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

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

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

(Mark One)

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

OR

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

Commission file number 001-33003

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

Forward Looking Statements

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

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

EXPLANATORY NOTE

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

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

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

CITIZENS COMMUNITY BANCORP., INC.
DECEMBER 23, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
December 22, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

/s/ Wipfli LLP

December 21, 2009
Eau Claire, Wisconsin

CITIZENS COMMUNITY BANCORP, INC.

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

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

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

See accompanying notes to consolidated financial statements.

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

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

Dividends paid	$ -	$ 0.20	$ 0.20

See accompanying notes to consolidated financial statements.

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

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

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

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

See Accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

estimated future dividends over the commonly accepted five-year time horizon and a projected terminal value at the end of the fifth year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 – FAIR VALUE INFORMATION

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

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

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

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

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

Assets Measured on a Recurring Basis

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

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

Assets Measured on a Nonrecurring Basis

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

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

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

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

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

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

Fair Values of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

NOTE 3 – SECURITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 4 – LOANS / ALLOWANCE FOR LOAN LOSSES

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

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

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

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

Information regarding impaired loans is as follows:

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

Interest income on impaired loans is as follows:

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

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

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

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

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

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

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

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

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

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

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

NOTE 5 – OFFICE PROPERTIES AND EQUIPMENT

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

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

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

NOTE 6 – GOODWILL AND INTANGIBLE ASSETS

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

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

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

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

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

The estimated aggregate amortization expense is as follows:

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

NOTE 7 – DEPOSITS

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

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

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

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

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

NOTE 8 – FHLB ADVANCES

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

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

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

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

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

NOTE 9 – OTHER COMPREHENSIVE INCOME (LOSS)

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

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

NOTE 10 – CAPITAL MATTERS

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

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

to accept brokered deposits, despite the “Adequately Capitalized” categorization.

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

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

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

NOTE 12 – RETIREMENT PLANS

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

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

30

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

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

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

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

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

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

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

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

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

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

NOTE 13 – STOCK-BASED COMPENSATION

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

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
2010				
Outstanding at beginning of year	113,915	$ 7.04		
Granted	-			
Exercised	-			
Forfeited or expired				
Outstanding at end of year	113,915	$ 7.04	7.21	$ -
Exercisable at end of year	113,915	$ 4.43	7.21	
Fully vested and expected to vest	113,915	$ 4.43	7.21	

					12,306,305	$ 2.44	4,090,000	$ 0.88
Granted	3,275,000	5.82	10,688,805	2.62				
Exercised	4,360,534	0.58	2,397,500	0.03				
Expired			75,000	5.67				
Cancelled	140,816	4.59	0	0.96				
Balance at end of year	11,079,955	3.98	12,306,305	2.44				
Options exercisable at April 30	5,146,625	$ 2.67	6,843,805	$ 1.50				

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

The following table summarizes stock options and warrants outstanding and exercisable as of April 30, 2011:

	Options and Warrants Outstanding			Options and Warrants Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.01 to $0.40	850,000	3.3	$0.22	725,000	$0.20
$1.00 to $1.82	2,062,900	3.0	1.03	2,062,900	1.03
$2.00 to $2.52	1,550,000	3.0	2.15	550,000	2.41
$4.98 to $5.53	1,567,055	6.6	5.23	967,055	5.30
$5.94 to $6.94	5,050,000	6.8	5.99	841,670	5.96
	11,079,955	5.3	3.98	5,146,625	$2.67

The aggregate intrinsic value of stock options and warrants exercised during the 2011 and 2010 fiscal years was $20,430,348 and $3,752,093, respectively. The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying awards and the quoted price of our common stock for those awards that had an exercise price below the quoted price on the exercise date. During the 2011 and 2010 fiscal years we received cash of $1,265,516 and $282,000 for options exercised. As of April 30, 2011, we have unrecognized non-cash share-based compensation expense of $12,933,935 with a weighted average vesting term of 4.0 years, over which the expense will be recognized.

(11)

Income Tax

The components of income tax expense (benefit) are as follows:

	April 30, 2011		April 30, 2010	
Federal:				
Current	$		$	
Deferred		(1,992,811)		143,512,841
Total		(1,992,811)		143,512,841
State				
Current				
Deferred		(4,288,240)		41,163,919
Total		(4,288,240)		41,163,919
Total income tax expense (benefit)	$	(6,281,051)	$	184,676,760

A reconciliation of the provision for income taxes as reported and the amount computed by multiplying income before taxes by the U.S. federal statutory rate of 35% was as follows:

	April 30, 2011	April 30, 2010

Provision calculated at federal statutory rate	$	(3,556,280)	$	152,169,910
State and local income taxes, net of federal benefit		(569,303)		26,756,546
Change in effective state tax rate		(2,247,185)		
Change in valuation allowance				5,750,304
Other, net		91,717		
Total expense (benefit)	$	(6,281,051)	$	184,676,760

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

Significant components of the Company s net deferred tax assets (liabilities) consist of the following:

	April 30, 2011	April 30, 2010
Deferred tax assets:		
Unrealized derivative loss	$ 889,956	$ 115,626
Asset retirement obligation	7,243,811	6,550,632
Net operating loss carryforwards	7,696,072	5,924,403
Stock options and warrants	2,555,108	762,914
Other	9,098	5,504
Gross deferred tax assets	18,394,045	13,359,079
Deferred tax liabilities:		
Oil and gas properties and equipment in excess of tax basis	(196,616,917)	(197,513,472)
Other	(103,193)	(452,723)
Gross deferred tax liabilities	(196,720,110)	(197,966,195)
Net deferred tax liability	$ (178,326,065)	$ (184,607,116)

At April 30, 2011, the Company had net operating loss carryforwards for federal income tax purposes of approximately $21 million with expiration through 2023.

In assessing the realizable value of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. As management believes, based on assessment of both positive and negative evidence and objective and subjective evidence, that it is more likely than not that all of the deferred tax assets will be realized, the Company does not maintain a valuation allowance against deferred tax assets at April 30, 2011 or 2010.

