HESKA CORP
Form 4
June 05, 2014

FORM 4

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

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
GRIEVE ROBERT B
(Last) (First) (Middle)
3760 ROCKY MOUNTAIN AVENUE
(Street)
LOVELAND, CO 80538
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HESKA CORP [HSKA]

3. Date of Earliest Transaction (Month/Day/Year)
06/05/2014

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

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive Chair and Director

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

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

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	06/05/2014		S		836	D	$ 10.7	142,415 (1)	D	
Common Stock	06/05/2014		S		100	D	$ 10.65	142,315 (1)	D	
Common Stock								3,077	I	by Daughter I (2)
Common Stock								2,577	I	by Daughter II (3)
								1,564	I	

Common Stock	by Spouse (4)

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

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

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

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

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
GRIEVE ROBERT B 3760 ROCKY MOUNTAIN AVENUE LOVELAND, CO 80538	X		Executive Chair and Director	

Signatures

By: Jason A. Napolitano For: Robert B. Grieve	06/05/2014
**Signature of Reporting Person	Date

Explanation of Responses:

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

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

(1) Includes one share jointly owned with Jason Napolitano.

(2) Gifts under the Uniform Gifts to Minors Act to minor daughter (Megan Grieve) who shares reporting person's household. The reporting person is the custodian of such shares but disclaims beneficial ownership of these shares.

(3) Gifts under the Uniform Gifts to Minors Act to minor daughter (Madeline Grieve). The reporting person is the custodian of such shares but disclaims beneficial ownership of these shares.

(4) Dr. Grieve disclaims beneficial ownership of all securities of the Issuer owned by his wife.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. y:inherit;font-size:10pt;">Quoted Prices in
Active Markets
for Identical
Assets

Significant
Other
Observable
Inputs

Significant
Unobservable
Inputs

December 31, 2017:

Money markets

$
720

$
720

$
—

$
—

Mutual funds - debt

3,368

3,368

—

—

Mutual funds - equity

5,221

5,221

—

—

Emclaire Financial Corp stock

850

850

—

—

$
10,159

$
10,159

$
—

$
—

December 31, 2016:

Money markets

$
870

$
870

$
—

$
—

Mutual funds - debt

3,247

3,247

—

—

Mutual funds - equity

4,458

4,458

—

—

Emclaire Financial Corp stock

756

756

—

—

$
9,331

$
9,331

$
—

$
—

Explanation of Responses:

There were no significant transfers between Level 1 and Level 2 during 2017.

The accumulated benefit obligation for the defined benefit pension plan was $11.8 million and $10.6 million at December 31, 2017 and 2016, respectively.

The components of the periodic pension costs and other amounts recognized in other comprehensive income for the years ended December 31 are as follows:

(Dollar amounts in thousands)	2017	2016
Interest cost	$438	$465
Expected return on plan assets	(661)	(665)
Amortization of prior service benefit and net loss	239	220
Net periodic pension benefit	16	20
Amortization of prior service benefit and net loss	(239)	(220)
Net loss	588	671
Total recognized in other comprehensive loss	349	451
Total recognized in net periodic benefit and other comprehensive loss	$365	$471

The estimated net loss and prior service benefit for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $247,000 as of December 31, 2017.

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Notes to Consolidated Financial Statements

13. Employee Benefit Plans (continued)

Weighted-average actuarial assumptions for the years ended December 31 include the following:

	2017	2016
Discount rate for net periodic benefit cost	4.19%	4.41%
Discount rate for benefit obligations	3.62%	4.19%
Expected rate of return on plan assets	7.25%	7.25%

The Corporation's pension plan asset allocation at December 31, 2017 and 2016, target allocation for 2018, and expected long-term rate of return by asset category are as follows:

	Target Allocation	Percentage of Plan Assets at Year End		Weighted-Average Expected Long-Term Rate of Return
Asset Category	2018	2017	2016	2017
Equity securities	55 %	56 %	54 %	5.25 %
Debt securities	37 %	37 %	37 %	1.97 %
Money markets	8 %	7 %	9 %	0.03 %
	100 %	100 %	100 %	7.25 %

