

Choice Bank

Oshkosh, Wisconsin

Financial Statements

Years Ended December 31, 2009 and 2008

Choice Bank

Financial Statements

Years Ended December 31, 2009 and 2008

Table of Contents

Report of Independent Registered Public Accounting Firm.....	1
Financial Statements	
Balance Sheets	2
Statements of Operations.....	3
Statements of Stockholders' Equity	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	7



Report of Independent Registered Public Accounting Firm

Board of Directors
Choice Bank
Oshkosh, Wisconsin

We have audited the accompanying balance sheets of Choice Bank as of December 31, 2009 and 2008, and the related statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards for 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 Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits 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 Bank'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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Choice Bank as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

March 26, 2010
Green Bay, Wisconsin

Choice Bank

Balance Sheets

December 31, 2009 and 2008

<i>Assets</i>	2009	2008
Cash and due from banks	\$ 941,962	\$ 2,094,714
Federal funds sold	521,000	1,750,000
Cash and cash equivalents	1,462,962	3,844,714
Interest-bearing deposits in banks	0	290,000
Securities available for sale	5,521,099	5,774,113
Loans held for sale	1,422,733	246,344
Loans, net	103,096,134	105,110,349
Premises and equipment, net	1,729,539	1,834,722
Other real estate owned	3,304,761	0
Deferred tax asset	2,727,045	848,000
Other assets	1,543,209	1,093,378
TOTAL ASSETS	\$ 120,807,482	\$ 119,041,620
<i>Liabilities and Stockholders' Equity</i>		
Liabilities:		
Non-interest-bearing deposits	\$ 5,057,864	\$ 5,431,951
Interest-bearing deposits	97,995,367	92,879,050
Total deposits	103,053,231	98,311,001
Other liabilities	365,575	624,781
Total liabilities	103,418,806	98,935,782
Stockholders' equity:		
Common stock - \$1 par value:		
Authorized - 3,177,000 shares		
Issued and outstanding - 2,160,620 shares	2,160,620	2,160,620
Additional paid-in capital	20,430,838	20,397,138
Accumulated deficit	(5,451,796)	(2,601,920)
Accumulated other comprehensive income	249,014	150,000
Total stockholders' equity	17,388,676	20,105,838
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 120,807,482	\$ 119,041,620

See accompanying notes to financial statements.

Choice Bank

Statements of Operations

Years Ended December 31, 2009 and 2008

	2009	2008
Interest and dividend income:		
Loans, including fees	\$ 5,933,376	\$ 5,066,926
Securities - Taxable	299,373	375,558
Federal funds sold	1,999	21,518
Total interest and dividend income	6,234,748	5,464,002
Interest expense:		
Deposits	2,684,003	2,731,397
Borrowed funds	3,329	56,489
Total interest expense	2,687,332	2,787,886
Net interest income	3,547,416	2,676,116
Provision for loan losses	5,500,572	501,000
Net interest income (loss) after provision for loan losses	(1,953,156)	2,175,116
Noninterest income:		
Service fees	296,336	153,413
Secondary market fees	137,512	117,017
Rental income	255,580	0
Total noninterest income	689,428	270,430
Noninterest expense:		
Salaries and employee benefits	1,583,623	1,447,377
Occupancy and equipment	355,482	348,485
Data processing	182,074	156,234
Professional services	339,942	234,115
Marketing	97,502	119,614
Other	893,625	266,476
Total noninterest expense	3,452,248	2,572,301
Loss before credit for income taxes	(4,715,976)	(126,755)
Credit for income taxes	(1,866,100)	(948,000)
Net income (loss)	\$ (2,849,876)	\$ 821,245
Basic earnings (loss) per share	\$ (1.32)	\$ 0.38

See accompanying notes to financial statements.

Choice Bank

Statements of Stockholders' Equity

Years Ended December 31, 2009 and 2008

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
Balance at January 1, 2008	2,160,570	\$ 2,160,570	\$ 20,316,763	\$ (3,423,165)	\$ 51,000	\$ 19,105,168
Comprehensive income:						
Net income				821,245		821,245
Unrealized gains on securities available for sale, net of taxes					99,000	99,000
Total comprehensive income						920,245
Exercise of stockholder warrants	50	50	575			625
Options and warrants compensation expense			79,800			79,800
Balance at December 31, 2008	2,160,620	2,160,620	20,397,138	(2,601,920)	150,000	20,105,838
Comprehensive loss:						
Net loss				(2,849,876)		(2,849,876)
Unrealized gains on securities available for sale, net of taxes					99,014	99,014
Total comprehensive loss						(2,750,862)
Options and warrants compensation expense			33,700			33,700
Balance at December 31, 2009	2,160,620	\$ 2,160,620	\$ 20,430,838	\$ (5,451,796)	\$ 249,014	\$ 17,388,676

See accompanying notes to financial statements.

