EMCLAIRE FINANCIAL CORP
Form 10-Q
August 14, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from _____________ to _____________

Commission File Number: 000-18464

EMCLAIRE FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	25-1606091 (IRS Employer Identification No.)
612 Main Street, Emlenton, Pennsylvania (Address of principal executive offices)	16373 (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 x No o

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

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 o Accelerated filer o Non-accelerated filer o Smaller reporting company x

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

The number of shares outstanding of the Registrant’s common stock was 1,431,404 at August 14, 2009.

EMCLAIRE FINANCIAL CORP.

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PART I – FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

Item 1. Interim Financial Statements

Emclaire Financial Corp. and Subsidiaries
Consolidated Balance Sheets (Unaudited)
As of June 30, 2009 and December 31, 2008
(Dollar amounts in thousands, except share data)

	June 30, 2009	December 31, 2008
Assets		
Cash and due from banks	$ 2,367	$ 4,292
Interest earning deposits with banks	17,919	12,279
Cash and cash equivalents	20,286	16,571
Securities available for sale, at fair value	77,241	71,443
Loans receivable, net of allowance for loan losses of $2,935 and $2,651	268,293	264,838
Federal bank stocks, at cost	4,125	3,797
Bank-owned life insurance	5,286	5,186
Accrued interest receivable	1,429	1,519
Premises and equipment, net	9,353	8,609
Goodwill	1,422	1,422
Prepaid expenses and other assets	3,179	2,279
Total Assets	$ 390,614	$ 375,664
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 54,128	$ 56,351
Interest bearing	237,772	230,296
Total deposits	291,900	286,647
Short-term borrowed funds	24,600	13,188
Long-term borrowed funds	35,000	35,000
Accrued interest payable	652	761
Accrued expenses and other liabilities	2,790	3,945
Total Liabilities	354,942	339,541
Commitments and Contingencies	-	-
Stockholders' Equity:		
Preferred stock, $1.00 par value, 3,000,000 shares authorized; 7,500 issued and outstanding	7,421	7,412
Warrants	88	88
Common stock, $1.25 par value, 12,000,000 shares authorized; 1,559,421 shares issued; 1,431,404 shares outstanding	1,949	1,949
Additional paid-in capital	14,619	14,564
Treasury stock, at cost; 128,017 shares	(2,653)	(2,653)
Retained earnings	16,101	15,840
Accumulated other comprehensive loss	(1,853)	(1,077)

Total Stockholders' Equity		35,672		36,123
Total Liabilities and Stockholders' Equity	$	390,614	$	375,664

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiaries
Consolidated Statements of Income (Unaudited)
For the three and six months ended June 30, 2009 and 2008
(Dollar amounts in thousands, except per share data)

	For the three months ended June 30, 2009	For the three months ended June 30, 2008	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Interest and dividend income:				
Loans receivable, including fees	$ 4,126	$ 3,929	$ 8,362	$ 7,858
Securities:				
Taxable	383	412	911	789
Exempt from federal income tax	190	161	343	323
Federal bank stocks	3	25	8	55
Interest-earning deposits with banks	87	36	176	59
Total interest and dividend income	4,789	4,563	9,800	9,084
Interest expense:				
Deposits	1,421	1,554	2,961	3,126
Borrowed funds	389	445	799	851
Total interest expense	1,810	1,999	3,760	3,977
Net interest income	2,979	2,564	6,040	5,107
Provision for loan losses	540	85	837	145
Net interest income after provision for loan losses	2,439	2,479	5,203	4,962
Noninterest income:				
Fees and service charges	382	407	721	765
Commissions on financial services	169	127	252	245
Net gain (loss) on available for sale securities	184	(275)	240	(275)
Net gain (loss) on sales of loans	-	(6)	4	8
Earnings on bank-owned life insurance	57	57	114	113
Other	127	186	308	301
Total noninterest income	919	496	1,639	1,157
Noninterest expense:				
Compensation and employee benefits	1,438	1,283	2,875	2,700
Premises and equipment	443	418	925	839
Other	1,015	592	1,718	1,169
Total noninterest expense	2,896	2,293	5,518	4,708
Income before provision for income taxes	462	682	1,324	1,411
Provision for income taxes	54	141	248	311
Net income	408	541	1,076	1,100
Accumulated preferred stock dividends and discount accretion	98	-	196	-