Investment Strategy

The intent of the pension plan is to provide a range of investment options for building a diversified asset allocation strategy that will provide the highest likelihood of meeting the aggregate actuarial projections. In selecting the options and asset allocation strategy, the Corporation has determined that the benefits of reduced portfolio risk are best achieved through diversification. The following asset classes or investment categories are utilized to meet the Pension plan's objectives: Small company stock, International stock, Mid-cap stock, Large company stock, Diversified bond, Money Market/Stable Value and Cash. The pension plan does not prohibit any certain investments.

The Corporation does currently not expect to make a contribution to its pension plan in 2018.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

(Dollar amounts in thousands) For year ended December 31,	Pension Benefits
2018	$ 379
2019	386
2020	433
2021	436
2022	480
Following 5 years	2,610

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Consolidated
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13. Employee Benefit Plans (continued)

Defined Contribution Plan

The Corporation maintains a defined contribution 401(k) Plan. Employees are eligible to participate by providing tax-deferred contributions up to 20% of qualified compensation. Employee contributions are vested at all times. The Corporation provides a matching contribution of up to 4% of the participant’s salary. For the years ended 2017 and 2016, matching contributions were $206,000 and $196,000, respectively. The Corporation may also make, at the sole discretion of its Board of Directors, a profit sharing contribution. For the years ended 2017 and 2016, the Corporation made profit sharing contributions of $109,000 and $105,000, respectively.

Supplemental Executive Retirement Plan

The Corporation maintains a Supplemental Executive Retirement Plan (SERP) to provide certain additional retirement benefits to participating officers. The SERP is subject to certain vesting provisions and provides that the officers shall receive a supplemental retirement benefit if the officer’s employment is terminated after reaching the normal retirement age of 65, with benefits also payable upon death, disability, a change of control or a termination of employment prior to normal retirement age. As of December 31, 2017 and 2016, the Corporation’s SERP liability was $1.2 million and $1.1 million, respectively. For the years ended December 31, 2017 and 2016, the Corporation recognized expense of $167,000 and $114,000, respectively, related to the SERP.

14. Stock Compensation Plans

In April 2014, the Corporation adopted the 2014 Stock Incentive Plan (the 2014 Plan), which is shareholder approved and permits the grant of restricted stock awards and options to its directors, officers and employees for up to 176,866 shares of common stock, of which 52,533 shares of restricted stock and 88,433 stock options remain available for issuance under the plan.

In addition, the Corporation’s 2007 Stock Incentive Plan and Trust (the 2007 Plan), which is shareholder approved, permitted the grant of restricted stock awards and options to its directors, officers and employees for up to 177,496 shares of common stock. As of December 31, 2017, no additional shares of stock may be issued as the plan expired on April 25, 2017.

Incentive stock options, non-incentive or compensatory stock options and share awards may be granted under the Plans. The exercise price of each option shall at least equal the market price of a share of common stock on the date of grant and have a contractual term of ten years. Options shall vest and become exercisable at the rate, to the extent and subject to such limitations as may be specified by the Corporation. Compensation cost related to share-based payment transactions must be recognized in the financial statements with measurement based upon the fair value of the equity instruments issued.

During 2017 and 2016, the Corporation granted restricted stock awards of 13,250 and 11,000 shares, respectively, with a face value of $416,000 and $294,000, respectively, based on the weighted-average grant date stock prices of $31.37 and $26.74, respectively. These restricted stock awards are 100% vested on the third anniversary of the date of grant, except in the event of death, disability or retirement. Nonvested restricted stock is not included in common shares outstanding on the consolidated balance sheets. It is the Corporation's policy to issue shares on the vesting date for restricted stock awards. Unvested restricted stock awards do not receive dividends declared by the Corporation. There were no stock options granted during 2017 or 2016. For the year ended December 31, 2017 and 2016 the Corporation recognized $230,000 and $205,000, respectively, in stock compensation expense.