Choice Bank

Statements of Cash Flows

Years Ended December 31, 2009 and 2008

	2009	2008
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income (loss)	\$ (2,849,876)	\$ 821,245
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation of premises and equipment	162,330	148,827
Provision for loan losses	5,500,572	501,000
Valuation allowance on other real estate	405,000	0
Compensation expense for options	33,700	79,800
Net accretion of securities	(11,749)	(5,034)
Credit for deferred taxes	(1,866,100)	(948,000)
Changes in operating assets and liabilities:		
Loans held for sale	(1,176,389)	1,113,355
Other assets	(449,831)	(224,178)
Other liabilities	(259,206)	245,271
Total adjustments	2,338,327	911,041
Net cash provided by (used in) operating activities	(511,549)	1,732,286
Cash flows from investing activities:		
Change in interest-bearing deposits in banks	290,000	2,090,000
Proceeds from maturities and prepayments of securities available for sale	350,832	267,799
Loan originations and principal collections, net	(7,196,118)	(46,269,351)
Purchases of premises and equipment	(57,147)	(99,644)
Net cash used in investing activities	(6,612,433)	(44,011,196)

Choice Bank

Statements of Cash Flows (Continued)

Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from financing activities:		
Net increase in deposits	\$ 4,742,230	\$ 48,996,211
Net decrease in federal funds purchased	0	(3,019,000)
Proceeds from issuance of common stock	0	625
Net cash provided by financing activities	4,742,230	45,977,836
Net increase (decrease) in cash and cash equivalents	(2,381,752)	3,698,926
Cash and cash equivalents at beginning	3,844,714	145,788
Cash and cash equivalents at end	\$ 1,462,962	\$ 3,844,714

Supplemental cash flow information:

Cash paid during the year for interest	\$ 2,940,051	\$ 2,619,450
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Noncash investing and financing activities:

Transfer of loans to foreclosed assets	\$ 3,709,761	\$ 0
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Choice Bank

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies**

Organization

Choice Bank (the "Bank") is a full-service community-oriented commercial bank. The Bank offers a broad range of commercial and consumer banking services to local businesses, professionals, community service organizations, and individuals. The Bank commenced operations in July 2006. The Bank operates with two locations in Oshkosh, Wisconsin. The Bank is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Use of Estimates in Preparation of Financial Statements

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

Cash and Cash Equivalents

For purposes of reporting cash flows in the financial statements, cash and cash equivalents include cash on hand, interest-bearing and non-interest-bearing accounts in other financial institutions, and federal funds sold, all of which have original maturities of three months or less.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks mature within one year and are carried at cost.

Choice Bank

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Securities

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

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

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Realized gains and losses on the sale of loans held for sale are determined using the specific-identification method.

Rate Lock Commitments

The Bank enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Rate lock commitments are recorded only to the extent of fees received since recording the estimated fair value of these commitments would not have a significant impact on the financial statements.

Choice Bank

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. Interest on loans is accrued and credited to income based on the unpaid principal balance. Loan-origination fees and direct origination costs are recognized as income or expense when received or incurred since capitalization of these fees and costs would not have a significant impact on the financial statements.

The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication the borrower may be unable to make payments as they become due. When loans are placed on nonaccrual or charged off, all unpaid accrued interest is reversed against interest income. The interest on these loans is subsequently accounted for on the cash basis until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

Management regularly evaluates the allowance for loan losses using the Bank's past loan loss experience, known and inherent risks in the portfolio, composition of the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, current economic conditions, and other relevant factors. This evaluation is inherently subjective since it requires material estimates that may be susceptible to significant change.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard, or special mention and includes allowances estimated for impaired loans. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors.

Choice Bank

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Allowance for Loan Losses (Continued)

The allowance for loan losses includes specific allowances related to loans that have been judged to be impaired under current accounting standards. A loan is impaired when, based on current information, it is probable that the Bank will not collect all amounts due in accordance with the contractual terms of the loan agreement. Management determines whether a loan is impaired on a case-by-case basis, taking into consideration the payment status, collateral value, length and reason of any payment delays, the borrower's prior payment record, and any other relevant factors. Large groups of smaller balance homogeneous loans, such as residential mortgage and consumer loans, are collectively evaluated in the allowance for loan losses analysis and are not subject to impairment analysis unless such loans have been subject to a restructuring agreement. Specific allowances for impaired loans are based on discounted cash flows of expected future payments using the loan's initial effective interest rate or the fair value of the collateral if the loan is collateral dependent.

