliate of Citizens Community Bancorp, Inc. will be able to sell in the public market, without registration, a limited number of shares in any three-month period.

The SEC and the NASDAQ have adopted regulations and policies under the Sarbanes-Oxley Act of 2002 that will apply to Citizens Community Bancorp, Inc. as a registered company under the Securities Exchange Act of 1934 and a NASDAQ traded company. The stated goals of these Sarbanes-Oxley requirements are to increase corporate responsibility, provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The SEC and NASDAQ Sarbanes-Oxley-related regulations and policies include very specific additional disclosure requirements and new corporate governance rules. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

TAXATION

Federal Taxation

General. Citizens Community Bancorp, Inc., CCB and Citizens Community Federal are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to Citizens Community Bancorp, Inc., CCB or Citizens Community Federal. Prior to December 2001, Citizens Community Federal was a credit union and was not generally subject to corporate income tax. CCB files consolidated federal tax returns with Citizens Community Federal, and Citizens Community Bancorp, Inc., expects to do the same.

Method of Accounting. For federal income tax purposes, Citizens Community Federal currently reports its income and expenses on the accrual method of accounting and uses a fiscal year ending on September 30, for filing its federal income tax return.

Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, called alternative minimum taxable income. The alternative minimum tax is payable to the extent such alternative minimum taxable income is in excess of the regular tax. Net operating losses can offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. Citizens Community Federal has not been subject to the alternative minimum tax, nor do we have any such amounts available as credits for carryover.

Net Operating Loss Carryovers. A financial institution may carryback net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. This provision applies to losses incurred in taxable years beginning after August 6, 1997. At September 30, 2005, Citizens Community Federal had no net operating loss carryforwards for federal income tax purposes.

Corporate Dividends-Received Deduction. If Citizens Community Bancorp, Inc. elects to file a consolidated return with Citizens Community Federal, dividends it receives from Citizens Community Federal will not be included as income to Citizens Community Bancorp, Inc.. The corporate dividends-received deduction is 100% or 80%, in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, depending on the level of stock ownership of the payer of the dividend.

State Taxation

Citizens Community Bancorp, Inc., CCB and Citizens Community Federal are subject to the Wisconsin corporate franchise (income) tax, which is assessed at the rate of 7.9% of taxable income. Wisconsin taxable income generally is the same as federal taxable income with certain adjustments. Citizens Community Federal has branch offices in Minnesota and Michigan and, accordingly, is subject to state taxes in these states as well. Neither CCB nor Citizens Community Federal has been audited by Wisconsin or any other state taxing authorities during the past five years.

As a Maryland corporation, Citizens Community Bancorp, Inc. is required to file an annual report with and pay an annual fee to the State of Maryland.

MANAGEMENT

Directors and Executive Officers of Citizens Community Bancorp, Inc.

Our board of directors consists of six individuals, all of whom also serve as directors of Citizens Community Bancorp, Inc., CCB and Citizens Community Federal. Approximately one-third of the directors are elected annually to serve for a three-year period or until their respective successors are elected and qualified. The table below sets forth information regarding each director of Citizens Community Bancorp, Inc. and CCB.

Name	Age ⁽¹⁾	Position(s) Held with Citizens Community Bancorp, Inc., CCB	Director Since ⁽²⁾	Term to Expire
		and Citizens Community Federal		
Brian R. Schilling	52	Director	1987	2009
David B. Westrate	63	Director	1991	2009
Adonis E. Talmage	80	Director	1984	2007
James G. Cooley	59	President, Chief Executive Officer and Director	1993	2007
Richard McHugh	64	Chairman and Director	1985	2008
Thomas C. Kempen	65	Vice-Chairman	1982	2008

(1) At September 30, 2005.

(2) Includes service as a director of Citizens Community Federal and its predecessors.

Set forth below is the principal occupation of each director of Citizens Community Bancorp, Inc., each of whom has held his or her present position for at least five years, unless otherwise indicated.

Brian R. Schilling. Mr. Schilling is the Managing Partner of W.J. Bauman Associates, LTD, a certified public accounting firm.

David B. Westrate. Mr. Westrate currently serves as planning supervisor for Sterling Education Services, Co., a position he has held for three years. Prior to that time, he was not employed.

Adonis E. ("Donna") Talmage. Ms. Talmage is currently retired. Prior to her retirement, she was an accountant and data processor for Consumers Co-Op Association.

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James G. Cooley. Mr. Cooley is President and Chief Executive Officer of Citizens Community Federal, a position he has held since 1987.

Richard McHugh. Mr. McHugh is the Owner/President of Choice Products, USA.

Thomas C. Kempen. Mr. Kempen is the owner of T. C. Kempen Landscaping Supplies & Consulting.

Executive Officers of Citizens Community Bancorp, Inc.

The executive officers of Citizens Community Bancorp, Inc., CCB and Citizens Community Federal are elected annually and hold office until their respective successors have been elected or until death, resignation or removal by the board of directors. All of the individuals listed below, except Brian P Ashley, are executive officers of Citizens Community Bancorp, Inc., CCB and Citizens Community Federal. Mr. Ashley serves solely as an executive officer of Citizens Community Federal.

Name	Age(1)	Position(s) Held with Citizens Community Bancorp, Inc., CCB
		and Citizens Community Federal (2)
James G. Cooley	59	President, Chief Executive Officer and Director
John D. Zettler	51	Senior Vice President and Chief Financial Officer
Johnny W. Thompson	53	Senior Vice President and Chief Administration Officer
Timothy J. Cruciani	45	Executive Vice President
Rebecca Johnson	45	Vice President, MIC/Accounting
Brian P. Ashley	59	Senior Vice President, Community Plus Division of the Bank

(1) At September 30, 2005.

(2) Includes service as a director of Citizens Community Federal and its predecessors. Mr. Ashley services only as an officer of Citizens Community Federal.

Set forth below is the principal occupation of each executive officer listed in the table above (excluding Mr. Cooley, whose background is included above in the discussion of the backgrounds of our directors), each of whom has held his or her present position for at least five years, unless otherwise indicated.

John Zettler. Mr. Zettler is currently serving as Chief Financial Officer. In his capacity as Senior Vice President, Mr. Zettler assists the President in all of his duties with primary responsibility for financial information and human resources activity of Citizens Community Federal. Mr. Zettler joined Citizens Community Federal in 1980 and was named Senior Vice President in 1997.

Timothy J. Cruciani. Mr. Cruciani is currently serving as Executive Vice President and Senior Vice President of Operations. He joined Citizens Community Federal in 1989. Mr. Cruciani oversees the branch operations and the indirect paper operations of Citizens Community Federal.

Johnny W. Thompson. Mr. Thompson currently serves as Senior Vice President/Chief Administrative Officer, a position he has held since he joined Citizens Community Federal in 2002. Mr. Thompson's responsibilities include direct marketing and public relations associated with Citizens Community Federal. Prior to joining Citizens Community Federal, Mr. Thompson served as Vice President of Karwoski & Courage, a marketing communications firm.

Rebecca Johnson. Ms. Johnson serves as Vice President MIC/Accounting for Citizens Community Federal, a position she has held since 2002. She directs all computer/data processing and accounting activities associated with Citizens Community Federal. Ms. Johnson joined Citizens Community Federal in 1980.

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Brian P. Ashley. Mr. Ashley has served as the Senior Vice President of our Community Plus Division located in our Michigan offices since July 2005. For over five years prior to that, he was President of Community Plus Savings Bank, Rochester Hills, Michigan.

Meetings and Committees of the Board of Directors

The board of directors of Citizens Community Bancorp, Inc., generally meets on a monthly basis. The board of directors of CCB generally meets on a monthly basis, holding additional special meetings as needed. During fiscal 2005, the board of directors CCB held nine regular meetings and two special meetings. Meetings of the board of directors of Citizens Community Federal also are generally held on a monthly basis. In 2005, the board of directors of Citizens Community Federal held twelve regular meetings and two special meetings. No director attended fewer than 75% of the board meetings and meetings of the committees on which they served during the period they were directors.

The board of directors of CCB has standing Compensation, Audit and Nominating Committees. These committees will become committees of the board of directors of Citizens Community Bancorp, Inc., after the completion of the Conversion and Stock Offering.

The Compensation Committee is currently comprised of Directors McHugh and Westrate. The Compensation Committee is responsible for reviewing all issues pertaining to executive compensation, reviewing and recommending all changes in employee benefit plans and making recommendations to the board regarding director compensation. This committee met once in fiscal 2005.

The board of directors has adopted written charters for its Audit and Nominating Committees, as well as a written Code of Business Conduct and Ethics that applies to all our directors, officers, and employees. You may obtain a copy of these documents free of charge by writing to: Donna Talmage, Corporate Secretary, Citizens Community Bancorp, 2174 EastRidge Center, Eau Claire, Wisconsin 54701, or by calling (715) 836-9994. In addition, our Code of Business Conduct and Ethics was filed with the SEC as Exhibit 14 to the Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2004.

The Audit Committee operates under a written charter adopted by the full board of directors. The Audit Committee currently has two members, including directors Westrate and Schilling, each of whom is an "independent director" under the standards established by the United States Securities and Exchange Commission (the "SEC") for members of audit committees as required by the Nasdaq Rules. A third "independent director" will be added prior to completion of the Stock Offering, in compliance with Nasdaq requirements. Mr. Schilling is an "audit committee financial expert" as defined in the rules of the SEC and the Nasdaq.

This committee is responsible for the review of the company's annual audit report prepared by our independent auditors. The functions of the Audit Committee include:

- reviewing significant financial information including all quarterly reports and press releases containing financial information for the purpose of giving added assurance that the information is accurate and timely and that it includes all appropriate financial statement disclosures;
- ascertaining the existence of effective accounting and internal control systems; and
- overseeing the entire audit function including reviewing all reports received from the independent auditor.

In fiscal 2005, this committee met eleven times.

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During fiscal 2005, the full board of directors of CCB acted as a nominating committee for the selection of nominees for election as directors and met one time for this purpose. After completion of the Stock Offering, the Nominating Committee will be comprised solely of independent directors, in compliance with Nasdaq requirements. The Nominating Committee is responsible for identifying and recommending director candidates to serve on the Board of Directors. Final approval of director nominees is determined by the full Board, based on the recommendations of the Nominating Committee.

The Nominating Committee operates under a formal written charter adopted by the board, under which the Nominating Committee has the following responsibilities:

- (1) recommend to the board the appropriate size of the board and assist in identifying, interviewing and recruiting candidates for the board;
- (2) recommend candidates (including incumbents) for election and appointment to the board of directors, subject to the provisions set forth in our charter and bylaws relating to the nomination or appointment of directors, based on the following criteria: business experience, education, integrity and reputation, independence, conflicts of interest, diversity, age, number of other directorships and commitments (including charitable organizations), tenure on the board, attendance at board and committee meetings, stock ownership, specialized knowledge (such as an understanding of banking, accounting, marketing, finance, regulation and public policy) and a commitment to our communities and shared values, as well as overall experience in the context of the needs of the board as a whole;
- (3) review nominations submitted by stockholders, which have been addressed to our Secretary, and which comply with the requirements of our charter and bylaws. Nominations from stockholders will be considered and evaluated using the same criteria as all other nominations;
- (4) annually recommend to the board committee assignments and committee chairs on all committees of the board, and recommend committee members to fill vacancies on committees as necessary; and
- (5) perform any other duties or responsibilities expressly delegated to the Committee by the board.

Corporate Governance Policies and Procedures

In addition to adopting charters for and establishing the Audit, Compensation and Nominating Committees of the board of directors, we have adopted a code of business conduct and ethics and will several corporate governance policies to govern the activities of Citizens Community Bancorp, Inc., CCB and Citizens Community Federal.

The code of business conduct and ethics, which applies to all employees and directors, addresses conflicts of interest, the treatment of confidential information, general employee conduct and compliance with applicable laws, rules and regulations. In addition, the code of business conduct and ethics is designed to deter wrongdoing and to promote honest and ethical conduct, the avoidance of conflicts of interest, full and accurate disclosure and compliance with all applicable laws, rules and regulations.

The corporate governance policies are expected to cover such matters as the following:

The duties and responsibilities of each director;

The composition and responsibilities of each director committee;

- The establishment and operation of board committees, including provisions of charters for the Audit, Nominating and Compensation Committees of the board;

- Convening executive sessions of independent directors;

- The board of directors' interaction with management and third parties; and

- The evaluation of the performance of the board of directors and the chief executive officer.

Director Compensation

All directors, except the Chairman receives a fee of \$666.66 per month for services on the boards of directors of Citizens Community Bancorp, Inc, CCB and Community Federal. The Chairman is paid \$1,500 for board and board committee service. Total fees paid to directors of CCB and Citizens Community Federal during the fiscal year ended September 30, 2005, were \$60,765.

Citizens Community Federal maintains a Supplemental Executive and Director's Retirement Plan, which is an unfunded, non-contributory defined benefit plan providing for supplemental pension benefits for certain key employees and directors. Benefits are based on a formula that includes participants' past and future earnings and years of service with Citizens Community Federal. This retirement plan is administered by the Compensation Committee, which selects participants in the plan. Director McHugh is credited with one month of service under the plan for each month served since August 1, 2002. The remaining directors are credited with one month of service under the plan for every two months of service since August 1, 2002. The benefits under the plan are monthly payments for the lesser of 120 months or actual months of service under the plan, rounded up to the next full quarter end. All of the non-employee directors are participants in the plan. Director McHugh has quarterly benefits of \$4,500 per quarter, and the remaining non-officer directors have quarterly benefits of \$2,000 per quarter. Unless a vesting schedule is included in a participant's plan agreement, each participating director is fully vested in the benefits under the plan upon executing the plan agreement. The benefits under the plan are unfunded and unsecured and are merely promised by Citizens Community Federal. We are under no obligation to fund the plan in advance; however, if we chose to do so, such funded amounts would be automatically expensed at the time of funding. We accrue for the new liability based on a present valuation calculation. Benefits are expensed on a straight line basis over the remaining months until eligible retirement.

CCB and its stockholders adopted a 2004 Stock Option and Incentive Plan and a 2004 Recognition and Retention Plan, which provides for the granting of shares of restricted stock. Each non-employee director of CCB was awarded options to purchase shares of CCB common stock under the option plan and shares of CCB common stock under the restricted stock plan. The number of outstanding options and the exercise price will be adjusted in accordance with the Exchange Ratio in connection with the Conversion. The restricted stock awards also will be adjusted for the Exchange Ratio in connection with the Conversion. See "Benefits - Existing Stock Options and Restricted Stock" details related to these stock plans.

Executive Compensation

The following table sets forth summary information concerning compensation awarded to, earned by or paid to CCB's President, Chief Financial Officer, Senior Vice President and Executive Vice President. No other executive officer of CCB earned a salary and bonus in excess of \$100,000 for the fiscal year ended September 30, 2005. The named executive officers received perquisites and other personal benefits in addition to salary and bonus during the periods stated. The aggregate amount of these perquisites and other personal benefits, however, did not exceed the lesser of \$50,000 or 10% of the total of their respective annual salary and bonus and, therefore, has been omitted as permitted by the rules of the SEC.

Name and Principal Position	Fiscal Year	Annual Compensation			Long Term Compensation Awards			All Other Compensation ⁽³⁾
		Salary	Bonus	Other Annual Compensation (\$) ⁽¹⁾	Restricted Stock Award (\$) ⁽²⁾	Options (#) ⁽²⁾		
James G. Cooley President, Chief Executive Officer and Director	2005	\$ 213,036	\$ 20,000	\$ ---	\$ 200,472	37,262		\$ 102,680
	2004	206,894	---	---	---	---		88,369
	2003	188,003	---	---	---	---		57,436
John Zettler Senior Vice President and Chief Financial Officer	2005	\$ 127,777	\$ ---	\$ ---	\$ 32,078	5,962		\$ 16,786
	2004	124,093	---	---	---	---		13,656
	2003	112,336	---	---	---	---		10,360
Johnny W. Thompson Senior Vice President and Chief Administration Officer	2005	\$ 113,993	\$ ---	\$ 4,800 ⁽⁴⁾	\$ 32,078	5,962		\$ 12,324
	2004	111,352	---	4,800 ⁽⁴⁾	---	---		12,639
	2003	106,703	---	13,800 ⁽⁴⁾	---	---		14,965
Timothy J. Cruciani Executive Vice President	2005	\$ 101,962	\$ ---	\$ ---	\$ 72,173	13,414		\$ 11,282
	2004	98,177	---	---	---	---		8,336
	2003	84,083	---	---	---	---		5,415

(1) This amount does not include personal benefits or perquisites which did not exceed the lesser of \$50,000 or 10% of the named individuals' salary and bonus.