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14. Stock Compensation Plans (continued)

A summary of the status of the Corporation's nonvested restricted stock awards as of December 31, 2017, and changes during the period then ended is presented below:

	Shares	Weighted-Average Grant-date Fair Value
Nonvested at January 1, 2017	26,900	$ 25.09
Granted	13,250	31.37
Vested	(6,750)	24.50
Forfeited	—	—
Nonvested as of December 31, 2017	33,400	$ 27.70

A summary of option activity under the plans as of December 31, 2017, and changes during the period then ended is presented below:

	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Term (in years)
Outstanding as of January 1, 2017	62,000	$ 25.71	$ 219	0.60
Granted	—	—	—	—
Exercised	(53,586)	25.67	180	—
Forfeited	(8,414)	26.00	—	—
Outstanding as of December 31, 2017	—	$ —	$ —	—
Exercisable as of December 31, 2017	—	$ —	$ —	—

As of December 31, 2017, there was $530,000 of total unrecognized compensation expense related to nonvested share-based compensation arrangements granted under the plans. That expense is expected to be recognized over the next three years.

15. Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Corporation's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in a sale transaction or exit price on the date indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at year-end.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are 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 the Corporation has the ability to access at 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 the Corporation's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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15. Fair Values of Financial Instruments (continued)

An asset or liability's level is based on the lowest level of input that is significant to the fair value measurement.

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Cash and cash equivalents – The carrying value of cash, due from banks and interest bearing deposits approximates fair value and are classified as Level 1.

Securities available for sale – The fair value of all investment securities are based upon the assumptions market participants would use in pricing the security. If available, investment securities are determined by quoted market prices (Level 1). Level 1 includes U.S. Treasury, federal agency securities and certain equity securities. For investment securities where quoted market prices are not available, fair values are calculated based on market prices on similar securities (Level 2). Level 2 includes U.S. Government sponsored entities and agencies, mortgage-backed securities, collateralized mortgage obligations, state and political subdivision securities and certain corporate debt securities. For investment securities where quoted prices or market prices of similar securities are not available, fair values are calculated by using unobservable inputs (Level 3) and may include certain corporate debt and equity securities held by the Corporation. The Level 3 corporate debt securities consist of certain subordinated notes which are priced a par because management has determined that the par value approximates the fair value of these instruments. The Level 3 equity security valuations were supported by an analysis prepared by the Corporation which relies on inputs such as the security issuer's publicly attainable financial information, multiples derived from prices in observed transactions involving comparable businesses and other market, financial and nonfinancial factors.

Loans – The fair value of loans receivable was estimated based on the discounted value of the future cash flows using the current rates being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. The methods used to estimate the fair value of loans do not necessarily represent an exit price.

Impaired loans – At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive a specific allowance for loan losses. For collateral dependent loans, fair value is commonly based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. As of December 31, 2017, the Corporation did not have any impaired loans carried at fair value measured using the fair value of collateral, compared to loan balances of $1.2 million, net of a valuation allowance of $120,000 at December 31, 2016. There was no additional provision for loan losses recorded for impaired loans during 2017 and $95,000 additional provision for loan losses recorded for impaired loans during the year ended December 31, 2016.

Other real estate owned (OREO) – Assets acquired through or instead of foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. Management's ongoing review of appraisal information may result in additional discounts or adjustments to the valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or locale. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. As of December 31, 2017 and 2016, the Corporation did not have any OREO measured at fair value.

Appraisals for both collateral-dependent impaired loans and OREO are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed by the Corporation. Once received, management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Corporation compares the actual selling price of OREO that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that a discount of 10% should be applied.

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15. Fair Values of Financial Instruments (continued)

Federal bank stock – It is not practical to determine the fair value of federal bank stocks due to restrictions place on its transferability.

Deposits – The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, checking with interest, savings and money market accounts, is equal to the amount payable on demand resulting in either a Level 1 or Level 2 classification. The fair values of time deposits are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities resulting in a Level 2 classification.