In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require additions to the allowance for loan losses based on their judgments of collectability.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Stock Compensation Plans

The Bank accounts for employee stock compensation plans using the fair value based method of accounting. Under this method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is also the vesting period.

Choice Bank

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Income Taxes

Deferred income tax assets and liabilities have been determined using the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the current enacted tax rates which will be in effect when these differences are expected to reverse. Provision (credit) for deferred taxes is the result of changes in the deferred tax assets and liabilities. A deferred tax valuation allowance is established if it is more likely than not that all or a portion of the deferred tax assets will not be realized.

The Bank may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Interest and penalties related to unrecognized tax benefits are classified as income tax expense.

Off-Balance-Sheet Financial Instruments

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

Other Comprehensive Income (Loss)

Other comprehensive income (loss) is shown on the statements of stockholders' equity. The Bank's accumulated other comprehensive income is comprised of the unrealized gains on securities available for sale, net of tax, and is shown on the statements of stockholders' equity.

Earnings (Loss) per Share

Basic earnings (loss) per share represents operating income (losses) divided by the weighted average number of common shares outstanding during the period. Due to a weighted average strike price of potential common shares outstanding which is lower than the estimated average market value of the Bank's common stock, anti-dilution would occur in calculating diluted earnings per share. As such, diluted earnings per share is not presented.

Segment Information

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

Choice Bank

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

New Accounting Pronouncements

In May 2009 and amended in February 2010, the Financial Accounting Standards Board (FASB) issued new accounting guidance for subsequent events. This new guidance does not significantly change how subsequent events are reported or disclosed in the financial statements. The Bank adopted this new accounting standard for the year ended December 31, 2009. The adoption of this accounting standard did not have a significant effect on the financial statements of the Bank.

In May 2009, the FASB issued new accounting guidance on the recognition and presentation of other-than-temporary impairments, which changes the determination of when other-than-temporary impairment of a debt security must be recognized. It also changes the presentation and amount of the other-than-temporary impairment recognized in the statements of operations. The Bank adopted this new accounting standard for the year ended December 31, 2009. The adoption of this accounting standard did not have a significant effect on the Bank's financial statements.

In June 2009, the FASB issued new accounting guidance for transfers of financial assets. This new guidance removes the exception from applying the accounting requirements for transfers of financial assets to qualifying special-purpose entities. It also modifies the financial-components approach used in previous guidance and limits the circumstances in which a financial asset, or a portion of a financial asset, should be recognized. In addition, the guidance requires enhanced disclosures regarding transfers of financial assets and continuing involvement with transferred financial assets. This new accounting standard is effective for financial statements issued for and transfers of financial assets occurring in interim and annual periods beginning after November 15, 2009. The Bank expects to adopt this new accounting standard for the year beginning January 1, 2010, and believes the adoption of this accounting standard will not have a significant effect on the financial statements of the Bank.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 classifications.

Choice Bank

Notes to Financial Statements

Note 2 Cash and Due From Banks

In the normal course of business, the Bank maintains cash and due from bank balances with correspondent banks that are participating in the Federal Deposit Insurance Corporation's (FDIC's) Transaction Account Guarantee Program. Consequently, all account balances with correspondent banks are guaranteed by the FDIC through June 30, 2010.

Note 3 Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at December 31 follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2009				
Securities available for sale:				
U.S. agency securities	\$ 596,702	\$ 43,611	\$ 0	\$ 640,313
Municipal bonds	3,069,587	194,390	0	3,263,977
Mortgage-related securities	1,518,741	98,068	0	1,616,809
Total securities available for sale	\$ 5,185,030	\$ 336,069	\$ 0	\$ 5,521,099
2008				
Securities available for sale:				
U.S. agency securities	\$ 595,002	\$ 50,000	\$ 0	\$ 645,002
Municipal bonds	3,070,413	100,000	0	3,170,413
Mortgage-related securities	1,858,698	100,000	0	1,958,698
Total securities available for sale	\$ 5,524,113	\$ 250,000	\$ 0	\$ 5,774,113

Choice Bank

Notes to Financial Statements

Note 3 **Securities** (Continued)

Fair values of securities are estimated based on financial models or prices paid for similar securities. It is possible interest rates could change considerably resulting in a material change in the estimated fair value.