Net income available to common shareholders	$	310	$	541	$	880	$	1,100
Basic and diluted earnings per common share	$	0.22	$	0.43	$	0.61	$	0.87
Average common shares outstanding		1,431,404		1,267,835		1,431,404		1,267,835
Dilutive shares		-		-		-		-

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the six months ended June 30, 2009 and 2008
(Dollar amounts in thousands)

	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Cash flows from operating activities		
Net income	$ 1,076	$ 1,100
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	400	342
Provision for loan losses	837	145
Amortization of premiums and (accretion of discounts), net	(70)	(84)
Amortization of intangible assets and mortgage servicing rights	8	5
Amortization of deferred loan costs	136	156
Realized (gain) loss on available for sale securities, net	(240)	275
Net gains on sales of loans	(4)	(8)
Originations of loans sold	(159)	(1,263)
Proceeds from the sale of loans	163	1,261
Restricted stock and stock option compensation	56	52
Earnings on bank-owned life insurance, net	(100)	(99)
Decrease in accrued interest receivable	90	74
Decrease (increase) in prepaid expenses and other assets	(500)	22
Decrease in accrued interest payable	(109)	(18)
Decrease in accrued expenses and other liabilities	(1,155)	(297)
Net cash provided by operating activities	429	1,663
Cash flows from investing activities		
Loan originations and principal collections, net	(4,519)	(12,331)
Available for sale securities:		
Sales	8,137	-
Maturities, repayments and calls	26,840	45,440
Purchases	(41,635)	(55,708)
Purchase of federal bank stocks	(328)	(187)
Proceeds from the sale of foreclosed real estate	77	-
Purchases of premises and equipment	(1,144)	(454)
Net cash used in investing activities	(12,572)	(23,240)
Cash flows from financing activities		
Net increase in deposits	5,253	14,771
Net increase in short-term borrowed funds	11,412	8,251
Dividends paid	(807)	(811)
Net cash provided by financing activities	15,858	22,211
Net increase in cash and cash equivalents	3,715	634
Cash and cash equivalents at beginning of period	16,571	10,483
Cash and cash equivalents at end of period	$ 20,286	$ 11,117

Supplemental information:		
Interest paid	$ 3,869	$ 3,995
Income taxes paid	183	180
Supplemental noncash disclosure:		
Transfers from loans to foreclosed real estate	76	44

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the three and six months ended June 30, 2009 and 2008
(Dollar amounts in thousands, except per share data)

	For the three months ended June 30, 2009	For the three months ended June 30, 2008	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Balance at beginning of period	$ 36,173	$ 25,086	$ 36,123	$ 24,703
Net income	408	541	1,076	1,100
Other comprehensive loss:				
Change in net unrealized gains (losses) on available for sale securities, net of taxes	(526)	(429)	(618)	(221)
Less reclassification adjustment for gains (losses) included in net income, net of taxes	(121)	182	(158)	182
Other comprehensive loss	(647)	(247)	(776)	(39)
Total comprehensive income (loss)	(239)	294	300	1,061
Stock compensation expense	32	31	56	52
Dividends declared on preferred stock	(94)	-	(148)	-
Dividends declared on common stock	(200)	(406)	(659)	(811)
Balance at end of period	$ 35,672	$ 25,005	$ 35,672	$ 25,005
Common cash dividend per share	$ 0.14	$ 0.32	$ 0.46	$ 0.64

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiaries
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") and Emclaire Settlement Services, LLC (the "Title Company"). 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 subsidiaries, the Bank and the Title Company. All significant 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 (SEC's) Form 10-Q and Article 10 of Regulation S-X 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 (GAAP). For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2008, as contained in the Corporation's 2008 Annual Report on Form 10-K filed with the SEC.