Borrowings – The fair value of borrowings with the FHLB is estimated using discounted cash flows based on current incremental borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued interest receivable and payable – The carrying value of accrued interest receivable and payable approximates fair value. The fair value classification is consistent with the related financial instrument.

Estimates of the fair value of off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties. Also, unfunded loan commitments relate principally to variable rate commercial loans.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy are as follows:

(Dollar amounts in thousands)		(Level 1)	(Level 2)	(Level 3)
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2017:				
U.S. Treasury	$4,472	$ 4,472	$ —	$ —
U.S. government sponsored entities and agencies	13,926	—	13,926	—
U.S. agency mortgage-backed securities: residential	20,758	—	20,758	—
U.S. agency collateralized mortgage obligations: residential	21,924	—	21,924	—
State and political subdivision	29,240	—	29,240	—
Corporate debt securities	9,030	—	1,032	7,998
Equity securities	1,817	1,683	—	134
	$101,167	$ 6,155	$ 86,880	$ 8,132
December 31, 2016:				
U.S. Treasury	$4,500	$ 4,500	$ —	$ —
U.S. government sponsored entities and agencies	8,998	—	8,998	—
U.S. agency mortgage-backed securities: residential	25,626	—	25,626	—

U.S. agency collateralized mortgage obligations: residential	24,706	—	24,706	—
State and political subdivision	27,608	—	27,608	—
Corporate debt securities	7,932	—	7,932	—
Equity securities	2,190	2,054	—	136
	$ 101,560	$ 6,554	$ 94,870	$ 136

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15. Fair Values of Financial Instruments (continued)

The Corporation’s policy is to transfer assets or liabilities from one level to another when the methodology to obtain the fair value changes such that there are more or fewer unobservable inputs as of the end of the reporting period. During 2017, certain corporate debt securities with a fair value of $8.0 million as of December 31, 2017 were transferred out of Level 2 and into Level 3 because of a lack of observable market data. During 2016, the Corporation had no transfers between levels. The following table presents changes in Level 3 assets measured on a recurring basis for the years ended December 31, 2017 and 2016:

(Dollar amounts in thousands)	2017	2016
Balance at the beginning of the period	$136	$74
Total gains or losses (realized/unrealized):		
Included in earnings	—	—
Included in other comprehensive income	(2)	2
Issuances	—	—
Sales	—	—
Acquired	—	60
Transfers in and/or out of Level 3	7,998	—
Balance at the end of the period	$8,132	$136

The Corporation had no assets measured at fair value on a non-recurring basis at December 31, 2017. For assets measured at fair value on a non-recurring basis at December 31, 2016, the fair value measurements by level within the fair value hierarchy are as follows:

(Dollar amounts in thousands)		(Level 1)	(Level 2)	(Level 3)
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2016:				
Impaired residential mortgage loan	$58	$ —	$ —	$ 58
Impaired commercial real estate loan	463	—	—	463
Impaired commercial business loan	582	—	—	582
	$1,103	$ —	$ —	$ 1,103

The following table presents quantitative information about Level 3 fair value measurements for assets measured at fair value on a non-recurring basis:

(Dollar amounts in thousands)	Valuation Technique(s)	Unobservable Input(s)	Range
December 31, 2016:			

Impaired residential mortgage loan	$58	Sales comparison approach	Adjustment for differences between comparable business assets	10%
Impaired commercial real estate loan	463	Sales comparison approach	Adjustment for differences between comparable sales	37%
Impaired commercial business loan	582	Liquidation value of business assets	Adjustment for differences between comparable business assets	64%

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15. Fair Values of Financial Instruments (continued)

Excluded from the tables above at December 31, 2017 was an impaired residential mortgage loan totaling $68,000 and an impaired home equity loan totaling $8,000 which were classified as TDRs and measured using a discounted cash flow methodology. An impaired residential mortgage loan totaling $58,000 which was classified as a TDR and measured using a discounted cash flow methodology was excluded from the tables above at December 31, 2016.