The following is a summary of amortized cost and estimated fair value of debt securities by contractual maturity as of December 31, 2009. Contractual maturities will differ from expected maturities for mortgage-related securities because borrowers may have the right to call or prepay obligations without penalties.

	<u>Available for Sale</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due after one year through five years	\$ 2,270,103	\$ 2,419,802
Due after five years through ten years	1,396,186	1,484,488
Subtotal	3,666,289	3,904,290
Mortgage-related securities	1,518,741	1,616,809
Total	<u>\$ 5,185,030</u>	<u>\$ 5,521,099</u>

There were no sales of securities in 2009 or 2008.

As of December 31, 2009, the amortized cost and estimated fair value of securities pledged to secure an unused line of credit was \$5,185,030 and \$5,521,099, respectively. As of December 31, 2008, the amortized cost and estimated fair value of securities pledged to secure an unused line of credit was \$5,524,113 and \$5,774,113, respectively.

Choice Bank

Notes to Financial Statements

Note 4 Loans

The composition of loans at December 31 is as follows:

	2009	2008
Commercial	\$ 21,502,232	\$ 23,039,262
Real estate:		
Commercial	42,510,972	42,949,850
Residential	28,520,256	28,080,413
Construction	5,965,779	6,004,100
Second mortgages	2,111,250	1,810,330
Equity lines of credit	3,800,744	3,746,075
Consumer	807,738	797,909
Subtotals	105,218,971	106,427,939
Less - Allowance for loan losses	2,122,837	1,317,590
Loans, net	\$ 103,096,134	\$ 105,110,349

An analysis of the allowance for loan losses for the years ended December 31, 2009 and 2008, follows:

	2009	2008
Balance at beginning	\$ 1,317,590	\$ 819,000
Porvision for loan losses	5,500,572	501,000
Charge-offs	(4,697,785)	(4,960)
Recoveries	2,460	2,550
Balance at end	\$ 2,122,837	\$ 1,317,590

Choice Bank

Notes to Financial Statements

Note 4 Loans (Continued)

The following is a summary of information pertaining to impaired and nonperforming loans:

	2009	2008
<i>As of December 31:</i>		
Impaired loans without a valuation allowance	\$ 2,127,280	\$ 0
Impaired loans with a valuation allowance	1,880,814	730,000
Valuation allowance related to impaired loans	1,020,000	250,000
Total nonaccrual loans	3,793,286	730,000
Average investment in impaired loans	1,336,031	0

The impaired loans consist of three loans of which about \$331,000 is performing and accruing interest. Interest payments collected on nonaccruing loans during 2009 totaled \$809.

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

A summary of loans to directors, executive officers, principal stockholders, and their affiliates as of December 31 is as follows:

	2009	2008
Balance at beginning	\$ 14,912,937	\$ 12,160,603
New loans	1,167,966	12,823,567
Repayments	(1,495,565)	(10,071,233)
Balance at end	\$ 14,585,338	\$ 14,912,937
Unfunded lines of credit (not included above)	\$ 447,930	\$ 905,657

Choice Bank

Notes to Financial Statements

Note 5 Premises and Equipment

An analysis of premises and equipment at December 31 follows:

	2009	2008
Land	\$ 285,000	\$ 285,000
Buildings	1,088,606	1,088,606
Furniture and equipment	527,190	519,042
Computer equipment	316,197	267,196
Totals	2,216,993	2,159,844
Less - Accumulated depreciation	487,454	325,122
Premises and equipment, net	\$ 1,729,539	\$ 1,834,722

Depreciation of premises and equipment charged to operating expense totaled \$162,330 and \$148,827 in 2009 and 2008, respectively.

The Bank leases a branch facility from a bank director under a ten-year noncancelable operating lease expiring in 2016 with options to renew for additional years at the expiration of the initial lease. The Bank also pays for real estate taxes, insurance, and maintenance under this net lease. The terms of the lease are determined to be at a market rate. Rent expense was \$49,392 for 2009 and 2008.