The Company has not identified any uncertain tax positions as of April 30, 2011. The Company conducts business solely in the United States and, as a result, files income tax returns in the U.S. federal jurisdiction and in Alaska and Tennessee. The taxable years ended April 30, 2010, 2009 and 2008 remain open to examination by the taxing jurisdictions to which the Company is subject. Additional years may be subject to examination to the extent that the Company s net operating loss carry-forwards are utilized in an open tax year. Generally, for tax years which produce net operating losses, capital losses or tax credit carry-forwards ("tax attributes"), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The Company is not currently subject to any U.S. federal, state or local income tax examinations for any tax years.

(12)

Commitments

In August 2008 we engaged a broker-dealer and member of FINRA to assist us in raising capital by means of a private placement of securities. As initial compensation for their services, we paid a $25,000 retainer and issued 250,000 shares of our common stock, valued at $115,000 and agreed to pay a monthly consulting fee of $5,000. Upon the

successful completion of the private offering we will be obligated to pay the firm certain cash compensation and issue them up to an additional 150,000 shares of our common stock in amounts to be determined based upon the gross proceeds received by us from the financing.

As of April 30, 2011, we have $475,000 in exploration work commitments arising out of two leases over 534,383 acres located in the Susitna River Basin in Alaska. These commitments require the Company to invest in exploration efforts on those leases.

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

On November 5, 2009, CIE entered into an Assignment Oversight Agreement with the Alaska DNR which set our certain terms under which the Alaska DNR would approve the assignment of certain specified state oil and gas leases from Pacific Energy Resources to CIE. This agreement remains in place following our acquisition of Cook Inlet Energy in December 2009. Generally, the agreement requires CIE to provide the Alaska DNR with additional information and oversight authority to ensure that CIE is acting diligently to develop the oil and gas from Redoubt Shoal, West McArthur River Field and West Foreland Field. Under the terms of the agreement, until the Alaska DNR determines, in its sole discretion, that Cook Inlet Energy has completed its development and operation obligations under the assigned leases, CIE agreed to the following:

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file a monthly summary of expenditures by oil and gas filed, tied to objectives in CIE s business plan and plan of development previously presented to the Alaska DNR,

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meet monthly with the Alaska DNR to provide an update on operations and progress towards meeting these objectives,

.

notify the Alaska DNR 10 days prior to commitment when CIE is preparing to spend funds on a purchase, project or item of more than $100,000 during the first 12 months, more than $1 million during the second 12 months and more than $5 million thereafter, and

.

submit a new plan of development and plan of operations for the Alaska DNR s approval on or before December 15, 2009 and submit a plan of development annually thereafter on or before February 1, 2010. CIE timely met both of these deadlines.

The agreement required CIE to obtain financing in the minimum amount of $5,150,000 to provide funds to be used for expenditures approved by the Alaska DNR as part of CIE s plan of development. The funds are to be used for workover and repair of the wells, repair of the physical infrastructure, construction of a grind and inject plant at the West McArthur River facility, normal operating expenses associated with the leases and infrastructure and other capital project which are to be pre-approved by the Alaska DNR. The agreement also required CIE to demonstrate funding commitments to support restoration of the base production at the Redoubt Unit, including bringing a number of the shut-in wells back on line, which was estimated at $31 million in the agreement but which we have internally increased to $35 million to accommodate the purchase of a drilling right. We have subsequently provided these funds for the West McArthur River facility using a portion of the proceeds of our capital raising efforts described elsewhere herein, and intend to seek alternative sources of funding for the balance of the necessary capital.

CIE is prohibited from using any of the proceeds from the operations under the assigned leases of the funding commitments for non-core oil and gas activities under the assigned leases, or any activities outside the assigned leases, without the prior written approval of the Alaska DNR until the parties mutually agree that the full dismantlement obligation under the assigned leases is funded. The assigned leases will be subject to default and termination should CIE fail to submit the information required under the agreement and expenditure of funds for items or activities do not support core oil and gas activities, as reasonably determined by the Alaska DNR.

(13)

Alaska Production Credits

During the year ended April 30, 2011, the Company qualified for several credits under Alaska statute 43.55.023:

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43.55.023(a)(1) Qualified capital expenditure credit on or before June 30, 2010 (20%)

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43.55.023(l)(1) Qualified capital expenditure credit after June 30, 2010 (40%)

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43.55.023(a)(2) Qualified capital exploration credit on or before June 30, 2010 (20%)

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43.55.023(l)(2) Qualified capital exploration credit after June 30, 2010 (40%)

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43.55.023(b) Carried-forward annual loss credit (25%)

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

The Company recognizes a receivable when the amount of the credit is reasonably estimable and receipt is probable of occurrence (based on actual qualifying expenditures incurred). For expenditure and exploration based credits, the credit is recorded as a reduction to the related assets. For carried-forward annual loss credits, the credit is recorded as a reduction to the Alaska production tax. To the extent the credit amount exceeds the Alaska production tax, the credit is recorded as a reduction to general and administrative expenses.

During the year ended April 30, 2011, the Company recorded $1,761,192 related to the carried-forward annual loss credit, which was recorded in the consolidated statement of operations as a reduction to general and administrative. As of April 30, 2011, the Company has reduced the basis of capitalized assets by $3,658,354 for expenditure and exploration credits. Such reductions are recorded on our consolidated balance sheet in oil and gas properties. As of April 30, 2011, the Company had an outstanding receivable balance from Alaska in the amount of $3,620,336 for a credit application submitted on April 19, 2011.

(14)

Acquisitions

Ky-Tenn Oil, Inc.

On June 8, 2009, we closed on the purchase of Ky-Tenn Oil, Inc. ("KTO"). We issued 1,000,000 shares of our common stock to complete this acquisition, which was valued at $320,000 on the date of acquisition. The business includes approximately 35,325 leased acres located on the Chattanooga Shale and 153 natural gas and oil producing wells as well as $194,400 in restricted bond certificates for well reclamation with a related liability. A third-party expert was engaged to perform a valuation to determine the estimated fair value of the business acquired. The report was prepared utilizing methods and procedures regularly used by petroleum engineers to estimate oil and gas reserves for properties of this type and character. In accordance with ASC 810, *Business Combinations* the $990,019 (pre-tax) difference between the estimated fair value of the acquired business less the fair value of our common stock consideration, as determined by the closing price on the date the transaction was executed, was recorded in our consolidated statement of operations as gain on acquisitions.