(2) This amount represents the dollar value of restricted stock awarded pursuant to the Company's 2004 Recognition and Retention Plan.

(3) This amount represents Citizens Community Federal's contribution to its supplemental executive retirement plans of \$96,289, \$12,952, \$12,324 and \$8,223 in 2005, \$81,562, \$10,005, \$9,184 and \$5,600 in 2004 and \$52,058,

\$7,012, \$14,240 and \$3,190 in 2003, respectively, and to its 401(k) plan of \$6,391, \$3,834, \$3,420 and \$3,059 in 2005, \$6,807, \$3,651, \$3,455 and \$2,736 in 2004 and \$5,378, \$3,348, \$725 and \$2,225 in 2003, respectively, on behalf of the named executive officers.

(4) This amount includes \$4,800 auto allowance in 2005 and 2004, and \$9,000 relocation expense and \$4,800 auto allowance in 2003.

Benefits

General. We provide health and welfare benefits to employees, including hospitalization, comprehensive medical insurance and dental, life, short term and long-term disability insurance, subject to certain deductibles and copayments by employees. We also provides certain retirements benefits. See Notes _ and _ of the Notes to Consolidated Financial Statements.

Supplemental Executive Retirement Plans. Our Supplemental Executive Retirement Plan, which provides benefits to our directors, also provides benefits to certain key employees selected by the Compensation Committee upon retirement. This plan is an unfunded, non-contributory defined benefit under which we will pay supplemental pension benefits to certain key employees upon retirement. Benefits are based on a formula that includes participants' past and future earnings and years of service. All executive officers in the Summary Compensation Table are participants in this plan.

401(k) Savings Plan. We offer our employees a 401(k) plan, which is a qualified, tax-exempt savings plan with a cash or deferred feature qualifying under Section 401(k) of the Internal Revenue Code. All employees who have attained age 21 and completed twelve months of continuous employment, during which they worked at least 1,000 hours, are eligible to participate.

Participants are permitted to make salary reduction contributions to the 401(k) Plan of up to 100% of their annual salary, up to a maximum of \$15,000 (\$20,000 for employees over 50 years of age). We match each contribution in an amount equal to 150% of the participant's 401(k) deferrals for the year up to 3% of their salary. All contributions made by participants are before-tax contributions. All participant contributions and earnings are fully and immediately vested. All matching contributions are vested at a rate of 20% per year after a two year period over a five-year period commencing after one year of employment with us. However, in the event of retirement at age 65 or older, permanent disability or death, a participant will automatically become 100% vested in the value of all matching contributions and earnings thereon, regardless of the number of years of employment.

Employees are eligible to begin deferrals under the 401(k) Plan immediately upon hire, provided they are age 21. They must wait one year and be age 21 for the employer match.

Participants may invest amounts contributed to their 401(k) plan accounts in one or more investment options available under the 401(k) plan. Changes in investment directions among the funds are permitted on a periodic basis pursuant to procedures established by the plan administrator. Each participant receives a quarterly statement that provides information regarding, among other things, the market value of all investments and contributions made to the 401(k) plan on the participant's behalf. All executive officers in the Summary Compensation Table received 3% contributions during our last fiscal year.

Employee Stock Ownership Plan. Citizens Community Federal established an employee stock ownership plan in 2004 for employees of Citizens Community Federal. We intend to continue this plan after the Conversion, and the plan will own 8% of the shares of common stock of Citizens Community Bancorp, Inc., following the completion of the Stock Offering.

The employee stock ownership plan borrowed funds from CCB and will be borrowing funds from Citizens Community Bancorp, Inc., to purchase shares of common stock of those entities. The interest rate for the loans is the prime rate of interest, and that stock purchased with loan proceeds serves as collateral for these loans. Shares purchased by the employee stock ownership plan with the proceeds of the loans are held in a suspense account. As Citizens Community Federal repays those loans over a ten-year period, shares are released to participants' accounts.

In any plan year, we may make additional discretionary contributions for the benefit of plan participants in either cash or shares of common stock, which may be acquired through the purchase of outstanding shares in the market or from individual stockholders, upon the original issuance of additional shares by us or upon the sale of our treasury shares. These purchases, if made, would be funded through additional borrowings by the employee stock ownership plan or additional contributions by Citizens Community Federal. The timing, amount and manner of future contributions to the employee stock ownership plan will be affected by various factors, including prevailing regulatory policies, the requirements of applicable laws and regulations and market conditions.

Shares released from the employee stock ownership plan are allocated to each eligible participant's employee stock ownership plan account based on the ratio of each such participant's compensation to the total compensation of all eligible employee stock ownership plan participants. Forfeitures are reallocated among remaining participating employees and may reduce any amount we might otherwise have contributed to the employee stock ownership plan. The account balances of participants within the employee stock ownership plan become 100% vested after five years of service. Credit for eligibility and vesting is given for years of service prior to adoption of the employee stock ownership plan. In the case of a "change in control," as defined in the employee stock ownership plan, which triggers a termination of the employee stock ownership plan, participants will become immediately fully vested in their account balances. Benefits are payable upon retirement or other separation from service. Our contributions to the employee stock ownership plan are not fixed, so benefits payable under the employee stock ownership plan cannot be estimated.

First Bankers Trust Company of Quincy, Quincy, Illinois serves as trustee of the employee stock ownership plan. Under the employee stock ownership plan, the trustee must vote all allocated shares held in the employee stock ownership plan in accordance with the instructions of the participating employees, and unallocated shares are voted in the same ratio on any matter as those allocated shares for which instructions are given.

GAAP requires that any third party borrowing by the employee stock ownership plan be reflected as a liability on Citizens Community Bancorp, Inc.'s (and CCB's) balance sheet. Since the employee stock ownership plan borrows from CCB or Citizens Community Bancorp, Inc., such obligations are not treated as a liability, but are excluded from stockholders' equity until repaid. If the employee stock ownership plan purchases newly issued shares, total stockholders' equity would neither increase nor decrease, but per share stockholders' equity and per share net earnings would decrease as the newly issued shares are allocated to the employee stock ownership plan participants.

The employee stock ownership plan is subject to the requirements of ERISA, and the regulations of the IRS and the Department of Labor thereunder. The IRS has provided a favorable determination that the employee stock ownership plan is a tax-qualified plan.

Existing Stock Options and Restricted Stock. On February 4, 2005, our directors and executive officers were awarded options to purchase shares of common stock of CCB under CCB's 2004 Stock Option and Incentive Plan, at an exercise price equal to the fair market value of the common stock on the date of grant. These options are first exercisable at a rate of 20% one year after the date of grant (February 4, 2006) and 20% annually thereafter during continued service as an employee, director or director emeritus. Upon disability, death, or a change in control, these awards become 100% exercisable. The number of options and the exercise price will be adjusted in accordance with the Exchange Ratio in connection with the Conversion.

Each non-employee director was awarded 7,453 options in February 2005. The following table shows information with respect to grants of options to the named executive officers during fiscal year ended September 30, 2005.

Name	Number of Securities Underlying Options Granted ⁽¹⁾	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term ⁽²⁾	
					5%	10%
James G. Cooley <i>President and Chief Executive Officer</i>	37,262	54.3%	\$13.45	2/4/2015	315,186	798,742
John D. Zettler <i>Senior Vice President and Chief Financial Officer</i>	5,962	8.7%	\$13.45	2/4/2015	50,430	127,800
Johnny W. Thompson <i>Senior Vice President and Chief Administration Officer</i>	5,962	8.7%	\$13.45	2/4/2015	50,430	127,800
Timothy J. Cruciani <i>Executive Vice President</i>	13,414	19.6%	\$13.45	2/4/2015	113,464	287,540

(1) All options granted have ten year terms and vest at the rate of 20% annually, with the first 20% having vested on the first anniversary following the date of grant.

(2) Represents the difference between the aggregate exercise price of the options and the aggregate value of the underlying common stock at the expiration date of the options assuming the indicated annual rate of appreciation in the value of the common stock as of the date of grant, February 4, 2005, based on the most recent sale price of the common stock as quoted on the OTC Bulletin Board on February 4, 2005. The dollar gains under these columns result from calculations required by the Securities and Exchange Commission's rules and are not intended to forecast future price appreciation of the common stock. Options have value only if the stock price increases above the exercise price shown in the table during the effective option period. In order for the executive to realize the potential values set forth in the 5% and 10% columns in the table, the price per share of CCB's common stock would be approximately \$21.91 and \$34.89, respectively, as of the expiration date of the options.

The following table summarizes certain information relating to the value of options held by the named executive officers at September 30, 2005. Value realized upon exercise is the difference between the fair market value of the underlying stock on the exercise date and the exercise price of the option. At September 30, 2005, none of these options were in-the-money. These options have not been, and may not ever be, exercised. Actual gains, if any, on exercise will depend on the value of CCB and, after the Conversion, Citizens Community Bancorp, Inc. common stock on the date of exercise.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at FY-End (#)		Value of Unexercised In-the-Money Options FY-End (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
James G. Cooley <i>President</i>	---	---	---	37,262	---	---
John D. Zettler <i>Senior Vice President and Chief Financial Officer</i>		---	---	5,962	---	---
Johnny W. Thompson <i>Senior Vice President and Chief Administration Officer</i>	---	---	---	5,962	---	---
Timothy J. Cruciani <i>Executive Vice President and Chief Administration Officer</i>	---	---	---	13,414	---	---

On February 4, 2005, our directors and officers were awarded shares of restricted stock under CCB's 2004 Recognition and Retention Plan. Each non-employee director was awarded 1,192 shares of restricted stock. President and Chief Executive Officer Cooley was awarded 14,905 shares of restricted

stock. Officers Zettler, Thompson and Cruciani were awarded 2,385, 2,385 and 5,366 shares of restricted stock, respectively. In addition, in November 2005, Directors McHugh and Kempen were awarded another 1,788 shares of restricted stock. Restricted stock awards vest at the rate of 20% beginning one year after the date of grant and 20% annually thereafter during periods of service as an employee, director or advisory director. All awards become immediately 100% vested upon death or disability or termination of service following a change in control. The restricted stock awards will be adjusted in accordance with the Exchange Ratio in connection with the Conversion. We intend to continue to make stock purchases in the open market from time to time to fund this plan after the completion of the Stock Offering.

Employment Agreements for Executive Officers. Citizens Community Federal currently has rolling three-year employment agreements with James G. Cooley, John D. Zettler, Johnny W. Thompson and Timothy J. Cruciani. Under the employment agreements, the salary levels for fiscal 2005 were \$213,063, \$127,777, \$113,993, and \$101,606 for each of these officers, respectively. In addition, the amount of salary provided for under the agreements is increased by 5% per year with respect to Mr. Thompson. The agreements also provide for equitable participation by the officers in Citizen Community Federal's employee benefit plans.

The agreements may be terminated by Citizens Community Federal at any time or by the executive if he is assigned duties inconsistent with his title, duties, responsibilities and status. In the event that the officer's employment is terminated without cause or constructively terminated, Citizens Community Federal would be required to honor the terms of the agreement through the expiration of the contract, including payment of the then current cash compensation.

Certain Transactions. Like many financial institutions, Citizens Community Federal has followed a policy of granting loans to our officers, directors and employees on the security of their primary residences and also of granting consumer loans to such persons. We have never granted loans to directors and executive officers on preferred terms. In accordance with the requirements of applicable law, loans to executive officers and directors of the CCB and Citizens Community Federal are made on substantially the same terms, including interest rates, fees and collateral, as those prevailing at the time for comparable transactions with other persons, and in the opinion of management do not involve more than the normal risk of collectibility or present other unfavorable features. At March 31, 2006, loans to directors and executive officers totaled \$58,000.

Potential New Stock Benefit Plan

Citizens Community Bancorp, Inc., intends to adopt a new equity incentive plan at least six months from the completion of the Conversion, which will provide for the granting of stock options, stock appreciation rights and restricted stock to directors, executive officers and other officers designated by the Compensation Committee. If we decide to adopt that plan sooner than one year following the Conversion, the plan will comply with OTS regulations related to stock benefit plans adopted after a Conversion, including limitations on vesting and allocation of awards. In addition, any plan adopted within one year of the completion of the Conversion will be subject to stockholder approval at a meeting of stockholders held no sooner than six months subsequent to the completion of the Conversion.

The purpose of the equity incentive plan will be to attract and retain qualified personnel in key positions, provide officers and directors with a proprietary interest in Citizens Community Bancorp, Inc., as an incentive to contribute to our success and reward directors and officers for outstanding performance. No determinations have been made as to the time of implementation of the equity incentive plan, the specific terms of the plan or any allocation of awards that may be made under the plan.

If we present the new equity incentive plan for a stockholder vote within one year of the Conversion, current OTS policy would limit the shares reserved under the plan and require us to take into account shares reserved under our current plans. The equity incentive plan may reserve up to approximately 4% and 10% of the shares outstanding after the Stock Offering for restricted stock and stock option awards under the new plan, excluding the shares originally reserved under the 2004 plans. Under these limitations and at the midpoint of the offering range, the new plan may not reserve an amount of common stock for stock options exceeding approximately 6.0% of the shares sold in the Stock Offering, and the new plan may not reserve an amount of common stock for restricted stock exceeding approximately 2.4% of the shares sold in the Stock Offering.

Although the terms of the plan have not yet been determined, the plan would be in effect for up to ten years from the earlier of adoption by board of directors or approval by the stockholders. It is expected that it will provide for the grant of stock options intended to qualify as incentive stock options under the Internal Revenue Code (incentive stock options) and options that do not so qualify (non-statutory stock options). Options would expire no later than 10 years from the date granted and would expire earlier if the Compensation Committee so determines or in the event of termination of employment. The plan would also provide for the granting of stock appreciation rights and restricted stock. Awards under the plan would be granted based upon several factors, including length of service, job duties and responsibilities and job performance. Shares used to fund the awards under the plan may be acquired through open market purchases or provided from authorized but unissued shares.

While our intention is to fund the existing and new stock benefits plans through open market purchases, stockholders will experience a reduction or dilution in ownership interest if the plans are instead funded with newly-issued shares. If the Stock Offering closes at the mid-point of the offering range, and the new plan is adopted within one year of the Conversion, the issuance of authorized but unissued shares of stock to the new plan, rather than open market purchases, would dilute the voting interests of existing stockholders by approximately 7.7%. However, if the existing plans also are funded with newly issued shares instead of open market purchases, the aggregate dilution from both plans would be approximately 13.0%.

We currently have 21,170 exercisable options outstanding. If any options are exercised during the first year following the completion of the Stock Offering, OTS regulations require that they may be funded with newly issued shares.

STOCK OWNERSHIP OF CCB COMMON STOCK

The following table sets forth, as of the May 31, 2006, information regarding share ownership of:

- those persons or entities (or groups of affiliated persons or entities) known by management to beneficially own more than five percent of CCB common stock, other than directors and executive officers;
- each director of CCB;
- each executive officer of CCB named in the Summary Compensation Table appearing under "Management - Executive Compensation;" and
- all current directors and executive officers of CCB as a group.

The address of each of the beneficial owners, except where otherwise indicated, is the same address as that of CCB. An asterisk (*) in the table indicates that an individual beneficially owns less than one percent of the outstanding common stock of CCB.