Future minimum rental payments under noncancelable lease terms as of December 31, 2009, are as follows:

2010	\$ 49,392
2011	49,392
2012	49,392
2013	49,392
2014	49,392
Thereafter	148,176
Total	\$ 395,136

Choice Bank

Notes to Financial Statements

Note 6 Deposits

The composition of deposits at December 31 is as follows:

	2009	2008
Non-interest-bearing demand deposits	\$ 5,057,864	\$ 5,431,951
Interest-bearing demand deposits	2,275,636	2,200,895
Savings deposits	32,448,524	2,317,802
Money market deposits	4,053,869	17,560,435
Certificates of deposit less than \$100,000	29,670,671	45,425,494
Certificates of deposit \$100,000 and greater	29,546,667	25,374,424
Total deposits	\$ 103,053,231	\$ 98,311,001

The scheduled maturities of certificates of deposit at December 31, 2009, are summarized as follows:

2010	\$ 48,355,246
2011	7,503,811
2012	2,183,943
2013	672,810
Thereafter	501,528
Total	\$ 59,217,338

Deposits from directors, executive officers, principal stockholders, and their affiliates totaled approximately \$4,362,000 and \$2,529,000 as of December 31, 2009 and 2008, respectively.

Choice Bank

Notes to Financial Statements

Note 7 Income Taxes

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

	2009	2008
Deferred tax credit:		
Federal	\$ (1,623,100)	\$ (10,000)
State	(243,000)	(1,000)
Total deferred	(1,866,100)	(11,000)
Change in valuation allowance	0	(937,000)
Total credit for income taxes	\$ (1,866,100)	\$ (948,000)

A summary of the sources of differences between income taxes at the federal statutory rate and the credit for income taxes for the years ended December 31 follows:

	2009		2008	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Tax credit at statutory rate	\$ (1,603,000)	(34.0)	\$ (43,000)	(34.0)
Increase (decrease) in taxes resulting from:				
Book write down of other real estate	138,000	2.9	0	0.0
Stock option compensation	11,000	0.2	27,000	21.3
Other	(23,100)	(0.5)	5,000	3.9
Change in valuation allowance	0	0.0	(937,000)	(739.2)
State tax	(389,000)	(8.2)	0	0.0
Total credit for income taxes	\$ (1,866,100)	(39.6)	\$ (948,000)	(748.0)

Choice Bank

Notes to Financial Statements

Note 7 Income Taxes (Continued)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Bank's assets and liabilities.

Primarily due to the loan losses recognized during 2009, the Bank's net deferred tax asset increased to \$2,727,045. All available evidence, both positive and negative, was considered to determine whether, based on the weight of that evidence, impairment should be recognized. Based on management's consideration of the available evidence including anticipated future pretax income, as well as the reversal period for the items giving rise to the deferred tax assets and liabilities, a valuation allowance for deferred assets was not considered necessary at December 31, 2009, since it is more likely than not that these assets will be realized.

The major components of the net deferred tax asset (liability) as of December 31 are presented below:

	2009	2008
Deferred tax assets:		
Allowance for loan losses	\$ 454,000	\$ 443,000
Net operating loss	1,982,100	277,000
Organization and start-up expenses	296,000	322,000
Other real estate valuation allowances	165,000	0
Total deferred tax assets	2,897,100	1,042,000
Deferred tax liabilities:		
Unrealized gain on securities available for sale	(87,055)	(100,000)
Fixed assets and prepaid expenses	(83,000)	(94,000)
Total deferred tax liabilities	(170,055)	(194,000)
Net deferred tax asset	\$ 2,727,045	\$ 848,000

The Bank has net operating loss carryforwards totaling approximately \$5,000,000 that may be applied against future federal and state taxable income and begin to expire on December 31, 2026, for federal purposes and December 31, 2021, for Wisconsin purposes.

Income tax returns for the years 2006 through 2008, with few exceptions, remain open to examination by federal and state taxing authorities.

Choice Bank

Notes to Financial Statements

Note 8 **Stockholders' Equity and Regulatory Matters**

The declaration and payment of cash dividends by the Bank to stockholders is restricted by certain statutory and regulatory limitations. These limitations state that the Bank may not declare or pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank's net income during the current calendar year and the retained net income of the prior two calendar years. Prior written regulatory approval must be obtained to make an exception. There were no cash dividends paid to stockholders by the Bank in 2009 or 2008.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets. It is management's opinion, as of December 31, 2009, that the Bank meets all applicable capital adequacy requirements.