We determined that pro-forma information related to this acquisition was not required (or useful to investors) due to the fact that this business combination was not material in relation to our consolidated financial statements. As 92 of the 153 wells acquired were shut in, and approximately 81% of the value of the well interests acquired were for undeveloped locations, pro-forma results would not have differed materially from actual results.

East Tennessee Consultants, Inc.

On June 18, 2009, the Company acquired 100% of the stock of East Tennessee Consultants, Inc., a Tennessee corporation ("ETC") and 100% of the membership interests in East Tennessee Consultants II, LLC, a Tennessee limited liability company ("LLC"). The business combination included 221 producing oil and gas wells and consisted of approximately 4,442 acres. We issued 1,000,000 shares of our common stock as purchase price consideration, which was valued at $250,000 based on the closing price of our common stock on the date the transaction was executed. In accordance with ASC 810, the $1,409,609 (pre-tax) difference between the estimated fair value of the

acquired business less the fair value of our common stock consideration, as determined by the closing price on the date the transaction was executed, was recorded in our consolidated statement of operations in gain on acquisitions.

The business combination included the following balance sheet items:

Assets			**Liabilities and equity**		
Cash	$	203,993	Accounts payable	$	202,760
Receivables		24,904	Deferred tax		580,864
Fixed assets, net		313,458	Value of shares issued		250,000
Oil and gas properties		1,319,140	Gain on acquisition		828,745
Other assets		874			
Total assets	$	1,862,369	Total liabilities and equity	$	1,862,369

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

For the year ended April 30, 2010, the acquisition of this business increased the Company s revenues by $808,159 and increased costs of revenues by $381,674. The impact of this business combination on all other line items within our consolidated statement of operations were not significant.

Cook Inlet Energy LLC and Pacific Energy Resources

On December 10, 2009, the Company acquired the Alaskan business of Pacific Energy Resources (Pacific Energy) valued at more than $479 million through a Delaware Chapter 11 Bankruptcy proceeding. The Company acquired the Alaskan business, which include onshore and offshore production facilities, $215 million in proven energy reserves, $122 million in probable energy reserves and $31 million in possible energy reserves, providing total reserves of $368 million. The purchased operations include the West McArthur River oil field, the West Foreland natural gas field, and the Redoubt unit with the Osprey offshore platform, all located along the west side of the Cook Inlet. Also included in the purchase are 602,000 acres of oil and gas leases and licenses as well as completed 3D seismic geology and other production facilities. At closing the Company paid Pacific Energy $2.25 million in cash and provided $2.22 million for bonds, contract cure payments and other federal and state of Alaska requirements to operate the facilities. The Company will operate the facilities through its recently acquired wholly-owned subsidiary, Cook Inlet Energy LLC ("CIE"), which has been approved by the state of Alaska as the long-term operator for the Alaskan oil and gas wells.

On December 10, 2009, the Company acquired 100% of the membership interests in CIE. As consideration for this company we issued the sellers, who were unrelated third parties, stock warrants to purchase 3,500,000 shares of our common stock. The warrants were issued in three tranches with vesting features ranging from immediate to four years and with exercise prices ranging from $0.01 to $2.00; the fair value of the warrants issued were determined to be $2,071,657 and were expensed as a cost of the transaction. In addition, the Company was obligated to deliver $250,000 in cash by March 10, 2010 to satisfy certain expenses as well as reimbursement for reasonable out of pocket expenses. As of the date of this filing, this obligation is still outstanding. Under the terms of the stock purchase agreement, the sellers agreed not to engage in oil and gas operations for a period of three years following the closing date. We also agreed that each of the sellers, Messrs. David M. Hall, Walter J. Wilcox II and Troy Stafford, would continue their employment with the acquired company for at least three years from the closing date of the transaction. However, subsequent to the balance sheet date, Mr. Stafford left the Company. In addition, Mr. Hall was appointed as a member of the Company's Board of Directors and as Chief Executive Officer of CIE.

Calculation of the bargain purchase gain is as follows:

Inventory	$	212,228
Fixed assets		2,516,500
Oil & gas properties		476,035,281
Restricted cash		1,789,995
Asset retirement liability		(15,289,994)
Accounts payable		(2,230,057)
Cash paid at closing		(2,250,000)
Fair value of equity issued		(2,071,657)
Pre-tax gain		458,712,296

Deferred taxes		(184,703,207)
After-tax gain	$	274,009,089

On March 11, 2011, the Company entered into a Performance Bond Agreement under its Assignment Oversight Agreement with the state of Alaska. Under the Performance Bond Agreement, the Company is required to post a total bond of $18 million for the dismantling and abandonment of the properties. The Performance Bond Agreement also stipulates that $6 million held by the state in an escrow account will be credited towards the $18 million. Until this point in time, the Company could not verify that they had legal rights to the escrow account. As a result, the Company recorded a $6.9 million (which includes $0.9 million of accrued interest) gain on acquisition during the year ended April 30, 2011.

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

Under the agreement with the State, the Company is obligated to pay the remaining $12 million obligation through annual payments to the State as follows:

Payment Due:		Payment Amount
July 1, 2013	$	1,000,000
July 1, 2014		1,500,000
July 1, 2015		2,000,000
July 1, 2016		2,500,000
July 1, 2017		2,000,000
July 1, 2018		1,500,000
July 1, 2019		1,500,000

The Company has not presented pro-forma information related to this acquisition due to the lack of accounting records available to the Company from Pacific Energy. However, management believes the usefulness of such information would have been limited since most of the assets were not operational at the date of acquisition.

(15)

Litigation

On May 11, 2011, the Court of Appeals of Tennessee at Knoxville returned its opinion in the case styled CNX Gas Company, LLC v. Miller Petroleum, Inc., et al. As previously reported, CNX Gas Company, LLC commenced litigation on June 11, 2008 in the Chancery Court of Campbell County, State of Tennessee to enjoin us from assigning or conveying certain leases described in the Letter of Intent signed by CNX and our company on May 30, 2008, to compel us to specifically perform the assignments as described in the Letter of Intent, and for damages. After the trial court granted the motion for summary judgment of the company and other party defendants and dismissed the case, finding that there were no genuine issues of material fact and we were entitled to judgment as a matter of law, CNX appealed. All parties filed briefs and the Court of Appeals heard oral arguments on May 18, 2010. In its May 11, 2011 opinion, the Court of Appeals reversed the trial court s grant of summary judgment in favor of our company and the other party defendants, and remanded the case back to the trial court for further proceedings. On July 28, 2011, the case was dismissed without prejudice on the motion of CNX.