The following table sets forth the carrying amount and fair value of the Corporation's financial instruments included in the consolidated balance sheet as of December 31:
(Dollar amounts in thousands)

		Fair Value Measurements Using:			
Description	Carrying Amount	Total	Level 1	Level 2	Level 3
December 31, 2017:					
Financial Assets:					
Cash and cash equivalents	$ 14,374	$ 14,374	$ 14,374	$ —	$ —
Securities available for sale	101,167	101,167	6,155	86,880	8,132
Loans held for sale	504	504	—	504	—
Loans, net	577,234	577,616	—	—	577,616
Federal bank stock	4,662	N/A	N/A	N/A	N/A
Accrued interest receivable	2,217	2,217	59	338	1,820
Financial Liabilities:					
Deposits	654,643	657,414	483,956	173,458	—
FHLB advances	26,000	25,499	—	25,499	—
Accrued interest payable	413	413	23	390	—
December 31, 2016:					
Financial Assets:					
Cash and cash equivalents	$ 17,568	$ 17,568	$ 17,568	$ —	$ —
Securities available for sale	101,560	101,560	6,554	94,870	136
Loans held for sale	68	68	—	68	—
Loans, net	515,435	519,573	—	—	519,573
Federal bank stock	4,861	N/A	N/A	N/A	N/A
Accrued interest receivable	1,815	1,815	37	365	1,413
Financial Liabilities:					
Deposits	584,940	582,458	423,693	158,765	—
FHLB advances	44,000	44,027	—	44,027	—
Accrued interest payable	239	239	7	232	—

This information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the

Corporation’s disclosures and those of other companies may not be meaningful.

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15. Fair Values of Financial Instruments (continued)

Off-Balance Sheet Financial Instruments

The Corporation is party to credit related 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 commitments to extend credit and commercial letters of credit. Commitments to extend credit involve, to a varying degree, elements of credit and interest rate risk in excess of amounts recognized in the consolidated balance sheets. The Corporation's exposure to credit loss in the event of non-performance by the other party for commitments to extend credit is represented by the contractual amount of these commitments, less any collateral value obtained. The Corporation uses the same credit policies in making commitments as for on-balance sheet instruments. The Corporation's distribution of commitments to extend credit approximates the distribution of loans receivable outstanding.

The following table presents the notional amount of the Corporation's off-balance sheet commitment financial instruments as of December 31:

(Dollar amounts in thousands)	2017		2016	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$8,611	$1,022	$11,940	$12,785
Unused lines of credit	8,452	71,645	5,207	62,594
	$17,063	$72,667	$17,147	$75,379

Commitments to make loans are generally made for periods of 30 days or less. Commitments to extend credit include agreements to lend to a customer as long as there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments to extend credit also include unfunded commitments under commercial and consumer lines of credit, revolving credit lines and overdraft protection agreements. These lines of credit may be collateralized and usually do not contain a specified maturity date and may be drawn upon to the total extent to which the Corporation is committed.

Standby letters of credit are conditional commitments issued by the Corporation usually for commercial customers to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary. Standby letters of credit, net of collateral maintained by the Bank, were $156,000 and $76,000 at December 31, 2017 and 2016, respectively. The current amount of the liability as of December 31, 2017 and 2016 for guarantees under standby letters of credit issued is not material.

Notes to Consolidated Financial Statements

16. Emclaire Financial Corp – Condensed Financial Statements, Parent Corporation Only

Following are condensed financial statements for the parent company as of and for the years ended December 31:

Condensed Balance Sheets

(Dollar amounts in thousands)	2017	2016
Assets:		
Cash and cash equivalents	$53	$20
Securities available for sale	1,691	2,056
Equity in net assets of subsidiaries	63,194	59,078
Other assets	1,218	982
Total Assets	$66,156	$62,136
Liabilities and Stockholders' Equity:		
Short-term borrowed funds with affiliated subsidiary bank	$1,000	$1,000
Other short-term borrowed funds	2,500	2,500
Long-term borrowed funds	3,500	4,500
Accrued expenses and other liabilities	65	63
Stockholders' equity	59,091	54,073
Total Liabilities and Stockholders' Equity	$66,156	$62,136