Choice Bank

Notes to Financial Statements

Note 8 Stockholders' Equity and Regulatory Matters (Continued)

As of December 31, 2009, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(In Thousands)</i>						
2009						
Total risk-based capital (to risk-weighted assets)	\$ 16,038	16.62%	\$ 7,720	≥ 8.00%	\$ 9,650	≥ 10.00%
Tier 1 capital (to risk-weighted assets)	\$ 14,820	15.36%	\$ 3,860	≥ 4.00%	\$ 5,790	≥ 6.00%
Tier 1 capital (to average assets)	\$ 14,820	12.18%	\$ 4,867	≥ 4.00%	\$ 6,084	≥ 5.00%
2008						
Total risk-based capital (to risk-weighted assets)	\$ 20,603	21.97%	\$ 7,501	≥ 8.00%	\$ 9,377	≥ 10.00%
Tier 1 capital (to risk-weighted assets)	\$ 19,429	20.72%	\$ 3,751	≥ 4.00%	\$ 5,626	≥ 6.00%
Tier 1 capital (to average assets)	\$ 19,429	17.37%	\$ 4,475	≥ 4.00%	\$ 5,594	≥ 5.00%

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Notes to Financial Statements

Note 9 Commitments, Contingencies, and Credit Risk

Financial Instruments With Off-Balance-Sheet Credit Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss is represented by the contractual, or notional, amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Since some of the commitments are expected to expire without being drawn upon and some of the commitments may not be drawn upon to the total extent of the commitment, the notional amount of these commitments does not necessarily represent future cash requirements.

The following commitments were outstanding at December 31:

	Notional Amount	
	2009	2008
Commitments to extend credit	\$ 1,918,454	\$ 380,000
Unfunded commitments under lines of credit	7,064,640	2,398,136

Commitments to extend credit are agreements to lend to a customer at fixed or variable rates as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, home equity lines of credit, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit may or may not require collateral and may or may not contain a specific maturity date. Commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements.

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Notes to Financial Statements

Note 9 **Commitments, Contingencies, and Credit Risk** (Continued)

Legal Contingencies

Various legal claims arise from time to time in the normal course of business. In the opinion of management, any liability resulting from such proceedings would not have a material impact on the financial statements.

Concentration of Credit Risk

The majority of the Bank's loans, commitments, and standby letters of credit have been granted to customers in the Bank's market area. The concentrations of credit by type are set forth in Note 4. Standby letters of credit were granted primarily to commercial borrowers. Management believes the diversity of the local economy will prevent significant losses during the economic downturn, but the portfolio is monitored on a continuous basis.

Unused Lines of Credit

As of December 31, 2009, the Bank has \$5,000,000 at Bankers' Bank, Madison to be drawn as needed.

Note 10 **Employee Benefit Plan**

The Bank sponsors a 401(k) profit sharing plan covering substantially all employees. Employees are allowed to make voluntary contributions to the plan up to 15% of their compensation, subject to limits imposed by federal tax laws.

During 2009, the Bank made matching contributions on behalf of each employee participant. The Bank contributed an amount equal to 100% of the amount of each employee's elective contribution that did not exceed 3% of the employee participant's compensation and 50% of the amount of the employee participant's contribution that exceeded 3% of the employee participant's compensation up to a maximum Bank contribution of 5% of the employee participant's compensation.

The Bank expensed contributions of \$40,095 for 2009. No Bank contributions were made for 2008.

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Notes to Financial Statements

Note 11 Stock Compensation Plan

Under the stock incentive plan, the Bank may grant options to its directors, officers, and employees for up to 360,000 shares of common stock. The plan requires that options granted qualify as incentive stock options. The exercise price equals the market value of the Bank's stock at the grant date. The vesting period ranges from one to three years, and the maximum term is ten years. Compensation cost relates to share-based payment transactions being recognized in the financial statements with measurement based on the fair value of the equity instrument at time of grant. For the years ended December 31, 2009 and 2008, the Bank recognized \$33,700 and \$79,800, respectively, in compensation expense for stock options. In 2009, 5,000 stock options were granted to a Bank officer that will vest proportionately over a period of three years.

Following is a summary of stock option transactions for the year ended December 31, 2009:

	Number of Options	Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of year	60,000	\$10.00	
Granted during the year	5,000	10.00	
Forfeited during the year	(1,667)	10.00	
Outstanding at end of year	63,333	\$10.00	7.56 yrs
Exercisable at end of year	58,333	\$10.00	

Information pertaining to options outstanding at December 31, 2009, is as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Amount
\$ 10.00	63,333	7.56 yrs	\$ 10.00	58,333	\$ 583,330

As of December 31, 2009, the Bank has 5,000 in nonvested options. At the Bank's inception date, 60,000 options were issued of which 58,333 were fully vested in 2009. During 2009, 5,000 options were issued and were nonvested as of December 31, 2009. As of December 31, 2009, no options were exercised and 1,667 options were forfeited.