Beneficial ownership is determined in accordance with the rules of the SEC. As of the record date, there were 3,724,628 shares of CCB common stock outstanding. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to outstanding options that are currently exercisable or exercisable within 60 days after May 31, 2006 are included in the number of shares beneficially owned by the person and are deemed outstanding for the purpose of calculating the person's percentage ownership. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

	Number of Shares Beneficially Owned ⁽¹⁾	Percent of Common Stock Outstanding
Beneficial Owners		
Beneficial Owners of More Than 5% Other than Directors and Named Executive Officers		
Citizens Community MHC 2174 EastRidge Center Eau Claire, Wisconsin 54701	2,768,669	74.3%
Citizens Community Bancorp Employee Stock Ownership Plan Trust ⁽²⁾ 2174 EastRidge Center Eau Claire, Wisconsin 54701	119,236	3.2%
Directors and Named Executive Officers		
<u>Directors:</u>		
Richard McHugh ⁽³⁾	96,057	2.6%
David B. Westrate ⁽⁴⁾	48,061	1.3%
James G. Cooley ⁽⁵⁾	71,634	1.9%
Thomas C. Kempen ⁽⁶⁾	8,683	*
Brian R. Schilling ⁽⁶⁾	2,783	*
Adonis E. Talmage ⁽⁶⁾	2,783	*
<u>Named Executive Officers:</u>		
Timothy J. Cruciani ⁽⁷⁾	18,892	*
Johnny W. Thompson ⁽⁸⁾	6,904	*
John D. Zettler ⁽⁹⁾	9,652	*
<u>Director of Citizens Community Federal</u>		
Brian P. Ashley	0	*
Directors and executive officers of CCB, as a group (11 persons) ⁽¹⁰⁾	274,026	7.3%

- (1) Except as otherwise noted in these footnotes, the nature of beneficial ownership for shares reported in this table is sole voting and investment power. Included in the shares beneficially owned by the directors and named executive officers are options currently exercisable or exercisable within 60 days to purchase shares of CCB common stock.
- (2) Represents shares held by the employee stock option plan. Of these shares, 20,866 have been allocated to accounts of participants. Pursuant to the terms of the employee stock ownership plan, each employee stock ownership plan participant has the right to direct the voting of shares of CCB common stock allocated to his or her account.
- (3) Includes 17,820 shares held by Mr. McHugh's spouse. Amount also includes 2,980 shares of restricted stock granted pursuant to CCB's 2004 restricted stock plan and 1,491 shares subject to options that are exercisable within 60 days of May 31, 2006, granted pursuant to CCB's 2004 stock option plan.
- (4) Amount includes 5,000 shares held by Mr. Westrate's daughter. Amount includes 2,980 shares of restricted stock granted pursuant to CCB's 2004 restricted stock plan and 1,491 shares subject to options that are exercisable within 60 days of May 31, 2006, granted pursuant to the Company's 2004 stock option plan.

- (5) Amount includes 10,000 shares held by Mr. Cooley's spouse and 5,000 shares held by Mr. Cooley's son. Amount also includes 14,905 shares of restricted stock granted pursuant to CCB's 2004 restricted stock plan and 7,453 shares subject to options that are exercisable within 60 days of May 31, 2006, granted pursuant to CCB's 2004 stock option plan. Amount includes 1,776 shares allocated to Mr. Cooley's employee stock ownership plan account.
- (6) Amount includes 1,192 shares of restricted stock granted pursuant to CCB's 2004 restricted stock plan and 1,491 shares subject to options that are exercisable within 60 days of May 31, 2006, granted pursuant to CCB's 2004 stock option plan.
- (7) Amount includes 5,366 shares of restricted stock granted pursuant to CCB's 2004 restricted stock plan and 2,683 shares subject to options that are exercisable within 60 days of May 31, 2006, granted pursuant to CCB's 2004 stock option plan. Amount includes 843 shares allocated to Mr. Cruciani's employee stock ownership account.

- (8) Amount includes 2,385 shares of restricted stock granted pursuant to CCB's 2004 restricted stock plan and 1,193 shares subject to options that are exercisable within 60 days of May 31, 2006, granted pursuant to CCB's 2004 stock option plan. Amount includes 1,009 shares allocated to Mr. Thompson's employee stock ownership account.
- (9) Amount includes 2,385 shares of restricted stock granted pursuant to CCB's 2004 restricted stock plan and 1,193 shares subject to options that are exercisable within 60 days of May 31, 2006, granted pursuant to CCB's 2004 stock option plan. Amount includes 1,075 shares allocated to Mr. Zettler's employee stock ownership plan account.
- (10) Amount includes 8,577 shares of another executive officer, which includes 2,385 shares of restricted stock and 1,193 stock options exercisable within 60 days.
- * Less than 1% ownership.

COMPARISON OF RIGHTS OF CITIZENS COMMUNITY BANCORP, INC.'S AND CCB'S STOCKHOLDERS

As a result of the Conversion, current holders of CCB common stock will become stockholders of Citizens Community Bancorp, Inc. There are certain differences in stockholder rights arising from distinctions between the federal stock charter and bylaws of CCB and the articles of incorporation and bylaws of Citizens Community Bancorp, Inc. and from distinctions between federal laws and regulations governing federally chartered holding companies and Maryland corporate law. The discussion herein is qualified in its entirety by reference to Citizens Community Bancorp, Inc.'s articles of incorporation and bylaws and the provisions of Maryland corporate law.

In some instances, the rights of stockholders of Citizens Community Bancorp, Inc. will be less than the rights stockholders of CCB currently have. The decrease in stockholder rights under the Maryland articles of incorporation and bylaws are not mandated by Maryland law but have been chosen by management as being in the best interests of Citizens Community Bancorp, Inc. In some instances, the differences in stockholder rights may increase management rights. In other instances, these provisions in Citizens Community Bancorp, Inc.'s articles of incorporation and bylaws described below may make it more difficult to pursue a takeover attempt that management opposes. These provisions will also make the removal of the board of directors or management, or the appointment of new directors, more difficult. We believe that the provisions described below are prudent and will enhance our ability to remain an independent financial institution and reduce our vulnerability to takeover attempts and certain other transactions that have not been negotiated with and approved by our board of directors. These provisions also will assist us in the orderly deployment of the Conversion proceeds into productive assets and allow us to implement our business plan during the initial period after the Conversion. We believe these provisions are in the best interests of Citizens Community Bancorp, Inc. and its stockholders.

The following discussion is not intended to be a complete statement of the differences affecting the rights of stockholders, but rather summarizes the more significant differences and certain important similarities. The discussion herein is qualified in its entirety by reference to the articles of incorporation and bylaws of Citizens Community Bancorp, Inc. and Maryland law.

Authorized Capital Stock. The authorized capital stock of Citizens Community Bancorp, Inc. consists of 20,000,000 shares of common stock, par value \$0.01 per share, and 1,000,000 shares of preferred stock, par value \$0.01 per share. The current authorized capital stock of CCB consists of 5,000,000 shares of common stock, par value \$0.01 per share, and 1,000,000 shares of preferred stock, par value \$0.01 per share.

CCB's charter and Citizens Community Bancorp, Inc.'s articles of incorporation both authorize the board of directors to establish one or more series of preferred stock and, for any series of preferred stock, to determine the terms and rights of the series, including voting rights, conversion rates and liquidation preferences. Although neither board of directors has any intention at the present time of doing so, it could issue a series of preferred stock that could, depending on its terms, impede a merger, tender offer or other takeover attempt.

The articles of incorporation of Citizens Community Bancorp, Inc. authorize the board of directors to authorize additional shares of common and preferred stock without stockholder approval. Although the board of directors has no intention to authorize additional shares at the present time, it could do so and issue additional shares in a fashion that impedes a takeover attempt. In addition, the issuance of additional common stock would dilute the ownership interests of then-existing stockholders.

Issuance of Capital Stock. Currently, pursuant to applicable laws and regulations, Citizens Community MHC is required to own not less than a majority of the outstanding common stock of CCB. There will be no such restriction applicable to Citizens Community Bancorp, Inc. following consummation of the Conversion, as Citizens Community MHC will cease to exist.

Citizens Community Bancorp, Inc.'s articles of incorporation does not contain restrictions on the issuance of shares of capital stock to the directors, officers or controlling persons of Citizens Community Bancorp, Inc., whereas the current federal stock charter of CCB restricts such issuance to general public offerings, or if qualifying shares, to directors, unless the share issuance or the plan under which they would be issued has been approved by a majority of the total votes eligible to be cast at a legal meeting. Thus, Citizens Community Bancorp, Inc. could adopt stock-related compensation plans such as stock option plans without stockholder approval and shares of the capital stock of Citizens Community Bancorp, Inc. could be issued directly to directors or officers without stockholder approval. The rules of the NASD, however, generally require corporations with securities that are quoted on the Nasdaq Global Market, like Citizens Community Bancorp, Inc. will be, to obtain stockholder approval of most compensation plans for directors, officers and key employees of the corporation. Moreover, although generally not required, stockholder approval of stock-related compensation plans may be sought in certain instances to qualify such plans for favorable treatment under current federal income tax laws and regulations. We plan to submit the stock compensation plans discussed in this Prospectus to stockholders for their approval. In addition, the issuance of additional common stock would dilute the ownership interests of then-existing stockholders.

Neither the federal stock charter and bylaws of CCB nor the articles of incorporation and bylaws of Citizens Community Bancorp, Inc. provide for preemptive rights to stockholders in connection with the issuance of capital stock.

Voting Rights. Neither the federal stock charter of CCB nor the articles of incorporation and bylaws of Citizens Community Bancorp, Inc. permits cumulative voting in the election of directors. Cumulative voting entitles you to as many votes as equal to the number of shares you hold, multiplied by the number of directors to be elected. Cumulative voting allows you to cast all your votes for a single nominee or apportion your votes among any two or more nominees. For example, when three directors are to be elected, cumulative voting allows a holder of 100 shares to cast 300 votes for a single nominee, apportion 100 votes for each nominee, or apportion 300 votes in any other manner.

Payment of Dividends. The ability of Citizens Community Federal to pay dividends on its capital stock is restricted by OTS regulations and by tax considerations related to savings associations. Citizens Community Federal will continue to be subject to these restrictions after the Conversion, and such restrictions will indirectly affect Citizens Community Bancorp, Inc. because dividends from Citizens Community Federal will be a primary source of funds for the payment of dividends to the stockholders of Citizens Community Bancorp, Inc.

Maryland law generally provides that, unless otherwise restricted in a corporation's charter, a corporation's board of directors may authorize and a corporation may pay dividends to stockholders. However, a distribution may not be made if, after giving effect thereto:

- the corporation would not be able to pay its debts as they become due in the usual course of business; or

the total assets of the corporation would be less than the sum of its total liabilities plus (unless otherwise provided in its charter) the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution.

Board of Directors. The federal stock charter and bylaws of CCB and the articles of incorporation and bylaws of Citizens Community Bancorp, Inc. each require the board of directors to be divided into three classes as nearly equal in number as possible and that the members of each class be elected for a term of three years and until their successors are elected and qualified, with one class being elected annually. Under both the bylaws of CCB and the bylaws of Citizens Community Bancorp, Inc., any vacancy occurring in the board of directors, however caused, may be filled by an affirmative vote of the majority of the directors then in office, whether or not a quorum is present, and any director so chosen shall hold office only until the next annual meeting of stockholders at which directors are elected.

Under the bylaws of CCB, any director may be removed only for cause by vote of the holders of a majority of the outstanding voting shares at a meeting of stockholders called for such purpose. The articles of incorporation of Citizens Community Bancorp, Inc. provides that any director may be removed by stockholders only for cause upon the affirmative vote of the holders of not less than 80% of the outstanding voting shares. The higher vote threshold will make it more difficult for stockholders to remove directors and replace them with their own nominees.

Limitations on Liability. The articles of incorporation of Citizens Community Bancorp, Inc. provides that, to the fullest extent permitted under Maryland law, directors and officers of Citizens Community Bancorp, Inc. will not be personally liable to Citizens Community Bancorp, Inc. or its stockholders for monetary damages. This provision would absolve directors and officers of personal liability for monetary damages for negligence in the performance of their duties, including gross negligence, and it would not affect the availability of injunctive or other equitable relief as a remedy.

Currently, federal law does not permit federally chartered savings and loan holding companies like CCB to limit the personal liability of directors in the manner provided by Maryland law and the laws of many other states.

Indemnification of Directors, Officers, Employees and Agents. The federal bylaws of CCB provide that CCB must indemnify its directors, officers and employees for any costs incurred in connection with any action involving any such person's activities as a director, officer or employee if such person obtains a final judgment on the merits in his or her favor. In addition, indemnification is permitted in the case of a settlement, a final judgement against such person or final judgement other than on the merits, if a majority of disinterested directors determines that such person was acting in good faith within the scope of his or her employment as he or she could reasonably have perceived it under the circumstances and for a purpose he or she could reasonably have believed under the circumstances was in the best interest of CCB or its stockholders. CCB also is permitted to pay ongoing expenses incurred by a director, officer or employee if a majority of disinterested directors concludes that such person may ultimately be entitled to indemnification. Before making any indemnification payment, CCB is required to notify the OTS of its intention and such payment cannot be made if the OTS objects thereto.

The articles of incorporation of Citizens Community Bancorp, Inc. provides that it will indemnify its directors and officers, whether serving it or at its request any other entity, to the fullest extent permitted under Maryland law. Such indemnification includes the advancement of expenses. The articles of incorporation of Citizens Community Bancorp, Inc. also provide that it will indemnify its employees and agents to such extent as shall be authorized by the board of directors of the bylaws and be permitted by law.

Special Meetings of Stockholders. The bylaws of CCB provide that special meetings of the stockholders of CCB may be called by the chairman, President, a majority of the board of directors or the holders of not less than ten percent of the outstanding capital stock of CCB entitled to vote at the meeting. The bylaws of Citizens Community Bancorp, Inc. contain a provision pursuant to which special meetings of the stockholders of Citizens Community Bancorp, Inc. may be called by the Chairman, the President, the Board of Directors pursuant to a resolution adopted by a majority of the total number of directors which Citizens Community Bancorp, Inc. would have if there were no vacancies on the Board of Directors or the holders of not less than a majority of the capital stock of Citizens Community Bancorp, Inc. entitled to vote at a meeting.

Stockholder Nominations and Proposals. The bylaws of CCB generally provide that stockholders may submit new business to be taken up at the annual meeting. Any stockholder may make any proposal at the annual meeting and the same may be discussed and considered, provided such submission is provided in writing and filed with the secretary at least five days before the meeting.

Citizens Community Bancorp, Inc.'s bylaws establish an advance notice procedure for stockholders to nominate directors or bring other business before an annual meeting of stockholders of Citizens Community Bancorp, Inc. A person may not be nominated for election as a director unless that person is nominated by or at the direction of the Citizens Community Bancorp, Inc. board or by a stockholder who has given appropriate notice to Citizens Community Bancorp, Inc. before the meeting. Similarly, a stockholder may not bring business before an annual meeting unless the stockholder has given Citizens Community Bancorp, Inc. appropriate notice of its intention to bring that business before the meeting. Citizens Community Bancorp, Inc.'s secretary must receive notice of the nomination or proposal not less than 90 days before the annual meeting; provided, however, that if less than 100 days' notice of prior public disclosure of the date of the meeting is given or made to the stockholders, notice by the stockholder to be timely must be received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A stockholder who desires to raise new business must provide certain information to Citizens Community Bancorp, Inc. concerning the nature of the new business, the stockholder and the stockholder's interest in the business matter. Similarly, a stockholder wishing to nominate any person for election as a director must provide Citizens Community Bancorp, Inc. with certain information concerning the nominee and the proposing stockholder.

Advance notice of nominations or proposed business by stockholders gives Citizens Community Bancorp, Inc.'s Board of Directors time to consider the qualifications of the proposed nominees, the merits of the proposals and, to the extent deemed necessary or desirable by the Board of Directors, to inform stockholders and make recommendations about those matters.

Stockholder Action Without a Meeting. The bylaws of CCB and Citizens Community Bancorp, Inc. provide for action to be taken by stockholders without a meeting, if all stockholders entitled to vote on the action consent to taking such action without a meeting.

Stockholder's Right to Examine Books and Records. A federal regulation, which is currently applicable to CCB provides that stockholders, holding of record at least \$100,000 of stock or at least 1% of the total outstanding voting shares, may inspect and make extracts from specified books and records of a federally chartered savings and loan associations after proper written notice for a proper purpose. Maryland law provides that a stockholder holding less than five percent of the outstanding capital stock may inspect specified books and records. Additionally, stockholders who have for at least six months beneficially owned more than five percent of the outstanding capital stock may, upon written request, inspect and copy the corporation's books of account and stock ledger.

Limitations on Voting Rights. The articles of incorporation of Citizens Community Bancorp, Inc. provide that in no event shall any person, who directly or indirectly beneficially owns in excess of 10% of the then-outstanding shares of common stock as of the record date for the determination of stockholders entitled or permitted to vote on any matter (the “10% limit”), be entitled or permitted to any vote in respect of the shares held in excess of the 10% limit. Beneficial ownership is determined pursuant to the federal securities laws and includes, but is not limited to, shares as to which any person and his or her affiliates (1) have the right to acquire upon the exercise of conversion rights, exchange rights, warrants or options and (2) have or share investment or voting power (but shall not be deemed the beneficial owner of any voting shares solely by reason of a revocable proxy granted for a particular meeting of stockholders, and that are not otherwise beneficially, or deemed by Citizens Community Bancorp, Inc. to be beneficially, owned by such person and his or her affiliates).