The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements.

The preparation of financial statements, in conformity with GAAP, 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, fair value of financial instruments, goodwill, the valuation of deferred tax assets and other than temporary impairment charges. 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.

The Corporation has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2009 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through August 14, 2009, the date these financial statements were issued.

2. Earnings per Common Share.

Basic earnings per common share (EPS) excludes dilution and is computed by dividing net income available to common shareholders 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 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 and restricted stock awards of 89,500 shares of common stock and warrants to purchase 50,111 shares of common stock were not included in computing diluted earnings per share because their cumulative effects were not dilutive for the three and six month periods ended June 30, 2009 and 2008.

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3. Branch Purchase.

On April 6, 2009, the Corporation entered into a Purchase and Assumption Agreement with PNC Financial Services Group, Inc. (PNC) and National City Bank (National City) to acquire certain assets and assume certain liabilities of National City's full-service branch office located in Titusville, Pennsylvania. As part of the agreement, the Bank will assume approximately $90 million in deposits in exchange for approximately $35 million in loans, cash, and certain fixed assets of the branch office. The Bank has agreed to pay a premium of 3.4% of deposits assumed based on the average balance of deposits during a pre-determined period leading up to the transaction closing date. The proposed branch office acquisition is subject to customary closing conditions, including receipt of applicable regulatory approvals. The Corporation intends to consummate the transaction during the third quarter of 2009. The transaction is expected to be accretive to the Corporation's earnings in the fourth quarter of 2009.

4. Securities.

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

(Dollar amounts in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale:				
June 30, 2009:				
U.S. Treasury securities	$ 2,973	$ 18	$ -	$ 2,991
U.S. Government agencies and related entities	19,454	96	(63)	19,487
Mortgage-backed securities	32,991	628	(51)	33,568
Municipal securities	18,866	175	(316)	18,725
Equity securities	3,901	-	(1,431)	2,470
	$ 78,185	$ 917	$ (1,861)	$ 77,241
December 31, 2008:				
U.S. Treasury securities	$ 19,985	$ 139	$ (47)	$ 20,077
U.S. Government agencies and related entities				
Mortgage-backed securities	29,806	586	(12)	30,380
Municipal securities	13,543	270	(5)	13,808
Corporate securities	3,984	-	-	3,984
Equity securities	3,893	-	(699)	3,194
	$ 71,211	$ 995	$ (763)	$ 71,443

The following table summarizes scheduled maturities of the Corporation's securities as of June 30, 2009:

	Available for sale	
(Dollar amounts in thousands)	Amortized cost	Fair value
Due in one year or less	$ 165	$ 167
Due after one year through five years	14,957	15,017
Due after five through ten years	18,272	18,183
Due after ten years	40,890	41,404
No scheduled maturity	3,901	2,470
	$ 78,185	$ 77,241

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

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Information pertaining to securities with gross unrealized losses at June 30, 2009 and December 31, 2008, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

4. Securities (continued).

(Dollar amounts in thousands) Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
June 30, 2009:						
U.S. Government agencies and related entities	$ 3,931	$ (63)	$ -	$ -	$ 3,931	$ (63)
Mortgage-backed securities	4,698	(20)	4,198	(31)	8,896	(51)
Municipal securities	10,009	(316)	-	-	10,009	(316)
Corporate securities	-	-	-	-	-	-
Equity securities	-	-	2,246	(1,431)	2,246	(1,431)
	$ 18,638	$ (399)	$ 6,444	$ (1,462)	$ 25,082	$ (1,861)
December 31, 2008:						
U.S. Government agencies and related entities	$ 6,452	$ (47)	$ -	$ -	$ 6,452	$ (47)
Mortgage-backed securities	9,185	(12)	-	-	9,185	(12)
Municipal securities	2,352	(5)	-	-	2,352	(5)
Corporate securities	-	-	-	-	-	-
Equity securities	-	-	3,128	(699)	3,128	(699)
	$ 17,989	$ (64)	$ 3,128	$ (699)	$ 21,117	$ (763)

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.