Condensed Statements of Income

(Dollar amounts in thousands)	2017	2016
Income:		
Dividends from subsidiaries	$3,138	$3,132
Investment income	62	66
Net gain on sales of available for sale securities	168	—
Total income	3,368	3,198
Expense:		
Interest expense	340	265
Noninterest expense	463	392
Total expense	803	657
Income before income taxes and undistributed subsidiary income	2,565	2,541
Undistributed equity in net income of subsidiary	1,529	1,244
Net income before income taxes	4,094	3,785
Income tax benefit	183	201
Net income	$4,277	$3,986
Comprehensive income	$4,113	$3,257

Notes to Consolidated Financial Statements

16. Emclaire Financial Corp – Condensed Financial Statements, Parent Corporation Only (continued)

Condensed Statements of Cash Flows

(Dollar amounts in thousands)	2017	2016
Operating activities:		
Net income	$4,277	$3,986
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed equity in net income of subsidiary	(1,529)	(1,244)
Realized gains on sales of available for sale securities, net	(168)	—
Other, net	35	(101)
Net cash provided by operating activities	2,615	2,641
Investing activities:		
Sales of investment securities	417	—
Investment in subsidiaries	(1,000)	(7,500)
Net cash used in investing activities	(583)	(7,500)
Financing activities:		
Net change in borrowings	(1,000)	7,000
Proceeds from exercise of stock options	1,375	4
Dividends paid	(2,374)	(2,232)
Net cash provided by (used in) financing activities	(1,999)	4,772
Increase (decrease) in cash and cash equivalents	33	(87)
Cash and cash equivalents at beginning of period	20	107
Cash and cash equivalents at end of period	$53	$20

Notes to Consolidated Financial Statements

17. Other Noninterest Income and Expense

Other noninterest income includes customer bank card processing fee income of $1.1 million and $1.1 million for 2017 and 2016, respectively.

The following summarizes the Corporation’s other noninterest expenses for the years ended December 31:

(Dollar amounts in thousands)	2017	2016
Customer bank card processing	$591	$516
Subscriptions	481	422
Telephone and data communications	476	465
Pennsylvania shares and use taxes	371	292
Internet banking and bill pay	365	346
Travel, entertainment and conferences	352	330
Correspondent bank and courier fees	339	265
Printing and supplies	291	362
Marketing and advertising	287	291
Charitable contributions	181	180
Regulatory examinations	185	177
Postage and freight	130	131
Memberships and dues	99	94
Penalty on prepayment of FHLB advance	—	71
Other	605	97
Total other noninterest expenses	$4,753	$4,039

18. Earnings Per Share

The factors used in the Corporation’s earnings per share computation follow:

(Dollar amounts in thousands, except for per share amounts)	For the year ended December 31,	
	2017	2016
Earnings per common share - basic		
Net income	$4,277	$ 3,986
Average common shares outstanding	2,197,440	2,146,130
Basic earnings per common share	$1.95	$ 1.86
Earnings per common share - diluted		
Net income	$4,277	$ 3,986
Average common shares outstanding	2,197,440	2,146,130
Add: Dilutive effects of assumed exercises of restricted stock and stock options	17,128	5,971
Average shares and dilutive potential common shares	2,214,568	2,152,101
Diluted earnings per common share	$1.93	$ 1.85
Stock options and restricted stock awards not considered in computing diluted earnings per share because they were antidilutive	—	57,000

Notes to Consolidated Financial Statements

19. Accumulated Other Comprehensive Income (Loss)

The following is changes in Accumulated Other Comprehensive Income (Loss) by component, net of tax for the year ending December 31, 2017:

(Dollar amounts in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Total
Accumulated Other Comprehensive Income at January 1, 2017	$ (679)	$(3,812)	$(4,491)
Other comprehensive income before reclassification	5	(388)	(383)
Amounts reclassified from accumulated other comprehensive income	107	112	219
Net current period other comprehensive income	112	(276)	(164)
Reclassification of disproportionate tax effects	(112)	(751)	(863)
Accumulated Other Comprehensive Income at December 31, 2017	$ (679)	$(4,839)	$(5,518)