On May 17, 2011, we were served with a lawsuit filed in the United States District Court for the Eastern District of Tennessee at Knoxville by Troy D. Stafford, the former Chief Financial Officer of our wholly owned subsidiary, Cook Inlet Energy, LLC (CIE). The suit, styled Troy D. Stafford v. Miller Petroleum, Inc., Civil Action No. 3-11CV-206, claims that we terminated Mr. Stafford s employment without cause in contravention of the terms of the Purchase and Sale Agreement between us and the sellers of CIE (PSA), failed or refused to pay his salary, severance, percentage of purchase price, expenses or stock warrant and violated a duty of good faith and fair dealing. The suit seeks damages in excess of $3,000,000, which includes $2,686,700 of damages for loss of vested warrants. We believe the all of the asserted claims are baseless, particularly in view of the fact that we issued the warrants in accordance with the terms of the PSA. We believe that we had appropriate cause to fire Mr. Stafford after discovering that he had breached certain representations and warranties in the PSA, and had acted in violation of our Code of Conduct. We intend to

vigorously defend this action.

On June 15, 2011, a breach of contract lawsuit was filed against us and CIE in the United States District Court for the Eastern District of Pennsylvania styled VAI, Inc. v. Miller Energy Resources, Inc., f/k/a Miller Petroleum, Inc. and Cook Inlet Energy, LLC .. The Plaintiff alleges three causes of action: (1) breach of contract, (2) unfair enrichment, and (3) breach of the implied covenant of good faith and fair dealing. The case seeks damages in warrants to purchase our common stock and monetary damages for certain fees and expenses. The Sale Agreement with David Hall, Walter JR Wilcox, and Troy Stafford dated December 10, 2009 contains indemnification provisions relevant to this claim. We have retained counsel and are currently drafting a responsive pleading.

On October 8, 2009, we filed an action styled Miller Petroleum, Inc. v. Maynard, Civil Action No. 9992 in the Chancery Court for Scott County, Tennessee, seeking a declaratory judgment that there has been continuing commercial production of oil, and oil and gas lease owned by us is still in full force and effect. The defendant filed an Answer and Counterclaim, seeking in the Counterclaim a declaration that the oil and gas lease has expired.

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

Although no compensatory monetary damages have been sought against us, the Counterclaim does seek attorney fees, expenses and costs. On October 27, 2010, a temporary injunction was granted allowing us access to the property at issue in this case. We are presently conducting discovery.

We are also party to various routine legal proceedings arising in the ordinary course of our business. Management believes that none of these actions, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

(16)

Fair Value of Financial Instruments

The accounting guidance establishes a fair value hierarchy based on whether the market participant assumptions used in determining fair value are obtained from independent sources (observable inputs) or reflect the Company's own assumptions of market participant valuation (unobservable inputs). A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The accounting guidance establishes three levels of inputs that may be used to measure fair value:

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Level 1 Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

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Level 2 Quoted prices for identical assets and liabilities in markets that are inactive; quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; or

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Level 3 Prices or valuations that require inputs that are both unobservable and significant to the fair value measurement.

The Company considers an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and views an inactive market as one in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers. Where appropriate the Company's or the counterparty's non-performance risk is considered in determining the fair values of liabilities and assets, respectively.

The fair value of our financial instruments at April 30, 2011 and 2010 follows:

Fair Value Measurements at Reporting Date Using

Description		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Warrant derivatives	$		$	16,897,275	$	
Commodity derivatives						
April 30, 2010	$		$	16,897,275	$	
Warrant derivatives	$		$	2,732,659	$	
Commodity derivatives				2,305,118		
April 30, 2011	$		$	5,037,777	$	

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

(17)

Restatement

The Company has restated its unaudited consolidated statement of cash flows for the year ended April 30, 2011, as contained in the Form 10-K filed by the Company on July 29, 2011, due to computational errors in such statement.

The following is a summary presentation of corrections made to the Company s unaudited consolidated statement of cash flows for the year ended April 30, 2011, previously filed on Form 10-K for the year ended April 30, 2011:

	April 30, 2011 As Reported	Corrections	April 30, 2011 As Restated
Cash Flows from Operating Activities			
Net loss	$ (4,439,749)	$ 560,000	$ (3,879,749)
Adjustments to reconcile net loss to net			
cash provided (used) by operating activities:			
Depreciation, depletion and amortization	(12,859,371)	25,718,742	12,859,371
Gain on acquisitions	6,910,348	(13,820,696)	(6,910,348)
Loss on sale of equipment		625,948	625,948
Issuance of equity for services	609,556	3	609,559
Issuance of equity for compensation	(4,516,088)	9,032,176	4,516,088
Deferred income taxes	(5,721,052)	(559,999)	(6,281,051)
Loss on derivative instruments, net	(1,007,574)	2,015,148	1,007,574
Changes in operating assets and liabilities, net of effects of business acquisitions			
Receivables, net	(2,668,588)		(2,668,588)
Inventory	(768,350)		(768,350)
Prepaid expenses	1,272,031		1,272,031
Other assets	176,149		176,149
Accounts payable and accrued expenses	10,420,544	(3,114,391)	7,306,153
Asset retirement obligation	1,276,146	(1,406,906)	(130,760)
Net cash provided (used) by operating activities	(15,472,640)	23,206,667	7,734,027
Cash Flows from Investing Activities			
Purchase of equipment and improvements	(642,535)	(182,928)	(825,463)
Capital expenditures for oil and gas properties	(12,515,649)	2,027,113	(10,488,536)
Net cash used by investing activities	(13,158,184)	1,844,185	(11,313,999)
Cash Flows from Financing Activities			
Payments on notes payable	(3,500,000)		(3,500,000)
Proceeds from borrowing	5,500,000		5,500,000
Exercise of equity rights		1,265,516	1,265,516

Restricted cash		(1,121,245)			(1,121,245)
Net cash provided by financing activities		878,755	1,265,516		2,144,271
Net decrease in Cash and Cash Equivalents		(1,435,701)			(1,435,701)
Cash and Cash Equivalents at Beginning of Period		2,994,634			2,994,634
Cash and Cash Equivalents at End of Period	$	1,558,933	$	$	1,558,933
Cash paid for interest	$	824,055	$	$	824,055

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

(18)

Correction of Immaterial Errors

The Company has reflected an immaterial correction of an error in the accompanying April 30, 2011 unaudited consolidated balance sheet and in the accompanying unaudited consolidated statement of operations for the year ended April 30, 2011, as contained in the Form 10-K filed by the Company on July 29, 2011, to increase income tax benefit and decrease deferred tax liability by $560,000, due to the failure to reflect the tax effect of certain misstatements that were corrected by the Company and reflected in the accompanying consolidated financial statements.

