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EMCLAIRE FINANCIAL CORP
Form 10-Q
November 14, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

or

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: 000-18464

EMCLAIRE FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Pennsylvania 25-1606091

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

612 Main Street, Emlenton, Pennsylvania 16373

(Address of principal executive offices) (Zip Code)

(724) 867-2311

(Registrant's telephone number)

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

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company as defined in Rule 12b-2 of the Exchange Act.

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

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

The number of shares outstanding of the Registrant's common stock was 1,431,404 at November 14, 2008.

EMCLAIRE FINANCIAL CORP.

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PART I - FINANCIAL INFORMATION

Item 1. Interim Financial Statements

Emclaire Financial Corp. and Subsidiary
 Consolidated Balance Sheets
 As of September 30, 2008 (Unaudited) and December 31, 2007
 (Dollar amounts in thousands, except share data)

	September 30, 2008	Decemb 20
	-----	-----
Assets		

Cash and due from banks	\$ 5,916	\$
Interest earning deposits with banks	21,637	
	-----	-----
Cash and cash equivalents	27,553	
Securities available for sale, at fair value	57,798	
Loans receivable, net of allowance for loan losses of \$2,363 and \$2,157	251,043	
Federal bank stocks, at cost	2,890	
Bank-owned life insurance	5,137	
Accrued interest receivable	1,373	
Premises and equipment, net	8,157	
Goodwill	1,422	
Prepaid expenses and other assets	1,535	
	-----	-----
Total Assets	\$ 356,908	\$
	=====	=====
Liabilities and Stockholders' Equity		

Liabilities:		
Deposits:		
Non-interest bearing	\$ 48,316	\$
Interest bearing	230,035	

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Total deposits	278,351	
Short-term borrowed funds	13,260	
Long-term borrowed funds	35,000	
Accrued interest payable	841	
Common stock subscriptions payable	3,114	
Accrued expenses and other liabilities	963	
	-----	-----
Total Liabilities	331,529	
	-----	-----
Commitments and Contingencies	--	
Stockholders' Equity:		
Preferred stock, \$1.00 par value, 3,000,000 shares authorized; none issued	--	
Common stock, \$1.25 par value, 12,000,000 shares authorized; 1,395,852 shares issued; 1,267,835 shares outstanding	1,745	
Additional paid-in capital	10,984	
Treasury stock, at cost; 128,017 shares	(2,653)	
Retained earnings	15,713	
Accumulated other comprehensive loss	(410)	
	-----	-----
Total Stockholders' Equity	25,379	
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 356,908	\$
	=====	=====

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Income
For the three and nine months ended September 30, 2008 and 2007 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,		For th 2008
	2008	2007	
	-----	-----	-----
Interest and dividend income:			
Loans receivable, including fees	\$ 4,059	\$ 3,937	\$ 1
Securities:			
Taxable	550	388	
Exempt from federal income tax	159	169	
Federal bank stocks	26	35	

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Deposits with banks	53	6	
	-----	-----	-----
Total interest and dividend income	4,847	4,535	1
	-----	-----	-----
Interest expense:			
Deposits	1,650	1,578	
Borrowed funds	467	361	
	-----	-----	-----
Total interest expense	2,117	1,939	
	-----	-----	-----
Net interest income	2,730	2,596	
Provision for loan losses	140	45	
	-----	-----	-----
Net interest income after provision for loan losses	2,590	2,551	
	-----	-----	-----
Noninterest income:			
Fees and service charges	446	412	
Commissions on financial services	108	83	
Net gain (loss) on available for sale securities	(116)	18	
Net gain on sales of loans	--	15	
Earnings on bank-owned life insurance	58	55	
Other	124	113	
	-----	-----	-----
Total noninterest income	620	696	
	-----	-----	-----
Noninterest expense:			
Compensation and employee benefits	1,261	1,241	
Premises and equipment	409	404	
Other	626	610	
	-----	-----	-----
Total noninterest expense	2,296	2,255	
	-----	-----	-----
Income before provision for income taxes	914	992	
Provision for income taxes	198	238	
	-----	-----	-----
Net income	\$ 716	\$ 754	\$
	=====	=====	=====
Basic and diluted earnings per share	\$ 0.56	\$ 0.59	\$
Average common shares outstanding	1,267,835	1,267,835	1,26
Dilutive Shares	--	--	

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
 Condensed Consolidated Statements of Cash Flows
 For the nine months ended September 30, 2008 and 2007 (Unaudited)
 (Dollar amounts in thousands)

	For the nine Septem 2008

Cash flows from operating activities	
Net income	\$ 1,816
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization of premises and equipment	518
Provision for loan losses	285
Amortization of premiums and accretion of discounts, net	(124)
Amortization of intangible assets and mortgage servicing rights	13
Amortization of deferred loan costs	209
Realized (gains) losses on sales of available for sale securities, net	391
Net gains on sales of loans	(8)
Originations of loans sold	(1,263)
Proceeds from the sale of loans	1,261
Stock compensation expense	83
Earnings on bank owned life insurance, net	(150)
Increase in accrued interest receivable	(8)
Increase in prepaid expenses and other assets	(387)
Increase (decrease) in accrued interest payable	70
Increase in accrued expenses and other liabilities	2,493

Net cash provided by operating activities	5,199

Cash flows from investing activities	
Loan originations and principal collections, net	(21,716)
Available for sale securities:	
Sales	--
Maturities, repayments and calls	61,518
Purchases	(67,664)
Purchase of federal bank stocks	(228)
Purchases of premises and equipment	(771)

Net cash used in investing activities	(28,861)

Cash flows from financing activities	
Net increase (decrease) in deposits	34,089
Net increase in short-term borrowed funds	7,860
Dividends paid on common stock	(1,217)