The following is significant amounts reclassified out of each component of Accumulated Other Comprehensive Income (Loss) for the year ending December 31, 2017:
(Dollar amounts in thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$ (346)	Gain on sale of securities
Unrealized gains and losses on available-for-sale securities	508	Other than temporary impairment losses
	(55)	Tax effect
	107	Net of tax
Amortization of defined benefit pension items:		
Prior service costs	$ —	Compensation and employee benefits
Actuarial gains	239	Compensation and employee benefits
	239	Total before tax
	(127)	Tax effect
	112	Net of tax
Total reclassifications for the period	$ 219	

The following is changes in Accumulated Other Comprehensive Income (Loss) by component, net of tax for the year ending December 31, 2016:

(Dollar amounts in thousands)	Unrealized Gains and Losses on	Defined Benefit	Total

	Available-for-Sale Securities	Pension Items	
Accumulated Other Comprehensive Income at January 1, 2016	$ (248)	$(3,514)	$(3,762)
Other comprehensive income before reclassification	(377)	(443)	(820)
Amounts reclassified from accumulated other comprehensive income	(54)	145	91
Net current period other comprehensive income	(431)	(298)	(729)
Accumulated Other Comprehensive Income at December 31, 2016	$ (679)	$(3,812)	$(4,491)

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Notes to Consolidated Financial Statements

19. Accumulated Other Comprehensive Income (Loss) (continued)

The following is significant amounts reclassified out of each component of Accumulated Other Comprehensive Income (Loss) for the year ending December 31, 2016:
(Dollar amounts in thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$ 82	Gain on sale of securities
	(28)	Tax effect
	54	Net of tax
Amortization of defined benefit pension items:		
Prior service costs	$ 23	Compensation and employee benefits
Actuarial gains	(243)	Compensation and employee benefits
	(220)	Total before tax
	75	Tax effect
	(145)	Net of tax
Total reclassifications for the period	$ (91)	

20. Mergers and Acquisitions

Northern Hancock Bank & Trust Co.

On September 30, 2017, the Corporation completed the acquisition of Northern Hancock Bank & Trust Co. (Northern Hancock) in accordance with the terms of the Agreement and Plan of Merger, dated as of May 4, 2017, in exchange for 54,445 shares of common stock valued at $1.7 million and $22,000 in cash. The acquisition expanded the Corporation’s franchise into a new market and increased the Corporation’s consolidated total assets, loans and deposits.

The assets and liabilities of Northern Hancock were recorded on the Corporation’s consolidated balance sheet at their estimated fair value as of September 30, 2017.

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20. Mergers and Acquisitions (continued)

The following table summarizes the estimated fair value of the assets acquired, liabilities assumed and consideration transferred in connection with the acquisition:
(Dollar amounts in thousands)

Assets acquired:	
Cash and cash equivalents	$2,539
Loans receivable	18,480
Federal bank stocks	11
Accrued interest receivable	103
Premises and equipment	708
Core deposit intangible	167
Prepaid expenses and other assets	766
Total assets acquired	22,774
Liabilities assumed:	
Deposits	19,748
Accrued interest payable	6
Accrued expenses and other liabilities	8
Total liabilities assumed	19,762
Identifiable net assets acquired	3,012
Consideration paid:	
Cash	22
Common stock	1,674
Total consideration	1,696
Gain on bargain purchase	$1,316

In connection with the acquisition, the Corporation recognized approximately $1.3 million of bargain purchase gain and a $167,000 core deposit intangible. The core deposit intangible will be amortized over a weighted average estimated life of eight years using the double declining balance method. Core deposit intangible expense was $11,000 for 2017 and is projected for the succeeding five years beginning 2018 to be $40,000, $30,000, $22,000, $17,000 and $13,000 per year, respectively, and $34,000 in total for years after 2022. The bargain purchase gain of $1.3 million, recorded at the date of acquisition, represents the amount by which the acquisition-date fair value of the net identifiable assets acquired exceeded the fair value of the consideration transferred.