As of June 30, 2009, there were 35 debt and 7 equity securities in an unrealized loss position. These unrealized losses are considered to be temporary impairments. A decline in the value of the debt securities is due only to interest rate fluctuations, rather than erosion of quality. As a result, the payment of contractual cash flows, including principal repayment, is not at risk. As management has the intent and ability to hold these investments until market recovery or maturity, none of the unrealized losses on debt securities are deemed to be other than temporary.

Equity securities owned by the Corporation consist of common stock of various financial service providers that have traditionally been high-performing stocks. However, as a result of recent market volatility in financial stocks, the fair values of most of the stocks held were “under water” as of June 30, 2009, and as such, could have been considered impaired. The Corporation does not invest in these securities with the intent to sell them for a profit in the near-term. Management believes these securities will appreciate in value over the long-term. In addition, stocks can be cyclical and will experience some down periods. Historically, bank stocks have sustained cyclical losses followed by periods of substantial gains. Based on these circumstances and the Corporation’s intent to hold these securities and its belief it will not be required to sell these securities before recovery occurs, the Corporation does not consider these investments to be other than temporarily impaired at June 30, 2009.

5. Loans Receivable.

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

(Dollar amounts in thousands)	June 30, 2009	December 31, 2008
Mortgage loans on real estate:		
Residential first mortgages	$ 71,578	$ 74,130
Home equity loans and lines of credit	56,921	57,454
Commercial real estate	88,632	85,689
	217,131	217,273
Other loans:		
Commercial business	43,565	40,787
Consumer	10,532	9,429
	54,097	50,216
Total loans, gross	271,228	267,489
Less allowance for loan losses	2,935	2,651
Total loans, net	$ 268,293	$ 264,838

6. Deposits.

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

(Dollar amounts in thousands)	June 30, 2009		December 31, 2008	
Type of accounts	Amount	%	Amount	%
Non-interest bearing deposits	$ 54,128	18.6%	$ 56,351	19.7%
Interest bearing demand deposits	118,603	40.6%	106,042	37.0%
Time deposits	119,169	40.8%	124,254	43.3%
	$ 291,900	100.0%	$ 286,647	100.0%

7. 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 June 30, 2009, $81,000 will expire within the next ten months, $721,000 will automatically renew within the next twelve months and $241,000 will automatically renew within thirteen to nineteen 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 in extending loan facilities to customers. The current amount of the liability as of June 30, 2009 for guarantees under standby letters of credit issued is not material.

8. Employee Benefit Plans.

The Corporation maintains a defined contribution 401(k) Plan. Eligible employees 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. Matching contributions for the six months ended June 30, 2009 and 2008 amounted to $73,000 and $76,000, respectively.

The Corporation provides pension benefits for eligible employees through a defined benefit pension plan. Substantially all full-time employees participate in the retirement plan on a non-contributing basis and are fully vested after five years of service.

The Corporation uses December 31 as the measurement date for its plans.

The components of the periodic pension cost are as follows:

	For the three months ended June 30,		For the six months ended June 30,		Year ended December 31,
(Dollar amounts in thousands)	2009	2008	2009	2008	2008
Service cost	$ 62	$ 63	$ 124	$ 126	$ 233
Interest cost	75	71	150	142	285
Expected return on plan assets	(66)	(79)	(132)	(158)	(305)
Prior service costs	(8)	(8)	(16)	(16)	(31)
Recognized net actuarial loss	27	4	54	8	19
Net periodic pension cost	$ 90	$ 51	$ 180	$ 102	$ 201

The expected rate of return on plan assets was 7.75% for the periods ended June 30, 2009 and 2008. The Corporation previously disclosed in its financial statements for the year ended December 31, 2008 that it expected to contribute $350,000 to its pension plan in 2009. As of June 30, 2009, $350,000 has been contributed.