The Company also made an immaterial correction of an error in its consolidated financial statements as of and for the year ended April 30, 2010. We failed to properly record depletion, depreciation and amortization expenses related to leasehold costs, wells and equipment, fixed assets and asset retirement obligations, did not properly record the state tax credits expected from our Alaska operations, did not properly calculate the liability for our derivative instruments, and did not properly consolidate an entity we control. The consolidation of MEI resulted in an decrease to notes payable of $1,803,775, an increase to stockholders equity of $1,509,369, and minor adjustments to cash, other assets and accrued expenses.

The 2010 immaterial error corrections include errors related to 2010 that were identified during the review of our 2011 fiscal third quarter. Such errors were originally corrected in the Company s restated unaudited consolidated financial statements for the first quarter ended July 31, 2010. After identifying additional errors related to our fiscal 2011 interim periods, we determined that the aggregate impact of the errors were material to the 2011 interim unaudited consolidated financial statements. Accordingly, the 2010 consolidated financial statements were revised to correct these errors, which are considered immaterial to 2010. Such corrections resulted in a decrease to income tax expense of $1,107,000, an increase to equipment, net of $414,444, an increase to depreciation, depletion and amortization of $715,306, an increase to the asset retirement obligation of $395,532, and a decrease to oil and gas properties, net of $1,841,218. We also recorded a reclassification between equipment, net and oil and gas properties, net in the amount of $108,000,000 to appropriately classify such assets on our consolidated balance sheet.

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

The following is a summary presentation of corrections made to the Company s consolidated balance sheet as of April 30, 2010, previously filed on Form 10-K for the year ended April 30, 2010:

	April 30, 2010 As Reported	Corrections	April 30, 2010 As Adjusted
ASSETS			
Cash and cash equivalents	$ 2,750,841	$ 243,793	$ 2,994,634
Restricted cash	126,064		126,064
Accounts receivable, net	1,492,290		1,492,290
State production credits receivable		1,107,000	1,107,000
Inventory	275,610		275,610
Prepaid expenses	521,639	982,116	1,503,755
Oil and gas properties, net	376,216,621	106,552,379	482,769,000
Equipment, net	114,820,779	(107,585,556)	7,235,223
Land	526,500		526,500
Restricted cash, non-current	2,071,839		2,071,839
Other assets	1,649,972	(1,409,916)	240,056
TOTAL ASSETS	$ 500,452,155	$ (110,184)	$ 500,341,971
LIABILITIES AND EQUITY			
Accounts payable	$ 3,579,112	$	$ 3,579,112
Accrued expenses	528,381	268,227	796,608
Derivative liability	17,429,787	(532,512)	16,897,275
Notes payable	3,043,174	(1,803,775)	1,239,399
Deferred income taxes	184,468,878	138,238	184,607,116
Asset retirement obligation	15,662,002	355,570	16,017,572
Total Liabilities	224,711,334	(1,574,252)	223,137,082
STOCKHOLDERS EQUITY			
Common stock	3,223	(1)	3,222
Additional paid-in capital	27,620,605	(23,319)	27,597,286
Retained earnings	248,116,993	1,487,388	249,604,381
Total Stockholders Equity	275,740,821	1,464,068	277,204,889
TOTAL LIAB. AND STOCKHOLDERS EQUITY	$ 500,452,155	$ (110,184)	$ 500,341,971

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

The following is a summary presentation of corrections made to the Company s consolidated statement of operations for the year ended April 30, 2010, previously filed on Form 10-K for the year ended April 30, 2010:

	For the Year Ended April 30, 2010 As Reported	Corrections	For the Year Ended April 30, 2010 As Adjusted
Revenues			
Oil and gas sales	$ 4,437,215	$	$ 4,437,215
Other revenue	1,429,789		1,429,789
Total	5,867,004		5,867,004
Costs and Expenses			
Oil and gas operating	2,583,383	154,391	2,737,774
Cost of other revenue	1,342,509	(587,950)	754,559
General and administrative	10,345,216	(82,056)	10,263,160
Depreciation, depletion and amortization	2,709,308	715,306	3,424,614
Total	16,980,416	199,691	17,180,107
Operating Loss	(11,113,412)	(199,691)	(11,313,103)
Other Income (Expense)			
Interest income	25,616		25,616
Interest expense	(527,355)	370,738	(156,617)
Loss on derivatives, net	(15,861,007)	2,561,577	(13,299,430)
Other expense, net	(751,064)		(751,064)
Gain on acquisitions	461,111,924		461,111,924
Income tax expense	(183,431,522)	(1,245,238)	(184,676,760)
Net Income	$ 249,453,180	$ 1,487,386	$ 250,940,566
Income per Share			
Basic	$ 11.58	$ 0.07	$ 11.65
Diluted	$ 8.29	$ 0.05	$ 8.34
Average Number of Common Shares Outstanding			
Basic	21,537,677		21,537,677
Diluted	30,092,017		30,092,017

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

The following is a summary presentation of corrections made to the Company s consolidated statement of cash flows as of April 30, 2010, previously filed on Form 10-K for the year ended April 30, 2010:

	April 30, 2010 As Reported	Corrections	April 30, 2010 As Adjusted
Cash Flows from Operating Activities			
Net income	$ 249,453,180	$ 1,487,386	$ 250,940,566
Adjustments to reconcile net income to net cash used by operating activities:			
Depreciation, depletion and amortization	2,709,308	715,306	3,424,614
Gain on acquisitions	(461,111,924)		(461,111,924)
Gain on sale of equipment	9,755	(9,755)	
Write off of prepaid offering cost	666,476		666,476
Issuance of equity for services	1,735,908		1,735,908
Issuance of equity for compensation	1,662,220	(23,320)	1,638,900
Issuance of equity for financing cost	494,758	644,624	1,139,382
Deferred income taxes	184,468,100	208,660	184,676,760
Loss on derivative instruments, net	17,429,787	(4,130,357)	13,299,430
Changes in operating assets and liabilities, net of effects of business acquisitions			
Receivables, net	(1,347,593)	(1,081,223)	(2,428,816)
Inventory	(434,519)	212,228	(222,291)
Prepaid expenses	(275,610)	(982,116)	(1,257,726)
Other assets	(1,030,613)	3,852,256	2,821,643
Accounts payable and accrued expenses	3,410,615	265,127	3,675,742
Asset retirement obligation		270,890	270,890
Net cash used by operating activities	(2,160,152)	1,429,706	(730,446)
Cash Flows from Investing Activities			
Purchase of equipment and improvements	(409,735)	(414,444)	(824,179)
Proceeds from sale of properties and equipment	75,000		75,000
Capital expenditures for oil and gas properties	(5,600,843)	1,447,621	(4,153,222)
Purchase of Alaska business	(4,541,252)		(4,541,252)
Net cash used by financing activities	(10,476,830)	1,033,177	(9,443,653)
Cash Flows from Financing Activities			
Payments on notes payable	(2,309,205)	(1,453,775)	(3,762,980)
Asset retirement liability	415,315	(415,315)	

Deferred financing assets	(619,359)		(619,359)
Proceeds from borrowing	5,926,444	(350,000)	5,576,444
Proceeds from sale of stock, net	9,646,478		9,646,478
Cash acquired through acquisition	203,993		203,993
Exercise of equity rights	282,000		282,000
Restricted cash	1,795,591		1,795,591
Net cash provided by financing activities	15,341,257	(2,219,090)	13,122,167
Net increase in Cash and Cash Equivalents	2,704,275	243,793	2,948,068
Cash and Cash Equivalents at Beginning of Period	46,566		46,566
Cash and Cash Equivalents at End of Period	$ 2,750,841	$ 243,793	$ 2,994,634

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

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Subsequent Events

On June 13, 2011, the Company entered into a loan agreement (the Loan Agreement) with Guggenheim Corporate Funding, LLC (Guggenheim), as Administrative Agent, Arranger and Lender and Citibank, N.A. and Bristol Investment Fund as Lenders. The loan agreement provides for a credit facility of up to $100 million (the Credit Facility) with an initial borrowing base of $35 million. The Credit Facility matures on June 13, 2013 and is secured by substantially all the assets of the Company and its subsidiaries. Amounts outstanding under the credit facility bear interest at a rate per annum equal to the higher of 9.5% or the prime rate plus 4.5%. In addition, the Company is required to pay an additional make-whole payment upon termination or payment in full of the Credit Facility, bringing the effective interest rate to 25% to 35%, depending on the payment date. Beginning on January 1, 2012, or earlier under certain circumstances, the Company is required to use 90% of its consolidated monthly net revenues (after deducting general and administrative expenses to the extent permitted under the Loan Agreement) to repay the loans outstanding under the Credit Facility. Proceeds of certain asset sales and indebtedness and other proceeds received outside the ordinary course of business are required to be used to repay loans outstanding under the Credit Facility.

Draws under the Credit Facility are subject to the discretion of the Agent and the Lenders. The borrowing base is redetermined on a scheduled basis twice per year, and more often at the request of the Borrower or the required lenders. The redetermination of the borrowing base is at the discretion of the lenders. The Loan Agreement contains interest coverage, asset coverage and minimum gross production covenants, as well as other affirmative and negative covenants. In connection with the Loan Agreement, the Company has granted Guggenheim a right of first refusal to provide financing for the acquisition, development, exploration or operation of any oil and gas related properties including wells during the term of the Credit Facility and one year thereafter.

Upon an event of default under the Loan Agreement, all amounts outstanding become immediately due and payable, the Lenders may stop making advances under the Credit Facility and may terminate the agreement. An event of default includes, among other things, our failure to pay any amounts when due, our failure to perform under or observe any term, covenant or provision of the Loan Agreement, the occurrence of a Material Adverse Change (as that term is defined in the Loan Agreement), the seizure of or levy upon our assets or properties, our insolvency or bankruptcy, judgments against us in excess of certain amounts, defaults under certain other agreements, the limitation or termination of the any of the guarantors, which includes the Company and all of its subsidiaries, under the Guarantee and Collateral Agreement described below, the death or incapacitation of either Mr. Scott Boruff or Mr. David Hall, or if either of them cease to be substantially involved in our operations or the breach or termination of the Shareholders Agreement described below.

On the closing date of the Loan Agreement, we paid the Administrative Agent, ratably for the benefit of the Lenders a non-refundable facility fee of $700,000. We also agreed to pay a non-refundable fee of 2% on increase in the borrowing base from the borrowing base limit then in effect. At closing we paid the Administrative Agent a non-refundable fee of $30,000 and agreed to pay annual additional fees in this amount so long as the Loan Agreement remains in effect. A finder s fee of 3% of the initial borrowing base of $35 million to Bristol Capital, LLC, a consultant to us and an affiliate of Bristol Investment Fund, Ltd., was also due.

In connection with the Loan Agreement, the Company also entered into a certain Shareholders Agreement (the Shareholders Agreement), dated June 13, 2011, with Scott M. Boruff, Paul W. Boyd, David Hall, Deloy Miller and David Voyticky (the Shareholders). The Shareholders Agreement provides that the Shareholders may not transfer their shares of common stock of the Company while the loans under the Credit Facility are outstanding, subject to certain exceptions for Messrs. Deloy Miller and Paul W. Boyd. Specifically, Mr. Miller is permitted to transfer a number of shares of our common stock beneficially owned by him which does not exceed the lesser of (a) 2,500,000 shares of common stock, and (b) a number of shares necessary for him to receive net proceeds equal to $10 million, provided that simultaneous with such transfer the Company receives net proceeds from a new issuance of its securities equal to two times the net proceeds received by Mr. Miller and Mr. Miller transfers the shares at the same price and for the same consideration as received by the Company from such new issuance. Mr. Boyd is permitted to exercise outstanding options to purchase 250,000 shares of the Company s common stock which expire

MILLER ENERGY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED APRIL 30, 2011 AND 2010

in September 2011 and to transfer the shares of common stock obtained upon such exercise. There are no permitted exceptions for the transfer of shares by either Messrs. Boruff, Hall or Voyticky.