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Notes to Financial Statements

Note 11 Stock Compensation Plan (Continued)

As of December 31, 2009, there were total unrecognized compensation costs of \$2,799 related to nonvested share-based compensation arrangements, which are expected to be recognized in years 2010 through 2012.

The fair value of each option granted is estimated on the grant date using the Black-Scholes methodology. The following assumptions were used in estimating the fair value for options granted in 2009:

Risk-free interest rate	0.19%
Weighted average expected life (years)	10
Expected volatility	10%
Dividend yield	0%

Note 12 Warrants

In the initial stock offering, all stockholders were granted one warrant for every five shares of common stock purchased. The warrants allow the holder to purchase an additional share of stock at \$12.50 per share. They are exercisable at any time and originally expired three years after the date of the Bank's opening. The expiration date was extended to July 24, 2012, during 2008.

Warrants issued	431,990
Exercised	(620)
<hr/>	
Remaining balance	431,370

The 19 Bank organizers, now directors, assumed substantial financial risk by investing funds and guaranteeing loans to fund the charter application process and capital campaign. Each received 11,250 warrants to purchase shares of Bank stock at \$10 per share. The warrants are exercisable immediately and expire on July 24, 2016. A total of 213,750 organizer warrants were issued. None have been exercised as of December 31, 2009 and 2008.

Both types of warrants are transferable.

Choice Bank

Notes to Financial Statements

Note 13 Earning (Loss) per Share

Calculation of earnings (loss) per share:

	2009	2008
Net income (loss)	\$ (2,849,876)	\$ 821,245
Average shares outstanding	2,160,620	2,160,565
Basic earnings (loss) per share	\$ (1.32)	\$ 0.38

Note 14 Fair Value Measurements

Accounting standards describe three levels of inputs that may be used to measure fair value (the fair value hierarchy). The level of an asset or liability within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement of that asset or liability.

Following is a brief description of each level of the fair value hierarchy:

Level 1 - Fair value measurement is based on quoted prices for identical assets or liabilities in active markets.

Level 2 - Fair value measurement is based on (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in markets that are not active, or (3) valuation models and methodologies for which all significant assumptions are or can be corroborated by observable market data.

Level 3 - Fair value measurement is based on valuation models and methodologies that incorporate at least one significant assumption that cannot be corroborated by observable market data. Level 3 measurements reflect the Bank's estimates about assumptions market participants would use in measuring fair value of the asset or liability.

Some assets and liabilities, such as securities available for sale, are measured at fair value on a recurring basis under accounting principles generally accepted in the United States. Other assets and liabilities, such as impaired loans, may be measured at fair value on a nonrecurring basis.

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Notes to Financial Statements

Note 14 Fair Value Measurements (Continued)

Following is a description of the valuation methodology used for each asset and liability measured at fair value on a recurring or nonrecurring basis, as well as the classification of the asset or liability within the fair value hierarchy.

Securities available for sale - Securities available for sale are classified as Level 2 measurements within the fair value hierarchy. Level 2 securities include U.S. government and agency securities, obligations of states and political subdivisions, corporate debt securities, and mortgage-related securities. The fair value measurement of a Level 2 security is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data.

Loans held for sale - Loans held for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. The fair value measurement of a loan held for sale is based on current secondary market prices for similar loans, which is considered a Level 2 measurement.

Loans - Loans are not measured at fair value on a recurring basis. However, loans considered to be impaired (see Note 1) may be measured at fair value on a nonrecurring basis. The fair value measurement of an impaired loan that is collateral dependent is based on the fair value of the underlying collateral. All other impaired loan measurements are based on the present value of expected future cash flows discounted at the applicable effective interest rate and thus are not fair value measurements. Fair value measurements of underlying collateral that utilize observable market data, such as independent appraisals reflecting recent comparable sales, are considered Level 2 measurements. Other fair value measurements that incorporate estimated assumptions market participants would use to measure fair value are considered Level 3 measurements.

Other real estate owned - Real estate and other property acquired through or in lieu of loan foreclosure are not measured at fair value on a recurring basis. However, foreclosed assets are initially measured at fair value (less estimated costs to sell) when they are acquired and may also be measured at fair value (less estimated costs to sell) if they become subsequently impaired. The fair value measurement for each asset may be obtained from an independent firm or prepared internally. Fair value measurements obtained from independent firms are generally based on sales of comparable assets and other observable market data and are considered Level 2 measurements. Fair value measurements prepared internally are based on observable market data but include significant unobservable data and are therefore considered Level 3 measurements.