9. Stock Compensation Plans.

In May 2007, the Corporation adopted the 2007 Stock Incentive Plan and Trust. Under the Plan, the Corporation may grant options to its directors, officers and employees for up to 177,496 shares of common stock. Incentive stock options, non-incentive or compensatory stock options and share awards may be granted under the Plan. 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 and restricted stock awards shall vest and become exercisable at the rate, to the extent and subject to such limitations as may be specified by the Corporation. The Corporation accounts for its stock compensation plans in accordance with the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which requires that compensation cost related to share-based payment transactions be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued. For the six-month periods ended June 30, 2009 and 2008, the Corporation recognized $56,000 and $52,000, respectively, in stock compensation expense.

9. Stock Compensation Plans (continued).

A summary of option activity under the Plan as of June 30, 2009, 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 at the beginning of the year	94,000	$ 25.66		8.7
Granted	-	-		-
Exercised	-	-		-
Forfeited	4,500	26.00		-
Outstanding as of June 30, 2009	89,500	$ 25.64	$ -	8.2
Exercisable as of June 30, 2009	-	$ -	$ -	-

A summary of the status of the Corporation's nonvested shares as of June 30, 2009, and changes during the period then ended is presented below:

	Options	Weighted-Average Grant-date Fair Value
Nonvested at the beginning of the year	94,000	$ 3.13
Granted	-	-
Vested	-	-
Forfeited	4,500	3.39
Nonvested as of June 30, 2009	89,500	$ 3.12

As of June 30, 2009, there was $180,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over an average period of 1.2 years.

10. Fair Values of Financial Instruments.

Effective January 1, 2008, the Corporation adopted FASB SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

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

10. Fair Values of Financial Instruments (continued).

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) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
June 30, 2009:				
Securities available for sale	$ 77,241	$ 2,470	$ 74,770	$ -
December 31, 2008:				
Securities available for sale	$ 71,443	$ 3,194	$ 68,249	$ -

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

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
June 30, 2009:				
Impaired loans	$ 112	$ -	$ -	$ 112
Repossessions	484	-	484	-
	$ 596	$ -	$ 484	$ 112
December 31, 2008:				
Impaired loans	$ -	$ -	$ -	$ -
Repossessions	-	-	-	-
	$ -	$ -	$ -	$ -

The following valuation techniques were used to measure fair value of assets in the tables above:

Available for sale securities – Fair value on available for sale securities were based upon a market approach. Prices for securities that are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are obtained through third party data service providers or dealer market participants which the Corporation has historically transacted both purchases and sales of investment securities. As of June 30, 2009, all fair values on available for sale securities were based on prices obtained from these sources and were based on actual market quotations for each specific security.

Impaired loans – Fair value on impaired loans is measured using the estimate fair market value of the collateral less the estimate costs to sell. Fair value of the loan's collateral is typically determined by appraisals or independent valuation. Management's ongoing review of appraisal information may result in additional discounts or adjustments to valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or locale. As of June 30, 2009 the fair value consists of a loan balance of $133,000, net of a valuation allowance of $21,000. Additional provision for loan losses of $21,000 was recorded during the six months ended June 30, 2009.

10. Fair Values of Financial Instruments (continued).

Repossessions – Fair value on repossessed assets is measured using the estimate fair market value of the asset less the estimate costs to sell. Fair value of the asset is typically determined by appraisals or independent valuation.

Effective January 1, 2009, the Corporation adopted FSP 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), which delayed the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. At June 30, 2009, the Corporation had no non-financial assets or liabilities carried at fair value, measured on a recurring or non-recurring basis.