The Company expects to use the proceeds of the loans made under the Credit Facility to increase oil production both onshore and offshore in Alaska through the drilling of new wells and the reworking of previously producing oil wells and for the purchase of a new drilling rig. The first draws, totaling $10,874,612, have been used to pay fees associated with the transaction, such as attorney s fees, to pay off our line of credit with PlainsCapital Bank, to make the first progress payment under the rig contract, and for working capital.

On June 24, 2011, we acquired a 48% minority interest in each of two limited liability companies, Pellissippi Pointe, LLC and Pellissippi Pointe II, LLC for a total cash consideration of $384,000. We have also agreed to indemnify the sellers of the membership interests with respect to their guaranties of the construction loans held by the Pellissippi Pointe entities, but have not become direct guarantors of the loans ourselves. The gross outstanding amount under the loans is $5,193,699. The Pellissippi Pointe entities own two office buildings in West Knoxville, Tennessee. We will be moving our corporate headquarters into the building located at 9721 Cogdill Road, Knoxville, TN as soon as the space is ready for our occupancy. We have executed a five year lease for the space, and with the addition of us, the building will be fully occupied by tenants.

SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED)

We are an independent exploration and production company that utilizes seismic data and other technologies for geophysical exploration and development of oil and gas wells in the Appalachian region of eastern Tennessee and the Cook Inlet Basin in south-central Alaska. The Company follows the successful efforts method of accounting for oil and gas properties. Exploration costs such as exploratory geological and geophysical costs, delay rentals and exploration overhead are charged against earnings as incurred. Acquisition costs and costs of drilling exploratory wells are capitalized pending determination of whether proved reserves can be attributed to the area as a result of drilling the well. If management determines that commercial quantities of hydrocarbons have not been discovered, capitalized costs associated with exploratory wells are charged to exploration expense. Acquisition costs of unproved properties are assessed for impairment during the holding period and transferred to proved oil and gas properties to the extent the costs are associated with successful exploration activities. Significant undeveloped leases are assessed individually for impairment, based on the Company s current exploration plans, and a valuation allowance is provided if impairment is indicated. Unproved oil and gas properties with individually insignificant lease acquisition costs are amortized on a group basis (thereby establishing a valuation allowance) over the average terms of the leases, at rates that provide for full amortization of unsuccessful leases upon lease expiration or abandonment. Costs of expired or abandoned leases are charged against the valuation allowance, while costs of productive leases are transferred to proved oil and gas properties. Costs of maintaining and retaining unproved properties, as well as amortization of individually insignificant leases and impairment of unsuccessful leases, are included in exploration expense.

The following tables show our capital and operational costs for fiscal years 2011 and 2010:

a. Capitalized Costs Relating to Oil and Gas Producing Activities at April 30, 2011 and 2010 are as follows:

	2011	2010

Natural gas and oil properties:		
Proved properties	$ 344,249,686	$ 333,665,792
Unproved properties	152,058,496	152,259,628
	496,308,182	485,925,420
Accumulated depletion	(14,439,233)	(3,156,420)
Net capitalized costs	$ 481,868,949	$ 482,769,000

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YEARS ENDED APRIL 30, 2011 AND 2010

b. Costs Incurred in Oil and Gas Property Acquisition, Exploration, and Development Activities:

		2011		2010
Property Acquisition Costs				
Proved properties	$		$	2,052,191
Unproved properties		1,009,383		1,610,939
Acquisition Costs		1,009,383		3,663,130
Exploration costs				
Development costs		10,264,742		4,153,222
Total	$	11,274,125	$	7,816,352

c. Results of Operations for Producing Activities:

		2011		2010
Production revenues	$	20,525,117	$	4,437,215
Oil and gas operating costs		(9,702,548)		(2,737,774)
Depreciation and amortization		(11,001,868)		(1,741,150)
Results of operations for producing activities (excluding corporate overhead and interest costs)	$	(179,299)	$	(41,709)

d. Reserve Quantity Information (Unaudited)

The following schedule estimates proved oil and natural gas reserves attributable to the Company. Proved reserves are estimated quantities of oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those which are expected to be recovered through existing wells with existing equipment and operating methods. Reserves are stated in barrels of oil (Bbls) and thousands of cubic feet of natural gas (Mcf). Geological and engineering estimates of proved oil and natural gas reserves at one point in time are highly interpretive, inherently imprecise and subject to ongoing revisions that may be substantial in amount. Although every reasonable effort is made to ensure that the reserve estimates reported represent the most accurate assessments possible, these estimates are by their nature generally less precise than other estimates presented in connection with financial statement disclosures.

	Oil (Bbls)	Gas (Mcf)
Proved reserves		
Balance, April 30, 2009	53,443	1,863,537
Discoveries and extensions		
Revisions of previous estimates	65,341	(1,082,409)
Acquisitions	10,288,075	4,831,879
Production	(62,436)	(154,291)
Balance, April 30, 2010	10,344,423	5,458,716
Discoveries and extensions		1,309,700
Revisions of previous estimates	(64,201)	(15,244)
Sales of reserves in place		(3,341,510)
Production	(272,832)	(338,845)

Balance, April 30, 2011	10,007,390	3,072,817
Proved developed producing reserves at April 30, 2011	1,684,990	1,150,017
Proved developed producing reserves at April 30, 2010	1,803,272	1,704,552

Acquisitions, as noted above, were comprised of several entities. ("KTO") which includes approximately 35,325 leased acres located on the Chattanooga Shale and 153 natural gas and oil producing wells. On June 18, 2009 the Company acquired 100% of the stock of East Tennessee Consultants, Inc., a Tennessee corporation ("ETC") and 100% of the membership interests in East Tennessee Consultants II, LLC, a Tennessee limited liability company