The foregoing restriction does not apply to:

- any director or officer acting solely in their capacities as directors and officers; or
- any employee benefit plans of Citizens Community Bancorp, Inc. or any subsidiary or a trustee of a plan.

The charter of CCB provides that, for a period of five years from the effective date of Citizens Community Federal’s mutual holding company reorganization, no person, other than Citizens Community MHC, shall directly or indirectly offer to acquire or acquire more than 10% of the then-outstanding shares of common stock. The foregoing restriction does not apply to:

- the purchase of shares by underwriters in connection with a public offering; or
- the purchase of shares by any employee benefit plans of CCB or any subsidiary.

Mergers, Consolidations and Sales of Assets. Federal regulations currently require the approval of two-thirds of the Board of Directors of CCB and the holders of two-thirds of the outstanding stock of CCB entitled to vote thereon for mergers, consolidations and sales of all or substantially all of its assets. Such regulation permits CCB to merge with another corporation without obtaining the approval of its stockholders if:

- it does not involve an interim savings institution;
- the charter of CCB is not changed;
- each share of CCB stock outstanding immediately before the effective date of the transaction is to be an identical outstanding share or a treasury share of CCB after such effective date; and
- either: (a) no shares of voting stock of CCB and no securities convertible into such stock are to be issued or delivered under the plan of combination or (b) the authorized unissued shares or the treasury shares of voting stock of CCB to be issued or delivered under the plan of combination, plus those initially issuable upon conversion of any securities to be issued or delivered under such plan, do not exceed 15% of the total shares of voting stock of CCB outstanding immediately before the effective date of the transaction.

Citizens Community Bancorp, Inc.’s articles of incorporation require the approval of the Board of Directors and the affirmative vote of a majority of the votes entitled to be cast by all stockholders entitled to vote thereon. However, Maryland law provides that:

- a merger of a 90% or more owned subsidiary with and into its parent may be approved without stockholder approval; provided, however that (1) the charter of the successor is not

amended in the merger other than to change its name, the name or other designation or the par value of any class or series of its stock or the aggregate par value of its stock and (2) the contractual rights of any stock of the successor issued in the merger in exchange for stock of the other corporation participating in the merger are identical to the contract rights of the stock for which the stock of the successor was exchanged;

- a share exchange need not be approved by the stockholders of the successor;
- a transfer of assets need not be approved by the stockholders of the transferee; and
- a merger need not be approved by the stockholders of a Maryland successor corporation provided that the merger does not reclassify or change the terms of any class or series of its stock that is outstanding immediately before the merger becomes effective or otherwise amend its charter and the number of shares of stock of such class or series outstanding immediately after the effective time of the merger does not increase by more than 20% of the number of shares of the class or series of stock that is outstanding immediately before the merger becomes effective.

Business Combinations with Interested Stockholders. The articles of incorporation of Citizens Community Bancorp, Inc. require the approval of the holders of at least 80% of Citizens Community Bancorp, Inc.'s outstanding shares of voting stock entitled to vote to approve certain "business combinations" with an "interested stockholder." This supermajority voting requirement will not apply in cases where the proposed transaction has been approved by a majority of disinterested directors or where various fair price and procedural conditions have been met.

Under Citizens Community Bancorp, Inc.'s articles of incorporation, the term "interested stockholder" means any person who or which is:

- the beneficial owner, directly or indirectly, of more than 10% of the voting power of the then outstanding voting stock of Citizens Community Bancorp, Inc.;
- an affiliate of Citizens Community Bancorp, Inc. and at any time in the two-year period before the date in question was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the Citizens Community Bancorp, Inc.; or
- an assignee of or has otherwise succeeded to any shares of voting stock that were at any time within the two-year period immediately before the date in question beneficially owned by any interested stockholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933, as amended.

A "business combination" includes, but is not limited to:

- any merger or consolidation of Citizens Community Bancorp, Inc. or of its subsidiaries with (a) any interested stockholder; or (b) any other corporation, which is, or after such merger or consolidation would be, an affiliate of an interested stockholder; or
- any sale, lease, exchange or other disposition to or with any interested stockholder, or any affiliate of any interested stockholder, of any assets of Citizens Community Bancorp, Inc. or any of its subsidiaries having an aggregate fair market value equaling or exceeding 25% or more of the combined assets of the Citizens Community Bancorp, Inc. and its subsidiaries; or

- the issuance or transfer by Citizens Community Bancorp, Inc. or any of its subsidiaries of any securities of Citizens Community Bancorp, Inc. or any of its subsidiaries to any interested stockholder or any affiliate of any interested stockholder in exchange for cash, securities or other property having an aggregate fair market value equaling or exceeding 25% of the combined fair market value of the outstanding common stock of Citizens Community Bancorp, Inc., except for any issuance or transfer pursuant to an employee benefit plan of Citizens Community Bancorp, Inc. or any of its subsidiaries; or
- the adoption of any plan for the liquidation or dissolution of Citizens Community Bancorp, Inc. proposed by or on behalf of any interested stockholder or any affiliate or associate of such interested stockholder; or
- any reclassification of securities, or recapitalization of Citizens Community Bancorp, Inc., or any merger or consolidation of Citizens Community Bancorp, Inc. with any of its subsidiaries or any other transaction (whether or not with or into or otherwise involving an interested stockholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of Citizens Community Bancorp, Inc. or any of its subsidiaries, which is directly or indirectly owned by any interested stockholder or any affiliate of any interested stockholder.

Neither the charter and bylaws of CCB nor the federal laws and regulations applicable to CCB contain a provision that restricts business combinations between CCB and any interested stockholder in the manner set forth above.

Dissenters' Rights of Appraisal. A federal regulation that is applicable to CCB generally provides that a stockholder of a federally chartered savings and loan association that engages in a merger, consolidation or sale of all or substantially all of its assets shall have the right to demand from such institution payment of the fair or appraised value of his or her stock in the institution, subject to specified procedural requirements. This regulation also provides, however, that the stockholders of a federally chartered savings and loan association that is listed on a national securities exchange or quoted on the Nasdaq Global Market are not entitled to dissenters' rights in connection with a merger if the stockholder is required to accept only "qualified consideration" for his or her stock, which is defined to include cash, shares of stock of any institution or corporation which at the effective date of the merger will be listed on a national securities exchange or quoted on the Nasdaq Global Market or any combination of such shares of stock and cash. This exception does not currently apply to CCB because its stock is not listed on a national securities exchange or quoted on the Nasdaq Global Market.

After the Conversion, the rights of appraisal of the dissenting stockholders of Citizens Community Bancorp, Inc. will be governed by Maryland law. Pursuant to the Maryland law, a stockholder of a Maryland corporation generally has the right to dissent from any merger involving the corporation, share exchange, sale of all or substantially all of the corporation's assets or an amendment of the charter that materially adversely affects stockholder rights, and to obtain fair value for his or her shares, subject to specified procedural requirements. However, no such appraisal rights are generally available for shares which are listed on a national securities exchange or on the Nasdaq Global Market.

Evaluation of Offers. The articles of incorporation of Citizens Community Bancorp, Inc. provide that its board of directors, when evaluating a transaction that would or may involve a change in control of Citizens Community Bancorp, Inc. (including a tender or exchange offer, merger or consolidation or sale of all or substantially all of the assets of Citizens Community Bancorp, Inc.) may, in connection with the exercise of its judgment in determining what is in the best interest of Citizens Community Bancorp, Inc. and its stockholders, give consideration to the following factors:

- the economic effect, both immediate and long-term, upon Citizens Community Bancorp, Inc.'s stockholders, including stockholders, if any, not to participate in the transaction;
- the social and economic effect on the employees, depositors and customers of, and others dealing with, Citizens Community Bancorp, Inc. and its subsidiaries and on the communities in which Citizens Community Bancorp, Inc. and its subsidiaries operate or are located;
- whether the proposal is acceptable based on the historical and current operating results or financial condition of Citizens Community Bancorp, Inc.;
- whether a more favorable price could be obtained for Citizens Community Bancorp, Inc.'s stock or other securities in the future;
- the reputation and business practices of the offeror and its management and affiliates as they would affect the employees;
- the future value of the stock or any other securities of Citizens Community Bancorp, Inc.; and
- any antitrust or other legal and regulatory issues that are raised by the proposal.

By having these standards in the articles of incorporation of Citizens Community Bancorp, Inc., the Board of Directors may be in a stronger position to oppose such a transaction if the Board concludes that the transaction would not be in the best interest of Citizens Community Bancorp, Inc., even if the price offered is significantly greater than the then market price of any equity security of Citizens Community Bancorp, Inc.

Amendment of Governing Instruments. No amendment of the charter of CCB may be made unless it is first proposed by the board of directors, then preliminarily approved by the OTS, and thereafter approved by the holders of a majority of the total votes eligible to be cast at a legal meeting. The articles of incorporation of Citizens Community Bancorp, Inc. generally may be amended by the holders of a majority of the shares entitled to vote; provided, however, that any amendment of Section C of Article 5 (Issuing Preferred Stock; Limitation of Voting Common Stock), Article 7 (Directors), Article 8 and 14 (Amendment of Governing Instruments), Article 9 (Approval of Business Combinations), Article 11 (Acquisitions of Securities from Interested Persons), 12 (Indemnification) and Article 13 (Limitation of Liability) must be approved by the affirmative vote of the holders of at least 80% of the outstanding shares entitled to vote, except that the board of directors may amend the articles of incorporation without any action by the stockholders to increase or decrease the aggregate number of shares of capital stock.

The bylaws of CCB may be amended in a manner consistent with regulations of the OTS and shall be effective after (1) approval of the amendment by a majority vote of the authorized Board of Directors, or by a majority of the votes cast by the stockholders of CCB at any legal meeting and (2) receipt of applicable regulatory approval. The bylaws of Citizens Community Bancorp, Inc. may be amended by the board with a majority vote of the number of authorized directors.

RESTRICTIONS ON ACQUISITIONS OF CITIZENS COMMUNITY BANCORP, INC. AND CITIZENS COMMUNITY FEDERAL

The principal federal regulatory restrictions that affect the ability of any person, firm or entity to acquire Citizens Community Bancorp, Inc., Citizens Community Federal or a controlling interest in their respective capital stock are described below. Certain provisions in Citizens Community Bancorp, Inc.'s charter and bylaws that may be deemed to affect the ability of a person, firm or entity to acquire Citizens Community Bancorp, Inc. also are described below. These descriptions are qualified by reference to the laws and regulations referred to and the provisions of the charter and bylaws of Citizens Community Bancorp, Inc.

Federal Law

Citizens Community Federal is a federal savings bank. Acquisitions of control of Citizens Community Federal by an individual is governed by the Change in Bank Control Act and by another company are governed by Section 10 of the Home Owners' Loan Act. The OTS has promulgated regulations under these laws.

The Change in Bank Control Act provides that no person, acting directly or indirectly or through or in concert with one or more other individuals, may acquire control of a federal savings bank, unless the OTS has been given 60 days prior written notice. Similar notice is required to be provided to the OTS by an individual acquiring a similar ownership interest in savings association holding company. The Home Owners' Loan Act provides that no company may acquire "control" of a savings association without the prior approval of the OTS. Any company that acquires such control becomes a savings and loan holding company subject to registration, examination and regulation by the OTS. In addition, acquisitions of control of a savings association holding company by another company are subject to the approval of the OTS.

Pursuant to the acquisition of control regulations of the OTS, control of a savings institution is conclusively deemed to have been acquired by, among other things, the acquisition of more than 25% of any class of voting stock of the institution or the ability to control the election of a majority of the directors of an institution. Moreover, control is presumed to have been acquired, subject to rebuttal, upon the acquisition of more than 10% of any class of voting stock, or of more than 25% of any class of stock of a savings institution, where certain enumerated "control factors" are also present in the acquisition. The OTS may prohibit an acquisition of control if:

- it would result in a monopoly or substantially lessen competition;
- the financial condition of the acquiring person might jeopardize the financial stability of the institution; or
- the competence, experience or integrity of the acquiring person indicates that it would not be in the interest of the depositors or of the public to permit the acquisition of control by such person.

These restrictions do not apply to the acquisition of a savings institution's capital stock by one or more tax-qualified employee stock benefit plans, provided that the plans do not have beneficial ownership of more than 25% of any class of equity security of the savings institution.

For a period of three years following completion of the reorganization, OTS regulations generally prohibit any person from acquiring or making an offer to acquire beneficial ownership of more than 10% of the stock of Citizens Community Bancorp, Inc. or Citizens Community Federal without OTS approval.

State Law

Maryland corporate law contains certain provisions, described below, which may be applicable to Citizens Community Bancorp, Inc. upon consummation of the conversion.

Business Combinations with Interested Stockholders. The articles of incorporation require the approval of the holders of at least 80% of Citizens Community Bancorp, Inc.'s outstanding shares of voting stock entitled to vote to approve certain "business combinations" with an "interested stockholder." This supermajority voting requirement will not apply in cases where the proposed transaction has been approved by a majority of those members of Citizens Community Bancorp, Inc.'s board of directors who are unaffiliated with the interested stockholder and who were directors before the time when the interested stockholder became an interested stockholder or if the proposed transaction meets certain conditions that are designed to afford the stockholders a fair price in consideration for their shares. In each such case, where stockholder approval is required, the approval of only a majority of the outstanding shares of voting stock is sufficient.

The term "interested stockholder" includes any individual, group acting in concert, corporation, partnership, association or other entity (other than Citizens Community Bancorp, Inc. or its subsidiary) who or which is the beneficial owner, directly or indirectly, of 10% or more of the outstanding shares of voting stock of Citizens Community Bancorp, Inc.

A "business combination" includes:

- any merger or consolidation of Citizens Community Bancorp, Inc. or any of its subsidiaries with any interested stockholder or affiliate of an interested stockholder or any corporation which is, or after such merger or consolidation would be, an affiliate of an interested stockholder;
- any sale or other disposition to or with any interested stockholder of 25% or more of the assets of Citizens Community Bancorp, Inc. or combined assets of Citizens Community Bancorp, Inc. and its subsidiaries;
- the issuance or transfer to any interested stockholder or its affiliate by Citizens Community Bancorp, Inc. (or any subsidiary) of any securities of Citizens Community Bancorp, Inc. (or any subsidiary) in exchange for cash, securities or other property the value of which equals or exceeds 25% of the fair market value of the common stock of Citizens Community Bancorp, Inc.;
- the adoption of any plan for the liquidation or dissolution of Citizens Community Bancorp, Inc. proposed by or on behalf of any interested stockholder or its affiliate; and
- any reclassification of securities, recapitalization, merger or consolidation of Citizens Community Bancorp, Inc. with any of its subsidiaries which has the effect of increasing the proportionate share of common stock or any class of equity or convertible securities of Citizens Community Bancorp, Inc. or subsidiary owned directly or indirectly, by an interested stockholder or its affiliate.

Our charter provides that this statutory limit on business combinations will not apply to Citizens Community Bancorp, Inc.

Control Share Acquisitions. Maryland corporate law provides that “control shares” of a Maryland corporation acquired in a “control share acquisition” have no voting rights unless approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiror or by the corporation’s officers or directors who are employees of the corporation. Control shares are shares of voting stock which, if aggregated with all other shares of stock previously acquired, would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

20% or more but less than 33 ¹/₃%;

33 ¹/₃% or more but less than a majority; or

a majority of all voting power.

Control shares do not include shares of stock an acquiring person is entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition generally means the acquisition of, ownership of or the power to direct the exercise of voting power with respect to, control shares.

A person who has made or proposes to make a “control share acquisition,” under specified conditions, including an undertaking to pay expenses, may require the board of directors to call a special stockholders’ meeting to consider the voting rights of the shares. The meeting must be held within 50 days of the demand. If no request for a meeting is made, the corporation may itself present the question at any stockholders’ meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as permitted by the statute, the corporation generally may redeem any or all of the control shares, except those for which voting rights have previously been approved. This redemption of shares must be for fair value, determined without regard to the absence of voting rights as of the date of the last control share acquisition or of any stockholders’ meeting at which the voting rights of the shares are considered and not approved. If voting rights for “control shares” are approved at a stockholders’ meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the stock determined for purposes of appraisal rights may not be less than the highest price per share paid in the control share acquisition. The limitations and restrictions otherwise applicable to the exercise of dissenters’ rights do not apply in the context of a “control share acquisition.”