Net cash provided by (used in) financing activities	40,732

Net increase (decrease) in cash and cash equivalents	17,070
Cash and cash equivalents at beginning of period	10,483

Cash and cash equivalents at end of period	\$ 27,553
	=====

Supplemental information:

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Interest paid	\$	6,024
Income taxes paid		270
Supplemental noncash disclosure:		
Transfers from loans to foreclosed real estate		130

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the three and nine months ended September 30, 2008 and 2007 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,		
	2008	2007	
Balance at beginning of period	\$ 25,005	\$ 23,990	\$
Net income	716	754	
Other comprehensive income (loss):			
Change in net unrealized gains (losses) on available for sale securities, net of taxes	(43)	381	
Less reclassification adjustment for (gains) losses included in net income, net of taxes	76	(12)	
Other comprehensive income (loss)	33	369	
Total comprehensive income	749	1,123	
Stock compensation expense	31	15	
Dividends declared	(406)	(368)	
Balance at end of period	\$ 25,379	\$ 24,760	\$
Common cash dividend per share	\$ 0.32	\$ 0.29	\$

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Basis of Presentation.

Emclaire Financial Corp. (the "Corporation") is a Pennsylvania company organized as the holding company of Farmers National Bank of Emlenton (the "Bank"). The Corporation provides a variety of financial services to individuals and businesses through its offices in western Pennsylvania. Its primary deposit products are checking, savings and certificate of deposit accounts and its primary lending products are residential and commercial mortgages, commercial business and consumer loans.

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, the Bank. All intercompany transactions and balances have been eliminated in preparing the consolidated financial statements.

The accompanying unaudited consolidated financial statements for the interim periods include all adjustments, consisting of normal recurring accruals, which are necessary, in the opinion of management, to fairly reflect the Corporation's consolidated financial position and results of operations. Additionally, these consolidated financial statements for the interim periods have been prepared in accordance with instructions for the Securities and Exchange Commission's Form 10-Q and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2007, as contained in the Corporation's 2007 Annual Report of Form 10-K filed with the Securities and Exchange Commission.

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses. The results of operations for interim quarterly or year to date periods are not necessarily indicative of the results that may be expected for the entire year or any other period. Certain amounts previously reported may have been reclassified to conform to the current year's financial statement presentation.

2. Earnings per Common Share.

Basic earnings per common share (EPS) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or contracts to issue common

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stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Corporation. Options on 85,000 shares of common stock were not included in computing diluted earnings per share because their effects were not dilutive for the three and nine months periods ended September 30, 2008 and 2007.

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3. Securities.

The Corporation's securities as of the respective dates are summarized as follows:

(Dollar amounts in thousands)	Amortized cost	Unrealized gains	Unrealized losses

Available for sale:			

September 30, 2008:			
U.S. Government agencies and related entities	\$ 17,988	\$ 42	\$ (113)
Mortgage-backed securities	19,801	124	(70)
Municipal securities	13,297	366	--
Corporate securities	2,994	--	--
Equity securities	3,874	--	(505)
	-----	-----	-----
	\$ 57,954	\$ 531	\$ (687)
	=====	=====	=====
December 31, 2007:			
U.S. Government agencies and related entities	\$ 29,356	\$ 37	\$ (59)
Mortgage-backed securities	1,932	--	(48)
Municipal securities	13,685	566	--
Corporate securities	2,939	--	--
Equity securities	4,156	--	(645)
	-----	-----	-----
	\$ 52,068	\$ 603	\$ (752)
	=====	=====	=====

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic, market or other concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Effective September 30, 2008, management evaluated the Corporation's investment portfolio and determined that a \$51,322 other than temporary impairment existed on Fannie Mae stock and a \$65,047 other than temporary impairment existed on Freddie Mac stock. The impairment of these securities was considered to be other than temporary due to

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continued concerns related to the financial condition and near-term prospects of the issuers, economic conditions of the financial services industry and deteriorating market values. These securities were written down to their fair market value as of September 30, 2008 and the resulting impairment losses were recognized in earnings during the third quarter of 2008. This impairment charge was in addition to a \$275,000 other than temporary impairment charge recorded at the end of the second quarter of 2008.

There were no other unrealized losses that were considered other than temporary at September 30, 2008.

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4. Loans Receivable.

The Corporation's loans receivable as of the respective dates are summarized as follows:

(Dollar amounts in thousands)	September 30, 2008	December 31, 2007
Mortgage loans on real estate:		
Residential first mortgages	\$ 67,529	\$ 65,706
Home equity loans and lines of credit	56,859	49,426
Commercial real estate	79,684	71,599
	204,072	186,731
Other loans:		
Commercial business	40,171	35,566
Consumer	9,163	9,679
	49,334	45,245
Total loans, gross	253,406	231,976
Less allowance for loan losses	2,363	2,157
Total loans, net	\$ 251,043	\$ 229,819

5. Deposits.

The Corporation's deposits as of the respective dates are summarized as follows:

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(Dollar amounts in thousands)	September 30, 2008		December 31, 2007	
Type of accounts	Amount	%	Amount	%
Non-interest bearing deposits	\$ 48,316	17.3%	\$ 47,111	19.3%
Interest bearing demand deposits	103,487	37.2%	77,614	31.8%
Time deposits	126,548	45.5%	119,537	48.9%
	-----	-----	-----	-----
	\$278,351	100.0%	\$244,262	100.0%
	=====	=====	=====	=====

6. Guarantees.

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Of these letters of credit at September 30, 2008, \$81,000 will expire within the next seven months, \$684,000 will automatically renew within the next twelve months and \$305,000 will automatically renew within thirteen to seventeen months. The Corporation, generally, holds collateral and/or personal guarantees supporting these commitments. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The credit risk involved in issuing letters of credit is essentially the same as those that are involved