Under SFAS 107, the Corporation is required to disclose the estimated fair value of its financial instrument assets and liabilities including those subject to the requirements of SFAS 157. The estimated fair values and carrying values of all financial statement instruments covered by SFAS 157 and SFAS 107 at June 30, 2009 were as follows:

	June 30, 2009		December 31, 2008	
(Dollar amounts in thousands)	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	$ 20,286	$ 20,286	$ 16,571	$ 16,571
Securities	77,241	77,241	71,443	71,443
Loans receivable, net	268,293	274,349	264,838	272,662
Federal bank stocks	4,125	4,125	3,797	3,797
Accrued interest receivable	1,429	1,429	1,519	1,519
Financial liabilities:				
Deposits	291,900	294,357	286,647	290,533
Borrowed funds	59,600	59,597	48,188	52,510
Accrued interest payable	652	652	761	761

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. The following methods and assumptions were used to estimate fair values of the Corporation's financial instruments at June 30, 2009 and December 31, 2008:

Carrying amount is the estimated fair value for cash and cash equivalents, securities, federal bank stocks, accrued interest receivable and payable, demand deposits, borrowed funds, and variable rate loans or deposits that reprice frequently and fully. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of debt is based on current rates for similar financing. The fair value of off-balance sheet items is based on the current fees or cost that would be charged to enter into or terminate such arrangements and is not material.

11. Effect of Recently Issued Accounting Standards.

In April 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other GAAP. This FSP is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008, and interim periods within those fiscal years. This FSP did not affect the Corporation's consolidated financial statements.

In June 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-5, Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock (EITF 07-5). EITF 07-5 provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 became effective for fiscal years beginning after December 15, 2008. EITF 07-5 did not affect the Corporation's consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-6, Equity Method Investment Accounting Considerations (EITF 08-6). EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 became effective for fiscal years beginning after December 15, 2008. EITF 08-6 did not affect the Corporation's consolidated financial statements.

In April 2009, the FASB issued FSP No. 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1 and APB 28-1). FSP 107-1 and APB 28-1 amends FASB SFAS 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 107-1 and APB 28-1 must also early adopt FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP 157-4), and FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2 and FAS 124-2). The Corporation adopted this pronouncement effective for the quarter ended June 30, 2009. The adoption of this pronouncement did not affect the Corporation's consolidated financial statements.

In April 2009, the FASB issued FSP 115-2 and FAS 124-2. FSP 115-2 and FAS 124-2 clarifies the interaction of the factors that should be considered when determining whether a debt security is other than temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other than temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

11. Effect of Recently Issued Accounting Standards (continued).

In instances when a determination is made that an other than temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, FSP 115-2 and FAS 124-2 changes the presentation and amount of the other than temporary impairment recognized in the income statement. The
other than temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other than temporary impairment related to all other factors. The amount of the total other than temporary impairment related to the credit loss is recognized in earnings. The amount of the total other than temporary impairment related to all other factors is recognized in other comprehensive income.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP 115-2 and FAS 124-2 must also early adopt FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. The Corporation adopted this pronouncement effective for the quarter ended June 30, 2009. The adoption of this pronouncement did not affect the Corporation’s consolidated financial statements.

In April 2009, the FASB issued FSP 157-4. FASB SFAS 157, Fair Value Measurement (SFAS 157), defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP 157-4 provides additional guidance on determining when the volume and level of activity for the asset or liability has significantly decreased. The FSP also includes guidance on identifying circumstances when a transaction may not be considered orderly.

FSP 157-4 provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with SFAS 157.

This FSP clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The FSP provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP 157-4 must also early adopt FSP 115-2 and FAS 124-2. The Corporation adopted this standard effective for the quarter ended June 30, 2009. The adoption of this pronouncement did not affect the Corporation’s consolidated financial statements.

11. Effect of Recently Issued Accounting Standards (continued).

In May 2009, the FASB issued FASB Statement No. 165, Subsequent Events, (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, SFAS 165 defines the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or apply the requirements to interim or annual financial periods ending after June 15, 2009. The Corporation adopted SFAS 165 with regard to our interim financial period ending June 30, 2009. This statement did not affect the Corporation's consolidated financial statements.

In June 2009, the FASB issued FASB Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162, (SFAS 168). SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, to establish the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. The Corporation does not expect the adoption of this standard to have an impact on its consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section discusses the consolidated financial condition and results of operations of Emclaire Financial Corp. and its wholly owned subsidiaries, the Bank and the Title Company, for the six months ended June 30, 2009 compared to the same period in 2008 and should be read in conjunction with the Corporation's December 31, 2008 Annual Report on Form 10-K filed with the SEC and with the accompanying consolidated financial statements and notes presented on pages 1 through 13 of this Form 10-Q.