The control share acquisition statute does not apply to stock acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction, or to acquisition previously approved or exempted by a provision in the charter or bylaws of the corporation.

Charter and Bylaws of Citizens Community Bancorp, Inc.

Certain provisions in Citizens Community Bancorp, Inc.’s articles of incorporation and bylaws may be deemed to affect the ability of a person, firm or entity to acquire Citizens Community Bancorp, Inc. The following discussion is a summary of the material provisions. This summary is necessarily general and qualified by reference to the articles of incorporation and bylaws. Certain of these provisions, in addition to discouraging a takeover attempt that a majority of our stockholders might determine to be in their best interest or in which our stockholders might receive a premium over the current market prices for their shares, may have the effect of rendering the removal of our management more difficult.

Classified Board of Directors. The board of directors of Citizens Community Bancorp, Inc. is required by the articles of incorporation to be divided into three staggered classes which are as equal in size as is possible. One class is required to be elected annually for three-year terms, and classes are elected in series. A classified board promotes continuity and stability of management of Citizens Community Bancorp, Inc., but makes it more difficult for stockholders to change a majority of the directors because it generally takes at least two annual elections of directors for this to occur.

Authorized but Unissued Shares of Capital Stock. Following the Stock Offering, Citizens Community Bancorp, Inc. will have authorized but unissued shares of preferred stock and common stock. See "Description of Capital Stock." These shares could be used by the board of directors to make it more difficult or to discourage an attempt to obtain control of Citizens Community Bancorp, Inc. through a merger, tender offer, proxy contest or otherwise.

Special Meetings of Stockholders. Citizens Community Bancorp, Inc.'s bylaws provide that special meetings of stockholders may be called only by Citizens Community Bancorp, Inc.'s President or by its board of directors by a resolution adopted by a majority of the number of authorized directors, and by a majority of the holders of our stock entitled to vote at the meeting being called.

Prohibition on Cumulative Voting. Citizens Community Bancorp, Inc.'s articles of incorporation provides that there will not be cumulative voting by stockholders for the election of Citizens Community Bancorp, Inc.'s directors. This could prevent minority stockholder representation on Citizens Community Bancorp, Inc.'s board of directors.

Restrictions on Acquisition of Shares and Vote Sterilization. Citizens Community Bancorp, Inc.'s articles of incorporation provides that for a period of five years from the date of completion of the conversion, no person may offer to acquire or acquire the beneficial ownership of more than 10% of any class of equity security of Citizens Community Bancorp, Inc. In addition, all shares owned over the 10% limit may not be voted in any matter submitted to stockholders for a vote.

Procedures for Stockholder Nominations. Citizens Community Bancorp, Inc.'s bylaws provide that any stockholder wanting to make a nomination for the election of directors or a proposal for new business at a meeting of stockholders must send written notice to the Secretary of Citizens Community Bancorp, Inc. at least 90 days before the anniversary date of the prior year's annual meeting. The bylaws further provide that stockholder nominations and proposals that do not follow the prescribed procedures will not be presented for stockholder vote. Management believes that it is in the best interests of Citizens Community Bancorp, Inc. and its stockholders to provide enough time for management to disclose to stockholders information about a dissident slate of nominations for directors. This advance notice requirement may also give management time to solicit its own proxies in an attempt to defeat any dissident slate of nominations if management thinks it is in the best interest of stockholders generally. Similarly, adequate advance notice of stockholder proposals will give management time to study these proposals and to determine whether to recommend to the stockholders that these proposals be adopted.

Procedures for Business Combinations. Our articles of incorporation prohibits any merger, consolidation, sale, liquidation, or dissolution (each, a business combination) of Citizens Community Bancorp, Inc., with any "interested stockholder" for a period of five years following the interested stockholder's stock acquisition date, unless the business combination is approved by a two-thirds vote of the Board prior to the stock acquisition date. An interested stockholder is any person who, directly or indirectly, has the right to vote or to sell 10% or more of the outstanding shares. Affiliates and associates of an interested stockholder are also considered to be interested stockholders.

In addition, our articles of incorporation requires that at least one of the following conditions be met to engage in a business combination with an interested stockholder: (i) approval by a vote of majority of the Board prior to the interested stockholder's stock acquisition date and thereafter approved by stockholders; (ii) approval by the affirmative vote of the holders of at least 80% of the voting shares not beneficially owned by that interested stockholder at a meeting called for that purpose; or (iii) satisfaction of certain minimum price conditions, as set forth in our articles of incorporation.

In addition to the interested stockholder restrictions, our articles of incorporation also requires the affirmative vote of at least 80% of the outstanding shares in order for us to enter into any merger, consolidation, sale, liquidation, or dissolution of us, unless the transaction is approved by majority of our board of directors.

Amendment to Articles of Incorporation and Bylaws. Amendments to our articles of incorporation must be approved by our board of directors and also by the holders of a majority of the shares. Approval by at least 80% of the shares is required to amend provisions relating to preemptive rights; stockholder meetings; cumulative voting; proxies; stockholder proposals and nominations; directors; removal of directors; restrictions on the acquisition and voting of more than 10% of the common stock; approval of business combinations with interested stockholders; directors' and officers' liability; and indemnification of officers and directors; amendment of the bylaws; and amendment of the articles of incorporation.

Our bylaws may be amended by the board of directors by a majority vote of the number of authorized directors or by the holders of at least 80% of the shares.

DESCRIPTION OF CAPITAL STOCK

General

Citizens Community Bancorp, Inc. is a newly formed Maryland corporation. It is authorized to issue 20,000,000 shares of common stock, par value \$0.01 per share and 1,000,000 shares of serial preferred stock, par value \$0.01 per share. We will issue between 3,600,000 and 4,600,000 shares of common stock in the Stock Offering. Upon payment of the purchase price shares of common stock issued in the Stock Offering will be fully paid and non-assessable. No shares of preferred stock will be issued in the Stock Offering. The board of directors can, without stockholder approval, issue additional shares of common stock.

Common Stock

Each share of common stock will have the same relative rights as, and will be identical in all respects with, each other share of common stock. The common stock will represent non-withdrawable capital, will not be an account of insurable type and will not be insured by the FDIC or any other governmental agency.

Dividends. Citizens Community Bancorp, Inc. can pay dividends if, after giving effect to the distribution, it would be able to pay its indebtedness as the indebtedness comes due in the usual course of business and its total assets exceed the sum of its liabilities and the amount needed, if Citizens Community Bancorp, Inc. were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of any holders of capital stock who have a preference in the event of dissolution. The holders of common stock of Citizens Community Bancorp, Inc. will be entitled to receive and share equally in dividends as may be declared by the board of directors of Citizens Community Bancorp, Inc. out of funds legally available for dividends. If Citizens Community Bancorp, Inc. issues preferred stock, the holders of the preferred stock may have a priority over the holders of the common stock with respect to dividends. See “Our Policy Regarding Dividend” and “How We Are Regulated.” OTS regulations also limit our ability to pay dividends. See “How We Are Regulated - Limitations on Dividends and Other Distributions.”

Voting Rights. After the Conversion, the holders of common stock of Citizens Community Bancorp, Inc. will possess exclusive voting rights in Citizens Community Bancorp, Inc. The holder of shares of common stock will be entitled to one vote for each share held on all matters subject to stockholder vote and will not have any right to cumulate votes in the election of directors.

Liquidation Rights. In the event of any liquidation, dissolution, or winding-up of Citizens Community Bancorp, Inc., the holders of the common stock generally would be entitled to receive, after payment of all debts and liabilities of Citizens Community Bancorp, Inc. (including all debts and liabilities of Citizens Community Federal and distribution of the balance in the special liquidation account of Citizens Community Federal to eligible account holders and supplemental eligible account holders), all assets of Citizens Community Bancorp, Inc. available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of liquidation or dissolution.

Preemptive Rights; Redemption. Because the holders of the common stock do not have any preemptive rights with respect to any shares that may be issued by Citizens Community Bancorp, Inc., the board of directors may sell shares of capital stock of Citizens Community Bancorp, Inc. without first offering these shares to existing stockholders. The common stock will not be subject to any redemption provisions.

Preferred Stock

We are authorized to issue up to 1,000,000 shares of serial preferred stock and to fix and state voting powers, designations, preferences, or other special rights of preferred stock and the qualifications, limitations and restrictions of those shares as the board of directors may determine in its discretion. Preferred stock may be issued in distinctly designated series, may be convertible into common stock and may rank prior to the common stock as to dividend rights, liquidation preferences, or both, and may have full or limited voting rights. The issuance of preferred stock could adversely affect the voting and other rights of holders of common stock.

The authorized but unissued shares of preferred stock and the authorized but unissued and unreserved shares of common stock will be available for issuance in future mergers or acquisitions, in future public offerings or private placements. Except as otherwise required to approve the transaction in which the additional authorized shares of preferred stock would be issued, no stockholder approval generally would be required for the issuance of these shares.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for Citizens Community Bancorp, Inc. common stock will be Registrar and Transfer Co., 10 Commerce Drive, Cranford, New Jersey 07016, 1-(800) 368-5948. Registrar and Transfer Co. also is the transfer agent and registrar for CCB common stock.

LEGAL AND TAX OPINIONS

The legality of the issuance of the common stock being offered and certain matters relating to the Conversion and Stock Offering and federal and state taxation will be passed upon for us by Silver, Freedman & Taff, L.L.P., Washington, D.C. and Wipfli LLP, our independent auditors. Certain legal matters will be passed upon for Keefe, Bruyette & Woods, Inc. by Muldoon Murphy & Aguggia LLP, Washington, D.C.

EXPERTS

The consolidated financial statements of CCB at September 30, 2005 and for the three years ended September 30, 2005 have been included in this Prospectus in reliance upon the report of Wipfli LLP, our independent auditors, appearing elsewhere in this Prospectus, and upon the authority of said firm as experts in accounting and auditing.

RP Financial, LC. has consented to the publication in this document of a summary of its letter to Citizens Community Bancorp, Inc. setting forth its conclusion as to the estimated pro forma market value of the common stock and has also consented to the use of its name and statements with respect to it appearing in this document.

REGISTRATION REQUIREMENTS

Our common stock will be registered with the SEC pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We will be subject to the information, proxy solicitation, insider trading restrictions, tender offer rules, periodic reporting and other requirements of the SEC under the Exchange Act. We will not deregister the common stock under the Exchange Act for a period of at least three years following the Stock Offering.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

Citizens Community Bancorp, Inc. has filed with the SEC a registration statement on Form S-1 under the Securities Act of 1933, as amended, with respect to the common stock offered in this document. As permitted by the rules and regulations of the SEC, this Prospectus does not contain all the information set forth in the registration statement. This information, including the Plan of Conversion and Reorganization and the appraisal report, which are exhibits to the registration statement, can be examined without charge at the public reference facilities of the SEC located at 100 F Street, N.E., Washington, D.C. 20549, and copies of the registration materials can be obtained from the SEC at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330. The SEC also maintains an Internet address ("web site") that contains reports, proxy and information statements and other information regarding registrants, including Citizens Community Bancorp, Inc. and CCB, that file electronically with the SEC. The address for this web site is "<http://www.sec.gov>." The statements contained in this document as to the contents of any contract or other document filed as an exhibit to the Form S-1 are, of necessity, brief descriptions, and each statement is qualified by reference to the complete contract or document.

Citizens Community MHC and Citizens Community Bancorp, Inc. have filed Applications with the OTS with respect to the Conversion and the Stock Offering, which include proxy materials for the special meeting of members of Citizens Community MHC and certain other information. This Prospectus omits certain information contained in those applications. The applications may be examined at the principal office of the Office of Thrift Supervision, 1700

G Street, N.W., Washington, D.C. 20552, and at the Midwest Regional Office of the Office of Thrift Supervision located at 122 W. John Carpenter Freeway, Suite 600, Irving, Texas 75039.

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In connection with the offering, Citizens Community Bancorp, Inc. has registered its common stock with the SEC under Section 12 of the Securities Exchange Act of 1934, and, upon such registration, Citizens Community Bancorp, Inc. and the holders of its stock will become subject to the proxy solicitation rules, reporting requirements and restrictions on stock purchases and sales by directors, officers and greater than 10% stockholders, the annual and periodic reporting and certain other requirements of the Securities Exchange Act of 1934. Under the Plan of Conversion and Reorganization, Citizens Community Bancorp, Inc. has undertaken that it will not terminate this registration for a period of at least three years following the Stock Offering.

A copy of the Plan of Conversion and Reorganization, the charter and bylaws of Citizens Community Bancorp, Inc. and Citizens Community Federal are available without charge from Citizens Community Federal. Requests for such information should be directed to: Stockholder Relations, Citizens Community Federal, 2174 EastRidge Center, Eau Claire, Wisconsin 54701.

CITIZENS COMMUNITY BANCORP AND SUBSIDIARY
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Other schedules are omitted as they are not required or are not applicable or the required information is shown in the consolidated financial statements or related notes.

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Report of Independent Registered Public Accounting Firm

Board of Directors
Citizens Community Bancorp
Eau Claire, Wisconsin

We have audited the accompanying consolidated balance sheets of Citizens Community Bancorp and Subsidiary as of September 30, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended September 30, 2005, 2004, and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens Community Bancorp and Subsidiary as of September 30, 2005 and 2004, and the results of their operations and their cash flows for the years ended September 30, 2005, 2004, and 2003, in conformity with accounting principles generally accepted in the United States.

Wipfli LLP

May 5, 2006
Eau Claire, Wisconsin

Citizens Community Bancorp and Subsidiary

Consolidated Balance Sheets

March 31, 2006 (unaudited) and September 30, 2005 and 2004

<i>Assets</i>	March 31, 2006	September 30, 2005	2004
	(Unaudited)		
Cash and cash equivalents	\$ 4,296,325	\$ 9,265,477	\$ 4,768,007
Other interest-bearing deposits	1,152,900	1,444,233	0
Securities available-for-sale (at fair value)	1,839,081	2,088,349	0
Federal Home Loan Bank stock	1,826,480	2,094,900	827,700
Loans receivable - Net of allowance for loan losses of \$807,766 in 2006 and \$803,218 and \$554,210 in 2005 and 2004, respectively	234,323,644	217,930,666	152,376,330
Office properties and equipment - Net	3,611,821	2,922,884	2,198,809
Accrued interest receivable - Loans	749,953	612,644	466,399
Intangible assets	1,980,170	2,130,949	348,486
Goodwill	5,465,619	5,465,619	0
Other assets	1,379,029	1,751,770	994,065
TOTAL ASSETS	\$ 256,625,022	\$ 245,707,491	\$ 161,979,796

Liabilities and Stockholders' Equity

Deposits	\$ 188,298,100	\$ 177,469,100	\$ 127,976,262
Federal Home Loan Bank advances	36,200,000	36,200,000	13,500,000
Other liabilities	2,312,833	2,484,991	897,612
Total liabilities	226,810,933	216,154,091	142,373,874

Preferred stock - Par Value \$.01:

Authorized - 1,000,000 shares

Issued and outstanding - 0 shares

Common stock - Par value \$.01:

Authorized - 5,000,000 shares

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Issued - 3,747,319 in 2006 and 2005, and 3,041,750 shares in 2004	37,473	37,473	30,418
Additional paid-in capital	18,796,945	18,779,709	9,029,696
Retained earnings	12,690,688	12,536,512	11,678,548
Unearned ESOP shares	(953,820)	(1,013,460)	(1,132,740)
Unearned compensation	(340,749)	(389,169)	0
Accumulated other comprehensive loss	(22,226)	(3,654)	0
Treasury stock, at cost - 26,267 and 26,251 shares in 2006 and 2005, respectively	(394,222)	(394,011)	0
Total stockholders' equity	29,814,089	29,553,400	19,605,922
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 256,625,022	\$ 245,707,491	\$ 161,979,796

See accompanying notes to consolidated financial statements.