While the Corporation believes that the accounting for the acquisition is complete, the fair value of the acquired assets and liabilities noted in the table may change during the provisional period, which may last up to twelve months subsequent to the acquisition date. The Corporation may obtain additional information to refine the valuation of the acquired assets and liabilities and adjust the recorded fair value, although such adjustments are not expected to be significant.

The fair value of loans was estimated using discounted contractual cash flows. The book balance of the loans at the time of the acquisition was $18.5 million before considering Northern Hancocks's allowance for loan losses, which was not carried over. The fair value disclosed above reflects a credit-related adjustment of $(566,000) and an adjustment for other factors of $537,000. Loans evidencing credit deterioration since origination (purchased credit impaired loans) included in loans receivable were immaterial.

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20. Mergers and Acquisitions (continued)

Costs related to the acquisition for the year ended December 31, 2017 totaled $1.1 million including system conversion costs, contract termination fees, legal fees, employee severance costs, accounting and auditing fees and other costs of $421,000, $279,000, $173,000, $108,000, $55,000 and $84,000, respectively.

United American Savings Bank.

On April 30, 2016, the Corporation completed its acquisition of United American Savings Bank (United American) in accordance with the terms of the Agreement and Plan of Merger, dated as of December 30, 2015, by and among the Corporation, the Bank and United American (the Merger Agreement). Pursuant to the Merger Agreement, the Corporation acquired United American through a reverse merger of a newly created, wholly-owned subsidiary of the Bank into United American. Immediately after the merger, United American merged with and into The Farmers National Bank of Emlenton, with The Farmers National Bank of Emlenton being the surviving bank. The Corporation acquired all of the outstanding shares of common stock of United American for cash consideration of $13.2 million ($42.67 per share).

The acquisition expanded the Corporation’s franchise into contiguous markets and increased the Corporation’s consolidated total assets, loans and deposits.

The assets and liabilities of United American were recorded on the Corporation’s consolidated balance sheet at their estimated fair value as of April 30, 2016, and their results of operations have been included in the consolidated income statement since such date.

Included in the purchase price was goodwill and a core deposit intangible of $6.6 million and $232,000, respectively. Goodwill is the excess of the purchase price over the fair value of the identifiable net assets acquired and is the result of expected operational synergies and other factors. This goodwill is not expected to be deductible for tax purposes. The goodwill will not be amortized, but will be measured annually for impairment or more frequently if circumstances require. The core deposit intangible will be amortized over an estimated life of ten years using the double declining balance method. Core deposit intangible expense was $40,000 for 2017 and is projected for the succeeding five years beginning 2018 to be $32,000, $26,000, $21,000, $17,000 and $15,000 per year, respectively, and $52,000 in total for years after 2020.

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20. Mergers and Acquisitions (continued)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed:

(Dollar amounts in thousands)	
Assets acquired:	
Cash and cash equivalents	$9,899
Securities available for sale	60
Loans receivable	66,145
Federal bank stocks	978
Accrued interest receivable	187
Premises and equipment	1,169
Goodwill	6,624
Core deposit intangible	232
Prepaid expenses and other assets	989
Total assets acquired	86,283
Liabilities assumed:	
Deposits	72,700
Accrued interest payable	29
Accrued expenses and other liabilities	346
Total liabilities assumed	73,075
Consideration paid	$13,208

The fair value of loans was determined using discounted cash flows. The book balance of the loans at the time of the acquisition was $66.1 million before considering United American's allowance for loan losses, which was not carried over. The fair value disclosed above reflects a credit-related adjustment of ($927,000) and an adjustment for other factors of $982,000. Loans evidencing credit deterioration since origination (purchased credit impaired loans) included in loans receivable were immaterial.

Costs related to the acquisition for the year ended December 31, 2016, totaled $401,000 including legal fees, system conversion costs and other costs of $194,000, $132,000 and $75,000, respectively.

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