The Private Securities Litigation Reform Act of 1995 contains safe harbor provisions regarding forward-looking statements. When used in this discussion, the words "believes," "anticipates," "contemplates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Those risks and uncertainties include changes in interest rates, the ability to control costs and expenses and general economic conditions. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

CHANGES IN FINANCIAL CONDITION

Total assets increased $15.0 million or 4.0% to $390.6 million at June 30, 2009 from $375.7 million at December 31, 2008. This increase resulted from increases in cash and cash equivalents, securities and loans receivable, net of allowance for loan losses, of $3.7 million, $5.8 million and $3.5 million, respectively. The net increase in the Corporation’s assets was primarily funded by increases in customer deposits and borrowed funds.

Total liabilities increased $15.4 million or 4.5% to $354.9 million at June 30, 2009 from $339.5 million at December 31, 2008, while total stockholders’ equity decreased to $35.7 million at June 30, 2009 from $36.1 million at December 31, 2008. The increase in total liabilities resulted primarily from increases in customer deposits and borrowed funds of $5.3 million and $11.4 million, respectively.

RESULTS OF OPERATIONS

Comparison of Results for the Three Month Periods Ended June 30, 2009 and 2008

General. Net income decreased $133,000 or 24.6% to $408,000 for the three months ended June 30, 2009 from $541,000 for the same period in 2008. This decrease was the result of increases in the provision for loan losses and noninterest expense of $455,000 and $603,000, respectively, partially offset by increases in net interest income and noninterest income of $415,000 and $423,000, respectively, and a decrease in the provision for income taxes of $87,000.

Net interest income. Net interest income on a tax equivalent basis increased $448,000 or 16.8% to $3.1 million for the three months ended June 30, 2009 from $2.7 million for the same period in 2008. This net increase can be attributed to an increase in tax equivalent interest income of $259,000 and a decrease in interest expense of $189,000.

Interest income. Interest income on a tax equivalent basis increased $259,000 or 5.6% to $4.9 million for the three months ended June 30, 2009, compared to $4.7 million for the same period in the prior year. This increase can be attributed to increases in interest on loans, securities and interest-earning deposits with banks of $217,000, $13,000 and $51,000, respectively, partially offset by a decrease in dividends on federal bank stocks of $22,000.

Tax equivalent interest earned on loans receivable increased $217,000 or 5.5% to $4.2 million for the three months ended June 30, 2009, compared to $4.0 million for the same period in 2008. This increase resulted primarily from average loans increasing $33.1 million or 13.7%, accounting for $518,000 in additional loan interest income. This increase can be attributed to growth in the Corporation’s commercial loan portfolios and loans acquired through the merger of Elk County Savings and Loan Association (ECSLA) in the fourth quarter of 2008. Offsetting this volume increase, the yield on loans receivable decreased 50 basis points to 6.11% for the three months ended June 30, 2009, versus 6.61% for the same period in 2008, due to a decline in market interest rates, accounting for a $301,000 decrease in interest income.

Tax equivalent interest earned on securities increased $13,000 or 2.0% to $658,000 for the three months ended June 30, 2009, compared to $645,000 for the same period in 2008. The average volume of securities increased $1.9 million, primarily through municipal bond purchases, accounting for a $22,000 increase in interest income. Offsetting this volume increase, the average yield on securities decreased 8 basis points to 4.70% for the three months ended June 30, 2009, versus 4.78% for the same period in 2008, due to declining market interest rates. This unfavorable yield variance accounted for a $9,000 decrease in interest income.