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Citizens Community Bancorp and Subsidiary

Consolidated Statements of Income

Six Months Ended March 31, 2006 and 2005 (unaudited) and Years Ended September 30, 2005, 2004 and 2003

	Six Months Ended March 31,		Years Ended September 30,		
	2006	2005	2005	2004	2003
	(unaudited)				
Interest and dividend income:					
Interest and fees on loans	\$ 7,304,728	\$ 5,353,499	\$ 11,708,703	\$ 9,544,179	\$ 8,782,650
Interest on investments	219,072	43,378	217,386	75,309	97,658
Total interest and dividend income	7,523,800	5,396,877	11,926,089	9,619,488	8,880,308
Interest expense:					
Interest on deposits	2,367,794	1,455,950	3,263,059	2,804,710	3,175,678
Interest on FHLB advances	772,884	192,871	728,618	84,597	2,115
Total interest expense	3,140,678	1,648,821	3,991,677	2,889,307	3,177,793
Net interest income	4,383,122	3,748,056	7,934,412	6,730,181	5,702,515
Provision for loan losses	108,451	202,136	414,078	395,997	405,530
Net interest income after provision for loan losses	4,274,671	3,545,920	7,520,334	6,334,184	5,296,985
Noninterest income:					
Service charges on deposit accounts	475,265	370,433	832,188	784,318	772,816
Insurance commissions	165,477	196,660	397,287	308,835	278,756
Loan fees and service charges	194,534	148,508	328,329	258,784	236,412
Net gain on securities	27,110	0	0	0	0
Other	7,805	392,899	463,045	16,720	44,294
Total noninterest income	870,191	1,108,500	2,020,849	1,368,657	1,332,278
Noninterest expense:					
Salaries and related benefits	2,771,676	2,183,639	4,687,447	3,986,524	3,620,887

Explanation of Responses:

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Occupancy - Net	468,290	349,893	752,336	629,849	552,444
Office	428,457	299,869	667,968	546,510	512,498
Data processing	207,133	154,528	329,761	301,503	275,874
Other	843,460	684,215	1,368,267	858,582	679,962
Total noninterest expense	4,719,016	3,672,144	7,805,779	6,322,968	5,641,665
Income before provision for income taxes	425,846	982,276	1,735,404	1,379,873	987,598
Provision for income taxes	176,252	398,286	684,334	543,328	390,101
Net income	\$ 249,594	\$ 583,990	\$ 1,051,070	\$ 836,545	\$ 597,497
Basic earnings per share	\$ 0.07	\$ 0.20	\$ 0.35	\$ 0.33	N/A
Diluted earnings per share	\$ 0.07	\$ 0.20	\$ 0.35	\$ 0.33	N/A

See accompanying notes to consolidated financial statements.

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Citizens Community Bancorp and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

Six Months Ended March 31, 2006 and 2005 (unaudited) and Years Ended September 30, 2005, 2004, and 2003

	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Unearned Compensation	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, September 30, 2002		0 \$	0 \$	0 \$ 10,393,438	\$	0 \$	0 \$	0 \$	0 \$ 10,393,438
Comprehensive income: Net income				597,497					597,497
Balance, September 30, 2003	0	0	0	10,990,935	0	0	0	0	10,990,935
Comprehensive income: Net income				836,545					836,545
Sale of common stock - Unearned ESOP shares	978,650	9,787	9,038,403						9,047,840
Common stock acquired by ESOP - 119,236 shares					(1,192,360)				(1,192,360)
Committed ESOP shares					59,620				59,620
Appreciation in fair value of ESOP shares charged to expense			11,924						11,924
Capitalization of CCMHC	2,063,100	20,631	(20,631)	(100,000)					(100,000)
Cash dividends (\$0.05 per share)				(48,932)					(48,932)
Balance, September 30, 2004	3,041,750	30,418	9,029,696	11,678,548	(1,132,740)	0	0	0	19,607,262

Explanation of Responses:

Comprehensive income:										
Net income				1,051,070						1,051,070
Net unrealized loss on available-for-sale securities								(3,654)		(3,654)
Total comprehensive income										1,047,416
Common stock issued due to merger	705,569	7,055	9,758,975							9,763,039
Common stock purchased - 59,637 shares								(895,135)		(895,135)
Committed ESOP shares			43,120		119,280					162,400
Common stock awarded for Recognition and Retention Plan - 33,386 shares			(52,082)			(449,042)		501,124		500,000
Amortization of restricted stock						59,873				59,873
Cash dividends (\$.20 per share)				(193,106)						(193,106)
Balance, September 30, 2005	3,747,319	\$ 37,473	\$ 18,779,709	\$ 12,536,512	(\$1,013,460)	(\$389,169)	(\$3,654)	(\$394,011)	\$ 29,555,000	\$ 29,555,000

See accompanying notes to consolidated financial statements.

Citizens Community Bancorp and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity (Continued)

Six Months Ended March 31, 2006 and 2005 (unaudited) and Years Ended September 30, 2005, 2004 and 2003

	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Unearned Compensation	Accumulated Other Comprehensive Loss	Treasury Stock	Totals
Balance, September 30, 2004	3,041,750	\$ 30,418	\$ 9,029,696	\$ 11,678,548	(\$1,132,740)	\$ 0	\$ 0	0	\$ 19,605,9
Comprehensive income:									
Net income				583,990					583,9
Net unrealized loss on available-for-sale securities							0		
Total comprehensive income									583,9
Common stock purchase - 59,618 shares								(894,866)	(894,8
Committed ESOP shares			25,327		59,640				84,9
Common stock awarded for Recognition and Retention Plan - 33,386 shares			(52,082)			(449,042)		501,124	
Amortization of restricted stock						14,968			14,9
Cash dividends (\$.10 per share)				(97,866)					(97,8
Balance, March 31, 2005	3,041,750	\$ 30,418	\$ 9,002,941	\$ 12,164,672	\$ (1,073,100)	\$ (434,074)	0	\$ (393,742)	\$ 19,297,
Balance, September 30, 2005	3,747,319	37,473	18,779,709	12,536,512	(1,013,460)	(389,169)	(3,654)	(394,011)	29,553,4

Comprehensive income:										
Net income				249,594						249,594
Net unrealized loss on available-for-sale securities								(18,572)		(18,572)
Total comprehensive income										231,022
Committed ESOP shares						59,640				59,640
Appreciation in fair value shares charged to expense				17,236						17,236
Common stock purchased - 16 shares									(211)	(211)
Amortization of restricted stock						48,420				48,420
Cash dividends (\$.10 per share)				(95,418)						(95,418)
Balance, March 31, 2006	3,747,319	\$ 37,473	\$ 18,796,945	\$ 12,690,688	\$	(953,820)	\$ (340,749)	\$ (22,226)	\$ (394,222)	\$ 29,814,000

See accompanying notes to consolidated financial statements.

Citizens Community Bancorp and Subsidiary

Consolidated Statements of Cash Flows

Six Months Ended March 31, 2006 and 2005 (unaudited) and Years Ended September 30, 2005, 2004 and 2003

	Six Months Ended March 31,		Years Ended September 30,		
	2006	2005	2005	2004	2003
	(unaudited)				
Increase (decrease) in cash and cash equivalents:					
Cash flows from operating activities:					
Net income	\$ 249,594	\$ 583,990	\$ 1,051,070	\$ 836,545	\$ 597,497
Adjustments to reconcile net income to net cash provided by operating activities:					
Provision for depreciation	181,276	123,051	278,032	256,162	261,030
Provision for loan losses	108,451	202,136	414,078	395,997	405,530
Amortization of purchase accounting adjustments	(38,454)	0	19,277	0	0
Amortization of core deposit intangible	150,779	12,765	94,537	24,330	10,133
Amortization of restricted stock	48,421	14,968	59,873	0	0
Provision (benefit) for deferred income taxes	14,000	(11,000)	104,000	(124,000)	(49,130)
Federal Home Loan Bank stock dividends	(16,480)	(23,900)	(53,600)	(44,700)	(41,800)
ESOP contribution expense in excess of shares released	17,236	25,327	43,120	11,924	0
(Increase) decrease in accrued interest receivable and other assets	273,886	(299,979)	(622,922)	(286,784)	(208,234)
Increase (decrease) in other liabilities	(186,158)	302,105	360,967	128,022	311,360
Total adjustments	552,957	345,473	697,362	360,951	688,889

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Net cash provided by operating activities	802,551	929,463	1,748,432	1,197,496	1,286,386
Cash flows from investing activities:					
Proceeds from maturities of other interest-bearing deposits	291,333	0	363,112	0	1,485,000
Sale (purchase) of Federal Home Loan Bank stock	284,900	(348,400)	(928,700)	(112,000)	(75,800)
Proceeds from sale of securities available for sale	230,696	0	0	0	0
Net increase in loans	(16,501,429)	(17,533,499)	(39,270,812)	(28,959,211)	(19,422,395)
Capital expenditures	(870,213)	(142,474)	(235,216)	(87,885)	(368,650)
Cash received for branch acquisition	0	0	13,172,051	6,970,198	0
Net cash used in investing activities	(16,564,713)	(18,024,373)	(26,899,565)	(22,188,898)	(18,381,845)

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Citizens Community Bancorp and Subsidiary

Consolidated Statements of Cash Flows (Continued)

Six Months Ended March 31, 2006 and 2005 (unaudited) and Years Ended September 30, 2005, 2004 and 2003

	Six Months Ended March 31,		Years Ended September 30,		
	2006	2005	2005	2004	2003
	(unaudited)				
Cash from financing activities:					
Increase in borrowings	\$ 0	\$ 10,500,000	\$ 22,700,000	\$ 9,800,000	\$ 3,700,000
Increase in deposits	10,829,000	5,648,288	7,917,564	5,118,868	10,534,362
Payments to acquire treasury stock	(211)	(894,866)	(895,135)	0	0
Proceeds from sale of common stock	0	0	0	9,048,189	0
Formation of CCMHC	0	0	0	(100,000)	0
Loan to ESOP for purchase of common stock	0	0	0	(1,192,360)	0
Reduction in unallocated shares held by ESOP	59,640	59,640	119,280	59,620	0
Cash dividends paid	(95,418)	(97,866)	(193,106)	(48,932)	0
Net cash provided by financing activities	10,793,011	15,215,196	29,648,603	22,685,385	14,234,362
Net increase (decrease) in cash and cash equivalents	(4,969,151)	(1,879,714)	4,497,470	1,693,983	(2,861,097)
Cash and cash equivalents at beginning	9,265,477	4,768,077	4,768,007	3,074,024	5,935,121
Cash and cash equivalents at end	\$ 4,296,326	\$ 2,888,363	\$ 9,265,477	\$ 4,768,007	\$ 3,047,024
Supplemental cash flow information:					
Cash paid during the year for:					
Interest	\$ 3,189,116	\$ 1,651,389	\$ 3,845,432	\$ 2,982,359	\$ 3,230,125
Income taxes	334,140	248,710	728,000	686,406	504,000

Supplemental schedule of noncash investing and financing activities:

Loans transferred to foreclosed properties	\$	0	\$	0	\$	0	\$	0	\$	101,054
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The fair values of noncash assets acquired and liabilities assumed in the merger with Community Plus Savings Bank were \$52,328,000 and \$42,570,000, respectively. Approximately 706,000 shares of common stock, valued at \$9,250,000, were issued in connection with this merger. Note 2 provides additional detail related to this transaction.

In November 2003, the Company purchased certain assets and assumed the deposits of the Mankato branch of Alliance Bank. In conjunction with the acquisition, the Company received \$6,970,198 and the following assets and liabilities:

Loans	\$	705,751
Other assets		241,756
Assets acquired	\$	947,507
Deposits assumed	\$	7,894,530
Other liabilities		23,175
Liabilities assumed	\$	7,917,705

Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

Nature of Operations

Citizens Community Bancorp (the “Company”) is a federally chartered holding company formed on March 29, 2004, for the purpose of acquiring all of the common stock of Citizens Community Federal (the “Bank”) concurrent with its reorganization and stock issuance plan. The reorganization was consummated on March 29, 2004. In connection with the reorganization, the Company sold 978,650 shares of its common stock, par value \$0.01 per share, in a subscription offering, and issued 2,063,100 shares to Citizens Community MHC (CCMHC), raising approximately \$8.9 million, net of costs. The Company is a majority-owned subsidiary of CCMHC, a federally chartered mutual holding company.

The Bank is a federally chartered stock savings bank. It operates its business from several banking offices located in Wisconsin, Minnesota, and Michigan. The Bank is engaged in the business of attracting deposits from the general public and investing those deposits in residential and consumer loans.

Principles of Consolidation

The consolidated financial statements include the accounts of Citizens Community Bancorp and its wholly owned subsidiary, Citizens Community Federal. All significant intercompany balances and transactions have been eliminated. The accounting and reporting policies of the Company conform to generally accepted accounting principles (GAAP) and to the practices within the banking industry.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash due from banks and interest-bearing deposits with original maturities of three months or less.

Other Interest-Bearing Deposits

Other interest-bearing deposits mature within three years and are carried at cost, which approximates fair value.

Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Securities

Securities are classified as available for sale and are carried at fair value, with unrealized gains and losses reported in other comprehensive income. 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 fair value of securities that are deemed to be other than temporary, if applicable, are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which fair value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

Federal Home Loan Bank Stock

The Bank owns stock in the Federal Home Loan Bank (FHLB). FHLB stock is carried at cost which approximates fair value. The Bank is required to hold the stock as a member of the FHLB system, and transfer of the stock is substantially restricted. The stock is pledged as collateral for outstanding FHLB advances.

Interest and Fees on Loans

Interest on loans is credited to income over the contractual life of the loans based on the principal amount outstanding using the interest method. Accrual of interest is discontinued when a loan becomes over 90 days delinquent.

Uncollectible interest previously accrued is charged off or an allowance is established by means of a charge to interest income. Income is subsequently recognized only to the extent cash payments are received until all past due interest and principal have been collected, in which case the loan is returned to accrual status. Interest income recognition on loans considered to be impaired under current accounting standards is consistent with recognition on all other loans.

Loan origination fees are credited to income when received, as capitalization and amortization of the fees and related costs would not have a material effect on the overall consolidated financial statements. Premiums paid for origination of loans by dealers and merchants are deferred and recognized as an adjustment to interest income using the interest method over the contractual life of the loans.

Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The Bank considers loans secured by real estate and all consumer loans to be large groups of smaller-balance homogeneous loans. Each portfolio of smaller-balance, homogeneous loans is collectively evaluated for impairment. The allowance for credit losses attributed to these loans is established via a process that estimates the probable losses inherent in the portfolio, based on various analyses. These include historical delinquency and credit loss experience and the current aging of the portfolio, together with analyses that reflect current trends and conditions. Management also considers overall portfolio indicators including historical credit losses, delinquent, nonperforming and classified loans, and trends in volumes and terms of loans; an evaluation of overall credit quality and the credit process, including lending policies and procedures; and economic, geographical, and other environmental factors and regulatory guidance.

In management's judgment, the allowance for loan losses is maintained at a level that represents its best estimate of probable losses relating to specifically identified loans, as well as probable losses inherent in the balance of the loan portfolio. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Foreclosed Properties

Assets acquired by foreclosure or in lieu of foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell. Costs relating to the development and improvement of property are capitalized; holding costs are charged to expense.

After foreclosure, valuations are periodically performed by management and a charge to income is recorded if the carrying value of a property exceeds its fair value less estimated selling costs. Revenue and expenses from operations and changes in any valuation allowance are included in loss on foreclosed real estate.

Office Properties and Equipment

Office properties and equipment are stated at cost. Maintenance and repair costs are charged to expense as incurred. Gains or losses on disposition of office properties and equipment are reflected in income. Depreciation is computed principally on the straight-line method and is based on the estimated useful lives of the assets, varying from 10 to 40 years for buildings and 3 to 10 years for equipment.

Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Intangible Assets and Goodwill

Intangible assets attributable to the value of core deposits acquired and the excess of purchase price over fair value of assets acquired (goodwill) are stated at cost less accumulated amortization. Intangible assets are amortized on a straight-line basis over periods of seven to fifteen years. Goodwill is not amortized.

The Company reviews intangible assets for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The evaluation includes assessing the estimated fair value of the intangible asset based on market prices for similar assets, where available, and the present value of the estimated future cash flows associated with the intangible asset. Adjustments are recorded if it is determined that the benefit of the intangible asset has decreased.