Choice Bank

Notes to Financial Statements

Note 14 Fair Value Measurements (Continued)

Information regarding the fair value of assets measured at fair value on a recurring basis as of December 31 follows:

	Assets Measured at Fair Value	Recurring Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2009				
Securities available for sale	\$ 5,521,099	\$ 0	\$ 5,521,099	\$ 0
Loans held for sale	1,422,733	0	1,422,733	0
Total	\$ 6,943,832	\$ 0	\$ 6,943,832	\$ 0
2008				
Securities available for sale	\$ 5,774,113	\$ 0	\$ 5,774,113	\$ 0
Loans held for sale	246,344	0	246,344	0
Total	\$ 6,020,457	\$ 0	\$ 6,020,457	\$ 0

Choice Bank

Notes to Financial Statements

Note 14 Fair Value Measurements (Continued)

Information regarding the fair value of assets measured at fair value on a nonrecurring basis as of December 31 follows:

	Assets Measured at Fair Value	Nonrecurring Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2009				
Impaired loans	\$ 860,814	\$ 0	\$ 860,814	\$ 0
Other real estate owned	3,304,761	0	3,304,761	0
Total	\$ 4,165,575	\$ 0	\$ 4,165,575	\$ 0
2008				
Impaired loans	\$ 480,000	\$ 0	\$ 480,000	\$ 0

Loans with a carrying amount of \$1,880,814 were written down to their fair value of \$860,814. As a result, the Bank recognized an impairment charge against the allowance for loan losses totaling \$1,020,000 during the year ended December 31, 2009.

Other real estate owned with a carrying amount of \$3,709,761 was written down to a fair value of \$3,304,761. As a result, an impairment charge of \$405,000 was included in earnings for the year ended December 31, 2009.

The Bank estimates fair value of all financial instruments regardless of whether such instruments are measured at fair value. The following methods and assumptions were used by the Bank to estimate fair value of financial instruments not previously discussed.

Cash and cash equivalents - Fair value approximates the carrying value.

Choice Bank

Notes to Financial Statements

Note 14 Fair Value Measurements (Continued)

Interest-bearing deposits - Fair value is estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Loans - Fair value of variable rate loans that reprice frequently is based on the carrying value. Fair value of other loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings. Fair value of impaired and other nonperforming loans is estimated using discounted expected future cash flows or the fair value of underlying collateral, if applicable.

Accrued interest receivable and payable - Fair value approximates the carrying value.

Deposits - Fair value of deposits with no stated maturity, such as demand deposits, savings, and money market accounts, by definition, is the amount payable on demand on the reporting date. Fair value of fixed rate time deposits is estimated using discounted cash flows applying interest rates currently being offered on similar time deposits.

The carrying value and estimated fair value of financial instruments at December 31 follows:

	2009		2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$ 1,462,962	\$ 1,462,962	\$ 3,844,714	\$ 3,844,714
Interest-bearing deposits in banks	0	0	290,000	290,000
Securities available for sale	5,521,099	5,521,099	5,774,113	5,774,113
Loans held for sale	1,422,733	1,422,733	246,344	246,344
Loans, net	103,096,134	109,543,048	105,110,349	106,876,708
Accrued interest receivable	357,723	357,723	470,593	470,593
Total financial assets	\$ 111,860,651	\$ 118,307,565	\$ 115,736,113	\$ 117,502,472
Financial liabilities:				
Deposits	\$ 103,053,231	\$ 103,011,580	\$ 98,311,001	\$ 91,993,558
Accrued interest payable	203,195	203,195	455,913	455,913
Total financial liabilities	\$ 103,256,426	\$ 103,214,775	\$ 98,766,914	\$ 92,449,471

Choice Bank

Notes to Financial Statements

Note 14 Fair Value Measurements (Continued)

Limitations - The fair value of a financial instrument is the current amount that would be exchanged between market participants, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Consequently, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters that could affect the estimates. Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business. Deposits with no stated maturities are defined as having a fair value equivalent to the amount payable on demand. This prohibits adjusting fair value derived from retaining those deposits for an expected future period of time. This component, commonly referred to as a deposit base intangible, is neither considered in the above amounts nor is it recorded as an intangible asset on the balance sheets. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.