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YEARS ENDED APRIL 30, 2011 AND 2010

("LLC") from the owners of these entities. The acquisition included 221 producing oil and gas wells and consisted of approximately 4,442 acres. On December 10, 2009, the Company acquired 100% of the membership interests in Cook Inlet Energy, LLC, an Alaska limited liability company from the owners of this entity and simultaneously acquired former Alaskan operations of Pacific Energy Resources ("Pacific Energy") valued at more than $479 million through a Delaware Chapter 11 Bankruptcy proceeding. The Company acquired the Alaskan oil and gas assets, which include onshore and offshore production facilities, $215 million in proven energy reserves, $122 million in probable energy reserves and $31 million in possible energy reserves, providing total reserves of $368 million. The purchased assets include the West McArthur River oil field, the West Foreland natural gas field, and the Redoubt unit with the Osprey offshore platform, all located along the west side of the Cook Inlet. Also included in the asset purchase are 602,000 acres of oil and gas leases, which includes 471,474 acres under the Susitna Basin Exploration License

In addition to the proved developed producing oil and gas reserves reported in the geological and engineering reports, the Company holds ownership interests in various proved undeveloped properties. The reserve and engineering reports performed for the Company were by Lee Keeling and Associates, Inc. for the years ended April 30, 2011 and April 30, 2010 for all of the Tennessee reserves and by Ralph E. Davis Associates, Inc. for the years ended April 30, 2011 and April 30, 2010 for all of the Alaska reserves.

With the closing of these acquisitions, our management is now able to focus the majority of its efforts on growing our company. We are continuing to focus our short-term efforts on three distinct areas, including:

- Increase our overall oil and gas production through maintenance and repairs of nonperforming or underperforming wells,

- Organically growing production through drilling for our own benefit on existing leases and under license rights, leveraging our 100,000 plus well log database and over 660,000 acres which are either under lease or part of the Susitna Basin Exploration License, with a view towards retaining the majority of working interest in the new wells, and

- Expanding our contract drilling and service capabilities and revenues, including drilling and service contracts with third parties.

We presently have internal plans for capital expenditures of approximately $66 million for fiscal 2012; $45 million of this earmarked to restore production from our Redoubt Unit, including the purchase and construction of a drilling rig. We anticipate we will draw on our $100 million credit facility to access these cash needs. We also believe we will have increased cash flow from our planned increased production. However, if those avenues are not sufficient, we may be required to raise additional capital or change our capital expenditure plans.

The following schedule presents the standardized measure of estimated discounted future net cash flows from the Company's proved developed reserves for the years ended April 30, 2011 and 2010. Estimated future cash flows were based on independent reserves evaluation from Lee Keeling and Associates, Inc. for the years ended April 30, 2011 and April 30, 2010 for all Tennessee reserves and by Ralph E. Davis Associates, Inc. for the years ended April 30, 2011 and April 30, 2010 for all of the Alaska reserves. Because the standardized measure of future net cash flows was prepared using the prevailing economic conditions existing at April 30, 2011 and 2010, it should be emphasized that such conditions continually change. Accordingly, such information should not serve as a basis in making any judgment on the potential value of the Company's recoverable reserves or in estimating future results of operations.

Each of the engineering reports also projected future cash flows from our net reserves and the present value, discounted at 10% per annum. Future cash flows are based upon gross income from future production, less direct operating expenses and taxes. Estimated future capital for development costs was also deducted from gross income at the time it will be expended. No allowance was made for depletion, depreciation, income taxes or administrative expense. In the following table, the price per barrel of oil was $73.01 and the price per MMcf of natural gas was $4.84 for the Cook Inlet reserves and $71.85 per barrel of oil and $5.15 per MMcf of natural gas for

MILLER ENERGY RESOURCES, INC.

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the Appalachian region reserves. In each instance these prices are computed in accordance with the SEC s rule and represent the average fiscal year prices.

Operating costs and production taxes are estimated based on current costs with respect to producing gas properties. Future development costs are based on the best estimate of such costs assuming current economic and operating conditions.

Income tax expense is computed based on applying the appropriate statutory tax rate to the excess of future cash inflows less future production and development costs over the current tax basis of the properties involved.

The future net revenue information assumes no escalation of costs or prices, except for gas sales made under terms of contracts which include fixed and determinable escalation. Future costs and prices could significantly vary from current amounts and, accordingly, revisions in the future could be significant.

Standardized measures of discounted future net cash flows at April 30, 2011 and 2010 are as follows:

		2011		2010
Future cash flows	$	732,001,880	$	662,581,771
Future production costs and taxes		(126,059,693)		(123,878,652)
Future development costs		(93,248,900)		(50,225,000)
Future income tax expense		(88,078,971)		(96,926,186)
Future cash flows		424,614,316		391,551,933
Discount at 10% for timing of cash flows		(177,677,524)		(153,355,924)
Discounted future net cash flows from proved reserves	$	246,936,792	$	238,196,009

Of the Company's total proved reserves as of April 30, 2011 and 2010, approximately 18% and 18%, respectively, were classified as proved developed producing, 10% and 8%, respectively, were classified as proved developed non-producing and 72% and 74%, respectively, were classified as proved undeveloped. All of the Company's reserves are located in the continental United States.

The following table sets forth the changes in the standardized measure of discounted future net cash flows from proved reserves for April 30, 2011 and 2010.

	April 30,			
		2011		2010
Balance, beginning of year	$	238,196,009	$	1,534,809
Sales, Net of production costs and taxes		(10,822,569)		(1,699,441)
Changes in prices and production costs		26,422,939		298,305,982
Extensions, discoveries and improved recovery, less related costs		4,591,800		
Purchase of reserves in place				314,651,961
Changes in estimated future development costs		(41,744,912)		(44,887,301)
Development costs incurred		10,264,742		4,153,222
Revisions of previous quantity estimates		26,689,166		(293,698,655)

Net changes in income taxes	8,847,215	(95,381,293)
Sales of reserves in place	(1,470,797)	
Accretion of discount	33,512,220	307,970
Changes in timing and other	(47,549,021)	54,908,755
Balance, end of year	$ 246,936,792	$ 238,196,009