Income Taxes

Deferred income taxes have been provided under the liability method. Deferred tax assets and liabilities are determined based on the difference between the consolidated financial statement and tax bases of assets and liabilities as measured by the current enacted tax rates which will be in effect when these differences are expected to reverse. Provision (credit) for deferred taxes is the result of changes in the deferred tax assets and liabilities.

Advertising Costs

Advertising costs are expensed as incurred.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The weighted average number of shares outstanding was 3,628,263 and 3,007,681 for basic EPS and 3,630,118 and 3,009,002 for diluted EPS for the six months ended March 31, 2006 (unaudited) and year ended September 30, 2005.

The formation of the Company was completed on March 29, 2004. The basic and diluted EPS shown in the financial statements are presented on a pro forma basis as if the formation was completed on October 1, 2003. The pro forma weighted average number of shares outstanding in 2004 was 2,552,425 for basic and diluted EPS.

Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Future Accounting Changes

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, *Share-Based Payment*, which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires that the cost of share-based payment transactions (including those with employees and nonemployees) be recognized in the financial statements. SFAS No. 123R applies to all share-based payment transactions in which an entity acquires goods or services by issuing (or offering to issue) its shares, share options, or other equity instruments (except for those held by an ESOP) or by incurring liabilities (1) in amounts based (even in part) on the price of the entity's shares or other equity instruments, or (2) that require (or may require) settlement by the issuance of an entity's shares or other equity instruments.

The Company plans to adopt SFAS No. 123R, as required, on October 1, 2006. While the Company is still in the process of evaluating the effect of the FASB statement on the financial statements, Note 1 does disclose the effect on earnings had SFAS No. 123R been adopted in prior periods. Since the statement will be adopted using the modified-prospective method, the effect the adoption will have on the financial statements can be materially impacted by the number of options granted in future periods.

Stock-Based Compensation

Generally accepted accounting principles encourage all entities to adopt a fair-value- based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. At March 31, 2006 and September 30, 2005, the rules also allow an entity to continue to measure compensation cost for those plans using the intrinsic-value-based method of accounting, whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock. However, effective during the quarter ending December 31, 2006, this treatment will change to require all stock-based compensation to be reflected as income (refer to "Future Accounting Changes").

Citizens Community Bancorp follows the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and uses the "intrinsic value method" of recording stock-based compensation cost. Because stock options are granted with an exercise price equal to fair value at the date of grant, no compensation expense is recorded.

Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation (Continued)

The following table illustrates the effect of net income and earnings per share if the fair-value-based method had been applied to all outstanding and unvested awards in each period:

	March 31,		September 30,		
	2006	2005	2005	2004	2003
	(unaudited)				
Net income, as reported	\$ 249,594	\$ 583,990	\$ 1,051,070	\$ 836,545	\$ 597,497
Deduct:					
Total stock-based employee compensation expense determined under the fair-value-based method for					
all awards, net of related tax effects	33,432	0	44,576	0	0
Pro forma net income	\$ 216,162	\$ 583,990	\$ 1,006,494	\$ 836,545	\$ 597,797
Earnings per share - Basic and diluted					
As reported:					
Basic	\$ 0.07	\$ 0.20	\$ 0.35	\$ 0.33	N/A
Diluted	\$ 0.07	\$ 0.20	\$ 0.35	\$ 0.33	N/A
Pro forma:					
Basic	\$ 0.06	\$ 0.20	\$ 0.33	\$ 0.33	N/A
Diluted	\$ 0.06	\$ 0.20	\$ 0.33	\$ 0.33	N/A

The fair value of stock options granted in 2005 was estimated at the date of grant using the Black-Scholes methodology. No options were granted during the six month period ended March 31, 2006, 2004 or 2003. The following assumptions were made in estimating the fair value for options granted for the year ended September 30,

2005:

Dividend yield	1.49%
Risk-free interest rate	4.16%
Weighted average expected life (years)	10
Expected volatility	16.08%

The weighted average fair value of options at their grant date, using the assumptions shown above, was computed at \$3.66 per share for options granted for the year ended September 30, 2005.

Off-Balance-Sheet Financial Instruments

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

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Other Comprehensive Income

The Company's accumulated other comprehensive income (loss) is comprised of the unrealized gain or loss on securities available for sale, net of tax.

Segment Information

The Company, through a branch network of its banking subsidiary, provides a full range of banking services in northern Wisconsin, Minnesota, and Michigan.

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

Unaudited Periods

Balances as of March 31, 2006 and for the six months ended March 31, 2006 and 2005 have not been audited. In the opinion of management, all adjustments consisting of normal recurring adjustments that are necessary for a fair presentation of the unaudited periods have been reflected.

Note 2 Merger

On July 1, 2005, the acquisition of Community Plus Savings Bank (CPSB) by the Company in a tax-free merger of CPSB with and into the Bank (the Merger) was completed. In accordance with the agreement, the Company issued 705,569 additional shares to CCMHC as determined under the agreement. The primary objectives of the Merger were to provide additional liquidity and geographic growth opportunities for the Company.

The merger was accounted for using the purchase method of accounting. Accordingly, the results of operations of CPSB since the date of acquisition are included in the consolidated financial statements.

The purchase price to complete the merger was \$9.76 million. In conjunction with the Merger, net cash of \$13,172,051 was received. The purchase price of the Merger has been allocated to the assets acquired and liabilities assumed, using their fair values at the merger date.

Goodwill and other purchase accounting adjustments were recorded upon the consummation of the purchase acquisition where the purchase price exceeded the fair value of net assets acquired. The Bank recorded a core deposit intangible of \$1,877,000, which is being amortized as indicated in Note 8. In addition, approximately \$516,000 of expenses associated with the acquisition were capitalized. The computation of the purchase price and the allocation of the purchase price to the net assets of CPSB - based on their fair values as of July 1, 2005 - and the resulting goodwill follow.

Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 2 Merger (Continued)

(In thousands, except per share amounts)	July 1, 2005
Purchase price	
Company common stock issued	705,569
Average price per Company common share ¹	\$ 13.11
	\$ 9,250
Merger costs capitalized	516
Total purchase price	\$ 9,766
Net assets acquired:	
CPSB stockholders' equity	\$ 4,144
Adjustments to reflect assets acquired at fair value:	
Investment securities	(11)
Loans receivable	(456)
Office properties and equipment	(82)
Core deposit intangible	1,877
Other assets	(420)
Adjustments to reflect liabilities assumed at fair value:	
Deposits	(50)
Deferred income taxes	(405)
Pension liability	(220)
Other liabilities	(77)
Net assets acquired at fair market value	4,300
Goodwill resulting from Merger	\$ 5,466

¹ The value of the Company's common stock issued to CCMHC was based on the average closing bid price of the Company's common stock for the 20th through the 5th trading days prior to the July 1, 2005, closing date.

Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 2 Merger (Continued)

Unaudited pro forma condensed combined financial information

The following unaudited pro forma condensed combined financial information presents the results of operations of CPSB had the Merger taken place at the beginning of each period.

(In thousands, except per share amounts)	2005	2004
Net interest income	\$ 9,028	\$ 8,563
Noninterest income	2,173	1,406
Provision for loan losses	427	409
Other noninterest expense	9,260	8,132
Income before income taxes	1,514	1,428
Net income	920	870
Basic and diluted earnings per share	\$ 0.28	N/A

Note 3 Cash and Cash Equivalents

In the normal course of business, the Bank maintains cash and due from bank balances with correspondent banks which routinely exceed insured amounts. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. The Bank monitors the financial condition of correspondent banks and believes credit risk is minimal.

Note 4 Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	March 31, 2006 (unaudited)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>Securities Available for Sale</i>				
Debt securities:				
Corporate securities	\$ 1,000,000	\$ 0	\$ 8,835	\$ 991,165
Mortgage-related securities	870,849	0	22,933	847,916
Total securities available for sale	\$ 1,870,849	\$ 0	\$ 31,768	\$ 1,839,081

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 4 Securities (Continued)

		September 30, 2005			
	Amortized	Gross	Gross		Estimated
	Cost	Unrealized	Unrealized		Fair Value
		Gains	Losses		
<i>Securities Available for Sale</i>					
Debt securities:					
Corporate securities	\$ 1,000,000	\$ 0	\$ 18,740	\$	981,260
Mortgage-related securities	952,254	246	6,147		946,353
Mutual funds	141,518	19,218	0		160,736
Total securities available for sale	\$ 2,093,772	\$ 19,464	\$ 24,887	\$	2,088,349

The following table shows the fair value and gross unrealized losses of securities with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	March 31, 2006 (unaudited)					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	\$ 991,165	\$ 8,835	\$ 0	\$ 0	\$ 991,165	\$ 8,835
Mortgage-related securities	847,916	22,933	0	0	847,916	22,933
Total temporarily impaired securities	\$ 1,839,081	\$ 31,768	\$ 0	\$ 0	\$ 1,839,081	\$ 31,768

	September 30, 2005					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

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Corporate securities	\$	981,260	\$	18,740	\$	0	\$	0	\$	981,260	\$	18,740
Mortgage-related securities		608,160		6,147		0		0		608,160		6,147
Total temporarily impaired securities	\$	1,589,420	\$	24,887	\$	0	\$	0	\$	1,589,420	\$	24,887

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 4 Securities (Continued)

At March 31, 2006 (unaudited), five securities have unrealized losses with aggregate depreciation of 1.7% from the Company's amortized cost basis. At September 30, 2005, four securities have unrealized losses with aggregate depreciation of 1.6% from the Company's amortized cost basis. The unrealized losses relate principally to the increase in interest rates and are not due to changes in the financial condition of the issuer. When analyzing an issuer's financial condition, management considers whether the securities are issued by a government body or agency, whether a rating agency has downgraded the securities, and industry analysts' reports. Since management has the ability to hold securities until the foreseeable future for securities available for sale, no declines are deemed to be other than temporary.

The following is a summary of amortized cost and estimated fair value of debt securities by contractual maturity. Contractual maturities will differ from expected maturities for mortgage-related securities because borrowers may have the right to call or prepay obligations without penalties:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
March 31, 2006 (unaudited)		
Due in one year or less	\$ 1,000,000	\$ 991,165
Mortgage-related securities	870,849	847,916
Total	\$ 1,870,849	\$ 1,839,081
September 31, 2005		
Due in one year or less	\$ 1,000,000	\$ 981,260
Mortgage-related securities	952,254	946,353
Mutual funds	141,518	160,736
Total	\$ 2,093,772	\$ 2,088,349

Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 5 Loans

The composition of loans were as follows:

	March 31, 2006 (unaudited)	September 30, 2005	2004
Real estate loans:			
First mortgages - 1- to 4-family	\$ 146,075,634	\$ 136,646,768	\$ 89,841,081
Multifamily and commercial	270,007	274,450	320,616
Second mortgages	7,960,733	7,629,782	5,398,362
Total real estate loans	154,306,374	144,551,000	95,560,059
Consumer loans:			
Automobile	25,223,228	25,979,550	25,808,371
Secured personal	51,161,685	43,459,864	27,607,256
Unsecured personal	4,440,123	4,743,470	3,954,854
Total consumer loans	80,825,036	74,182,884	57,370,481
Gross loans	235,131,410	218,733,884	152,930,540
Less - Allowance for loan	807,766	803,218	554,210

Explanation of Responses:

losses

Loans receivable, net	\$ 234,323,644	\$ 217,930,666	\$ 152,376,330
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The aggregate amount of nonperforming loans was \$1,063,000, \$669,220 and \$697,072 at March 31, 2006 (unaudited) and at September 30, 2005 and 2004, respectively. Nonperforming loans are those which are contractually past due more than 90 days as to interest or principal payments, on a nonaccrual of interest status, or loans the terms of which have been renegotiated to provide a reduction or deferral of interest or principal. If interest on those loans had been accrued, such income would have been \$55,182, \$36,276 and \$37,608 for the six months ended March 31, 2006 (unaudited) and for the years ended September 30, 2005 and 2004, respectively. No loans were considered impaired.

Directors, officers, principal stockholders, and employees of the Company, including their families and firms in which they are principal owners, are considered to be related parties. Substantially all loans to directors and executive officers were made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and, in the opinion of management, did not involve more than the normal risk of collectibility or present other unfavorable features.

Company directors, executive officers, principal stockholders and their affiliates had aggregate borrowings (direct and indirect) from the Bank totaling approximately \$58,381, \$61,998 and \$79,500 at March 31, 2006 (unaudited), September 30, 2005 and 2004, respectively.

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 5 Loans (Continued)

An analysis of the activity in the allowance for loan losses follows:

	March 31, 2006	2005	September 30, 2004	2003
	(unaudited)			
Balance at beginning	\$ 803,218	\$ 554,210	\$ 466,527	\$ 349,448
Provisions charged to operating expense	108,451	414,078	395,997	405,530
Allowance for loan losses obtained through bank merger	0	39,825	0	0
Loans charged off	(109,554)	(236,059)	(341,437)	(312,953)
Recoveries on loans	5,651	31,164	33,123	24,502
Balance at end	\$ 807,766	\$ 803,218	\$ 554,210	\$ 466,527

Note 6 Office Properties and Equipment

Office properties and equipment consists of the following:

	March 31, 2006	2005	September 30, 2004
	(unaudited)		
Land	\$ 612,727	\$ 612,727	\$ 467,727
Buildings	2,444,248	2,485,033	1,873,663

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Furniture, equipment, and vehicles	3,510,660	2,548,747	1,878,932
Subtotals	6,567,635	5,646,507	4,220,322
Less - Accumulated depreciation	2,955,814	2,723,623	2,021,513
Office properties and equipment - Net	\$ 3,611,821	\$ 2,922,884	\$ 2,198,809

Depreciation charged to operating expense totaled \$181,276, \$278,032, \$256,162 and \$261,030 for the six months ended March 31, 2006 (unaudited) and the years ended September 30, 2005, 2004 and 2003, respectively.

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 7 Intangible Assets

The carrying amounts of the core deposit intangible are as follows:

	March 31, 2006		September 30, 2005		September 30, 2004		2003
	(unaudited)						
Balance at beginning	\$ 2,130,949	\$	348,486	\$	155,687	\$	0
Capitalized	0		1,877,000		217,129		165,820
Amortization	(150,779)		(94,537)		(24,330)		(10,133)
Balance at end	\$ 1,980,170	\$	2,130,949	\$	348,486	\$	155,687

Note 8 Goodwill

Goodwill acquired through acquisition was approximately \$5,466,000 as of March 31, 2006 (unaudited) and September 30, 2005. The Company tested for impairment during the fourth quarter of fiscal year 2005 and determined there was no impairment of goodwill during 2005.

Note 9 Deposits

The composition of deposits are as follows:

	March 31, 2006		September 30, 2005		September 30, 2004
	(unaudited)				
Non-interest-bearing demand deposits	\$ 15,026,693	\$	14,413,347	\$	4,460,849
Interest-bearing demand deposits	5,170,866		4,901,837		6,985,799
Savings accounts	26,676,796		27,192,518		15,420,505
Money market accounts	27,512,531		30,323,395		23,628,315

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Certificate accounts	113,911,214	100,638,003	77,480,794
Total deposits	\$ 188,298,100	\$ 177,469,100	\$ 127,976,262

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 9 Deposits (Continued)

Interest expense on deposits was as follows:

	March 31, 2006	2005	September 30, 2004	2003
	(unaudited)			
Interest-bearing demand deposits	\$ 14,077	\$ 29,686	\$ 31,392	\$ 30,079
Savings accounts	72,794	146,951	114,972	114,851
Money market accounts	263,053	433,141	388,939	216,462
Certificate accounts	2,017,870	2,653,281	2,269,407	2,814,876
Totals	\$ 2,367,794	\$ 3,263,059	\$ 2,804,710	\$ 3,175,678

The aggregate amount of time deposit accounts with individual balances greater than \$100,000 was \$23,582,000, \$21,408,696 and \$16,546,579 at March 31, 2006 (unaudited), and September 30, 2005 and 2004, respectively.