Interest earned on interest-earning deposit accounts increased $51,000 to $87,000 for the three months ended June 30, 2009 from $36,000 for the same period in 2008. The average volume of these assets increased $16.9 million, due in part to investments made in certificates of deposit with other financial institutions, increasing interest income by

$62,000. Offsetting this volume increase, the average yield on interest-earning deposit accounts decreased 49 basis points to 1.54% for the three months ended June 30, 2009, compared to 2.03% for the same period in the prior year, accounting for an $11,000 decrease in interest income. This yield decrease was a result of the continued low interest rate environment during 2008 and 2009.

Dividends on federal bank stocks decreased $22,000 or 88.0% to $3,000 for the three month period ended June 30, 2009 from $25,000 for the same period in 2008. The average yield on these assets decreased 337 basis points to 0.29% for the three months ended June 30, 2009, compared to 3.66% for the same period the prior year, due to the Federal Home Loan Bank of Pittsburgh (FHLB) suspending the payment of dividends as announced in late December 2008.

Interest expense. Interest expense decreased $189,000 or 9.5% to $1.8 million for the three months ended June 30, 2009 from $2.0 million for the same period in 2008. This decrease in interest expense can be attributed to a decrease in interest incurred on deposits and borrowed funds of $133,000 and $56,000, respectively.

Interest expense incurred on deposits decreased $133,000 or 8.6% to $1.4 million for the three months ended June 30, 2009 compared $1.6 million for the same period in 2008. The cost of interest-bearing deposits decreased 71 basis points to 2.35% for the three months ended June 30, 2009, compared to 3.06% for the same period in 2008 causing a $392,000 decrease in interest expense. This decrease was a result of the continuous downward trend in deposit market rates during 2008 and 2009. Partially offsetting this favorable rate variance, the average volume of interest-bearing deposits increased $37.9 million or 18.6% to $242.3 million for the three months ended June 30, 2009, compared to $204.4 million for the same period in 2008 causing a $259,000 increase in interest expense. Contributing to the increase in deposits was the acquisition of ECSLA in the fourth quarter of 2008 and the addition of a branch office in Grove City, Pennsylvania in the second quarter of 2008.

Interest expense incurred on borrowed funds decreased $56,000 or 12.6% to $389,000 for the three months ended June 30, 2009, compared to $445,000 for the same period in the prior year. This decrease in interest expense can be attributed to a decrease in the average balance of borrowed funds of $3.7 million or 8.4% to $40.6 million for the three months ended June 30, 2009, compared to $44.3 million for the same period in the prior year, causing a $37,000 decrease in interest expense. This volume decrease was related to the reduced need for short-term funding in light of current deposit levels. Also contributing to the decrease in interest expense, the cost of borrowed funds decreased 19 basis points to 3.85% for the three months ended June 30, 2009, compared to 4.04% for the same period in 2008 causing a $19,000 decrease in interest expense. This cost decrease was a result of the low rate environment during the second half of 2008 and 2009.

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for the periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resulting average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resulting average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average loan balances include non-accrual loans and exclude the allowance for loan losses and interest income includes accretion of net deferred loan fees. Interest and yields on tax-exempt loans and securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis. The information is based on average daily balances during the periods presented.

	Three months ended June 30,					
	2009			2008		
(Dollar amounts in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Interest-earning assets:						
Loans, taxable	$ 257,198	$ 4,009	6.25%	$ 234,664	$ 3,865	6.62%
Loans, tax exempt	16,624	165	3.98%	6,072	92	6.12%
Total loans receivable	273,822	4,174	6.11%	240,736	3,957	6.61%
Securities, taxable	39,329	383	3.91%	39,934	412	4.15%
Securities, tax exempt	16,833	275	6.56%	14,332	233	6.54%
Total securities	56,162	658	4.70%	54,266	645	4.78%
Interest-earning deposits with banks	22,689	87	1.54%	7,148	36	2.03%
Federal bank stocks	4,125	3	0.29%	2,751	25	3.66%
Total interest-earning cash equivalents	26,814	90	1.35%	9,899	61	2.48%
Total interest-earning assets	356,798	4,922	5.53%	304,901	4,663	6.15%
Cash and due from banks	2,173			5,569		
Other noninterest-earning assets	16,556					