The scheduled maturities of certificate accounts are as follows:

	March 31, 2006 (unaudited)
2007	\$ 61,025,835
2008	39,783,657
2009	4,202,576
2010	8,875,578
After 2010	23,568
Total	\$ 113,911,214
	September 30, 2005

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2006	\$	60,355,259
2007		26,172,661
2008		4,748,395
2009		9,144,743
After 2009		216,945
Total	\$	100,638,003

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Note 10 Federal Home Loan Bank Advances

At March 31, 2006 (unaudited) and September 30, 2005 and 2004, respectively, the Company had \$36,200,000, \$36,200,000 and \$13,500,000 in Federal Home Loan Bank variable interest rate daily advances, at 5.11% at March 31, 2006 (unaudited) and 4.09% at September 30, 2005. These advances are secured by a blanket lien consisting principally of 1- to 4-family real estate loans totaling in excess of \$108,000,000. At March 31, 2006 (unaudited) and September 30, 2005, the unused portion of this open line of credit totaled approximately \$72,152,000 and \$46,995,000, respectively. Interest expense was \$772,784, \$728,618, \$84,597 and \$2,115 for the six months ended March 31, 2006 (unaudited) and the years ended September 30, 2005, 2004 and 2003, respectively.

The Company owns stock in the Federal Home Loan Bank totaling \$1,826,480, \$2,094,900 and \$827,700 at March 31, 2006 (unaudited) and September 30, 2005 and 2004, respectively. The stock is recorded at cost, which approximates fair value. The Company is required to hold the stock as a member of the Federal Home Loan Bank system, and transfer of the stock is substantially restricted.

As a result of the Community Plus merger, the Company has requested a redemption of stock of the Federal Home Loan Bank in Indianapolis totaling \$284,900. Under the terms of the redemption agreement, the redemption may not occur until 2010 on this stock investment.

Note 11 Income Taxes

The components of the provision for income taxes are as follows:

	Six Months Ended March 31,		Years Ended September 30,		
	2006	2005	2005	2004	2003
	(unaudited)				
Current tax expense:					
Federal	\$ 156,788	\$ 347,974	\$ 491,637	\$ 525,604	\$ 345,242
State	5,464	61,312	88,697	141,724	93,989
Total current tax expense	162,252	409,286	580,334	667,328	439,231
Deferred tax expense (benefit):					
Federal	(12,000)	(14,000)	98,400	(99,200)	(39,330)
State	26,000	3,000	5,600	(24,800)	(9,800)
Total deferred tax expense (benefit)	14,000	(11,000)	104,000	(124,000)	(49,130)
	\$ 176,252	\$ 398,286	\$ 684,334	\$ 543,328	\$ 390,101

Total provision for income
taxes

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 11 Income Taxes (Continued)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities, net of a valuation allowance for deferred tax assets not likely to be realized. The major components of net deferred tax asset (liability) are as follows:

	March 31, 2006	September 30,	
		2005	2004
	(unaudited)		
Deferred tax assets:			
Mutual savings bank conversion costs	\$ 34,400	\$ 48,600	\$ 44,000
Director/officer compensation plans	536,800	568,800	274,000
Net ESOP plan	0	0	8,500
Net asset fair value adjustments	172,900	175,400	0
Deferred tax assets	744,100	792,800	326,500
Deferred tax liabilities:			
Office properties and equipment	(57,800)	(63,200)	(42,705)
Allowance for loan losses	(47,100)	(23,300)	(94,000)
Federal Home Loan Bank stock	(73,600)	(73,900)	(43,200)
Prepays	(33,600)	(40,100)	0
Core deposit - Intangible	(657,500)	(714,200)	0
Other	0	(2,100)	0
Deferred tax liabilities	(869,600)	(916,800)	(179,905)
Net deferred tax asset (liability)	\$ (125,500)	\$ (124,000)	\$ 146,595

A summary of the source of differences between income taxes at the federal statutory rate and the provisions for income taxes follows:

Six Months Ended March 31,

Explanation of Responses:

	2006		2005	
	(unaudited)			
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Tax expense at statutory rate	\$ 144,788	34.0 %	\$ 333,974	34.0 %
Increase in taxes resulting from:				
State income tax	31,464	7.4	64,312	6.5
Provision for income taxes	\$ 176,252	41.4 %	\$ 398,286	40.5 %

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 11 Income Taxes (Continued)

Years Ended September 30,						
	2005		2004		2003	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Tax expense at statutory rate:	\$ 590,037	34.0 %	\$ 469,157	34.0 %	\$ 335,783	34.0 %
Increase in taxes resulting from:						
State income tax	94,297	5.4	74,171	5.5	54,318	5.5
Provision for income taxes	\$ 684,334	39.4 %	\$ 543,328	39.5 %	\$ 390,101	39.5 %

Note 12 Retirement Plans

401(k) Plan

The Company sponsors a 401(k) profit sharing plan that covers substantially all employees. Employees may make pretax voluntary contributions to the plan which are matched in part by the Company. Employer matching contributions to the plan were \$44,635, \$73,576, \$58,036 and \$48,173 for the six months ended March 31, 2006 (unaudited), and the years ended September 30, 2005, 2004 and 2003, respectively.

Supplemental Executive and Director Retirement Plan

On August 1, 2002, the Company adopted a Supplemental Executive and Directors' Retirement Plan (SERP). The SERP is an unfunded, noncontributory plan under which the Company will pay supplemental pension benefits to certain key employees and directors upon retirement. Benefits are based on a formula which includes participants' past and future earnings and years of service with the Company. Prior service costs associated with plan adoption are amortized to expense over the remaining working life of each participant.

Actuarial assumptions include assumed discount rates of 5.25%, 6% and 7% at September 30, 2005, 2004 and 2003, respectively, on benefit obligations and annual salary increases of 5%.

The accumulated benefit obligation was \$2,171,454 and \$1,734,481 and the accrued benefit cost was \$1,219,267 and \$685,883 at September 30, 2005 and 2004, respectively. The accrued benefit cost is included in the balance sheet caption "Other Liabilities."

The accumulated benefit obligation and the accrued benefit cost as of March 31, 2006 have not been actuarially calculated. The accrued benefit cost of \$1,415,893 at March 31, 2006 is included in the balance sheet caption "Other Liabilities".

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 12 Retirement Plans (Continued)

The components of net periodic benefit cost are as follows:

2005 2004 2003

Employee Stock Ownership Plan

The Board of Directors approved an Employee Stock Ownership Plan (ESOP) that became effective March 29, 2004. The Plan is designed to provide eligible employees the advantage of ownership of Company stock. Employees are eligible to participate in the Plan after reaching age twenty-one, completing one year of service, and working at least one thousand hours of consecutive service during the year. Contributions are allocated to eligible participants on the basis of compensation.

The ESOP borrowed \$1,192,360 from the Company to finance the purchase of 119,236 shares in connection with the initial public offering. The loan is payable in annual installments over ten years at an annual interest rate equal to 5%. The loan can be prepaid without penalty. Loan payments are principally funded by cash contributions from the Company, subject to federal tax law limits.

Shares used as collateral to secure the loan are released and available for allocation to eligible employees as the principal and interest on the loan is paid. Employees become fully vested in their ESOP account after five years of service. Dividends on unallocated shares are generally applied toward payment of the loan. ESOP shares committed to be released are considered outstanding in determining earnings per share.

Contribution expense to the ESOP is based on the fair value (average stock price) of the shares scheduled to be released and totaled \$76,876 and \$162,400 for the six months ended March 31, 2006 (unaudited) and the year ended September 30, 2005, respectively. One-tenth of the shares are scheduled to be released each year. The cost of all unallocated shares held by the ESOP has been reflected in the consolidated balance sheets as a contra equity amount.

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 12 Retirement Plans (Continued)

The ESOP shares were as follows:

	March 31, 2006	September 30,	
		2005	2004
Allocated	20,866	5,962	0
Committed to be released	11,924	11,928	5,962
Unallocated	86,446	101,346	113,274
Total shares held by ESOP	119,236	119,236	119,236

Note 13 Leases

The Bank leases its administrative and data processing center located in Eau Claire, Wisconsin. The lease, which is for three years expiring in 2009, is classified as an operating lease. Monthly rent is \$8,464; \$8,962; and \$9,294 in 2006, 2007, and 2008 through the termination date. The monthly rent includes utilities and property taxes. The Bank has one three-year renewal option on the lease. The Mondovi, Wisconsin branch, the Eau Claire training center, and the Rochester Hills, Michigan administrative offices are also rented under operating leases expiring in 2006. The Rice Lake, Wisconsin office is rented under an operating lease expiring in 2007. The Oakdale, Minnesota; Mankato, Minnesota; and Lake Orion, Michigan branches are rented under operating leases expiring in 2009, 2010, and 2012, respectively.

The rental expense for all operating leases was \$155,232, \$248,056, \$197,477 and \$148,598 for the six months ended March 31, 2006 (unaudited) and the years ended September 30, 2005, 2004 and 2003, respectively.

Future minimum lease payments at September 30, 2005, by year and in aggregate under the original terms of the non-cancelable operating leases consist of the following:

2006	\$ 253,403
2007	221,493
2008	205,314
2009	165,762
2010	51,718
Total	\$ 897,690

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 14

Stock-Based Compensation Plans

Recognition and Retention Plans

On February 4, 2005, shareholders approved the Citizens Community Bancorp 2004 Recognition and Retention Plan (Recognition Plan) which authorized the Board of Directors to award up to 59,618 shares of common stock. On February 4, 2005, the Board of Directors granted 33,386 shares under the Recognition Plan to members of management and nonemployee directors. The market value of the shares awarded at the grant date amounted to \$449,042 and has been recognized in the accompanying balance sheet as unearned stock-based compensation. The market value of the shares awarded is being recognized as compensation expense ratably over the five-year vesting period. During the six months ended March 31, 2006 (unaudited) and fiscal year 2005, no shares were forfeited. Compensation expense related to the Recognition Plan was \$48,420 and \$59,873 for the six months ended March 31, 2006 (unaudited) and the year ended September 30, 2005. During fiscal year 2004 and 2003, there was no compensation expense related to the Recognition Plan.

Stock Option Plan

On February 4, 2005, shareholders approved the Citizens Community Bancorp 2004 Stock Option and Incentive Plan (Option Plan) which authorized the Board of Directors to grant up to 149,046 shares of common stock. On February 4, 2005, the Board of Directors granted 105,827 options to buy stock under the Option Plan at an exercise price of \$13.45, the fair value of the stock on that date. The options vest ratably over a five-year period.

Unexercised, nonqualified stock options expire in 15 years and unexercised, incentive stock options expire in 10 years. None of the options granted were vested, exercised, or forfeited during the six months ended March 31, 2006 (unaudited) and the year ended September 30, 2005, and all options granted remain outstanding at March 31, 2006.

Activity is summarized in the following table.

	March 31, 2006 (unaudited)		September 30, 2005	
	Option Shares	Weighted Average Price	Option Shares	Weighted Average Price
Outstanding - Beginning of year	105,827	\$ 13.45	0	\$ 0.00
Options granted	0	0.00	105,827	13.45
Outstanding - End of Year	105,827	\$ 13.45	105,827	\$ 13.45
Exercisable	0		0	
		N/A		\$ 3.66

Explanation of Responses:

Weighted average fair value
of options granted
Available for future grant at
year-end

43,219

43,219

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 14

Stock-Based Compensation Plans (Continued)

The following table summarizes information about Plan awards outstanding at March 31, 2006 (unaudited) September 30, 2005:

Options Outstanding and Exercisable			
	March 31, 2006	September 30, 2005	
	Weighted Average		
Number Outstanding	Remaining Contractual Life		Exercise Price
	8.92	9.42	
68,562	years	years	\$ 13.45
	13.92	14.42	
37,265	years	years	\$ 13.45

Note 15

Commitments and Contingencies

Financial Instruments with Off-Balance-Sheet Risk

The Company's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk, and liquidity risk. These commitments and contingent liabilities are commitments to extend credit.

A summary of the Company's commitments and contingent liabilities follows:

	March 31, 2006	September 30, 2005	September 30, 2004
	(unaudited)		
Commitments to extend credit	\$ 378,200	\$ 611,163	\$ 445,000
Unused lines of credit:			
Real estate equity advance plan (REAP)	1,197,859	825,153	553,994

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Kwik cash and lines of credit	1,715,350	1,734,116	1,656,257
MasterCard and VISA credit cards	4,891,640	4,955,968	2,874,447
Totals	\$ 8,183,049	\$ 8,126,400	\$ 5,529,698

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 15

Commitments and Contingencies (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A portion of the commitments is expected to be drawn upon, thus representing future cash requirements. Management evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include real estate and personal property. Substantial amounts of unsecured personal loans are granted by the Company. However, ongoing credit evaluations of customers are performed.

In September 2005 the Company entered into a data processing services agreement for a period of five years, and a series of purchase agreements for computer equipment and software.

Concentration of Credit Risk

The majority of the Company's loans and commitments have been granted to customers in the Company's local market area. The concentrations of credit by type are set forth in Note 5. Management believes the diversity of the area economy will prevent significant losses in the event of an economic downturn.

Contingencies

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

Note 16

Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. It is management's opinion as of March 31, 2006 and September 30, 2005, that the Bank meets all capital adequacy requirements.

Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 16

Capital Requirements (Continued)

As of March 31, 2006 (unaudited) and September 30, 2005, the most recent notification from the Office of Thrift Supervision categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual and regulatory capital amounts and ratios are presented in the following table:

	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To Be Well- Capitalized Under Action Provisions Amount	Ratio
March 31, 2006						
Total capital (to risk-weighted assets)	\$ 19,879,000	12.1%	\$ 13,170,000	≥8.0%	\$ 16,463,000	≥10.0%
Tier 1 capital (to risk-weighted assets)	19,251,000	11.7%	6,585,000	≥4.0%	9,878,000	≥6.0%
Tier 1 capital (to adjusted total assets)	19,251,000	7.7%	9,978,000	≥4.0%	12,473,000	≥5.0%
Tangible capital (to tangible assets)	19,251,000	7.7%	3,742,000	≥1.5%	N/A	N/A
September 30, 2005						
Total capital (to risk-weighted assets)	\$ 19,318,000	12.6%	\$ 12,259,000	≥8.0%	\$ 15,323,000	≥10.0%
Tier 1 capital (to risk-weighted assets)	18,693,000	12.2%	6,129,000	≥4.0%	9,194,000	≥6.0%
Tier 1 capital (to adjusted total assets)	18,693,000	7.9%	9,495,000	≥4.0%	11,869,000	≥5.0%

Explanation of Responses:

Tangible capital (to tangible assets)	18,693,000	7.9%	3,561,000	≥1.5%	N/A	N/A
September 30, 2004						
Total capital (to risk-weighted assets)	\$ 15,281,000	14.0%	\$ 8,749,000	≥8.0%	\$ 10,936,000	≥10.0%
Tier 1 capital (to risk-weighted assets)	14,870,000	13.6%	4,374,480	≥4.0%	6,562,000	≥6.0%
Tier 1 capital (to adjusted total assets)	14,870,000	9.2%	6,469,000	≥4.0%	8,086,000	≥5.0%
Tangible capital (to tangible assets)	14,870,000	9.2%	2,426,000	≥1.5%	N/A	N/A

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 17

Fair Values of Financial Instruments

Current accounting standards require that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods, and assumptions for the Company's financial instruments are summarized below.

Cash and Cash Equivalents

The carrying values approximate the fair values for these assets.

Securities Available for Sale

Fair values are based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

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

The methodology in determining fair value of nonaccrual loans is to average them into the blended interest rate at 0% interest. This has the effect of decreasing the carrying amount below the risk-free rate amount and, therefore, discounts the estimated fair value.

Impaired loans are measured at the estimated fair value of the expected future cash flows at the loan's effective interest rate or the fair value of the collateral for loans which are collateral dependent. Therefore, the carrying values of impaired loans approximate the estimated fair values for these assets.

Federal Home Loan Bank Stock

Fair value for the Federal Home Loan Bank stock is based on its redeemable (carrying) value, since the market for this stock is restricted.

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 FHLB advances is estimated using discounted cash flows based on the Bank's current incremental borrowing rates for similar borrowing arrangements.

Explanation of Responses:

Accrued Interest

The carrying amount of accrued interest approximates its fair value.

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Citizens Community Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Note 17

Fair Value of Financial Instruments (Continued)

Off-Balance-Sheet Instruments

The fair value of 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, no amounts for fair value are presented.

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

	March 31, 2006		September 30, 2005		September 30, 2004	
	(unaudited)					
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:						
Cash and cash equivalents	\$ 4,296,325	\$ 4,296,325	\$ 9,265,477	\$ 9,265,477	\$ 4,768,007	\$ 4,768,007
Securities available for sale	1,839,081	1,839,081	2,088,349	2,088,349	0	