

EMCLAIRE FINANCIAL CORP
Form 10-Q
November 12, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2013**

or

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

For the transition period from _____ to _____

Commission File Number: **001-34527**

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 No

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

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

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

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

The number of shares outstanding of the Registrant's common stock was 1,763,158 at November 12, 2013.

EMCLAIRE FINANCIAL CORP

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PART I - FINANCIAL INFORMATION**Item 1. Interim Financial Statements****Emclave Financial Corp**

Consolidated Balance Sheets
As of September 30, 2013 (Unaudited) and December 31, 2012
(Dollar amounts in thousands, except per share data)

	September 30, 2013	December 31, 2012
Assets		
Cash and due from banks	\$ 2,184	\$ 2,468
Interest earning deposits with banks	12,452	17,956
Cash and cash equivalents	14,636	20,424
Securities available for sale	125,325	120,206
Loans receivable, net of allowance for loan losses of \$4,787 and \$5,350	347,729	333,801
Federal bank stocks, at cost	3,707	2,885
Bank-owned life insurance	10,319	10,072
Accrued interest receivable	1,607	1,533
Premises and equipment, net	11,369	9,180
Goodwill	3,664	3,664
Core deposit intangible, net	1,022	1,235
Prepaid expenses and other assets	6,822	6,014
Total Assets	\$ 526,200	\$ 509,014
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 100,389	\$ 98,559
Interest bearing	329,053	333,900
Total deposits	429,442	432,459
Short-term borrowed funds	26,650	-
Long-term borrowed funds	20,000	20,000
Accrued interest payable	305	442
Accrued expenses and other liabilities	5,140	4,388
Total Liabilities	481,537	457,289
Commitments and Contingent Liabilities	-	-
Stockholders' Equity:		
Preferred stock, \$1.00 par value, 3,000,000 shares authorized;		

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Series B, non-cumulative preferred stock, \$5,000 and \$10,000 liquidation value, 5,000 and 10,000 shares issued and outstanding, respectively	5,000	10,000
Common stock, \$1.25 par value, 12,000,000 shares authorized; 1,865,175 and 1,861,425 shares issued; 1,763,158 and 1,759,408 shares outstanding	2,331	2,327
Additional paid-in capital	19,418	19,270
Treasury stock, at cost; 102,017 shares	(2,114)	(2,114)
Retained earnings	23,129	21,672
Accumulated other comprehensive income (loss)	(3,101)	570
Total Stockholders' Equity	44,663	51,725
Total Liabilities and Stockholders' Equity	\$ 526,200	\$ 509,014

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Consolidated Statements of Net Income (Unaudited)
For the three and nine months ended September 30, 2013 and 2012
(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Interest and dividend income:				
Loans receivable, including fees	\$ 4,114	\$ 4,389	\$ 12,411	\$ 12,989
Securities:				
Taxable	440	617	1,328	1,763
Exempt from federal income tax	314	287	875	873
Federal bank stocks	18	15	52	46
Interest earning deposits with banks	12	17	44	68
Total interest and dividend income	4,898	5,325	14,710	15,739
Interest expense:				
Deposits	662	1,008	2,305	3,105
Borrowed funds	198	238	590	707
Total interest expense	860	1,246	2,895	3,812
Net interest income	4,038	4,079	11,815	11,927
Provision for loan losses	143	1,359	438	1,587
Net interest income after provision for loan losses	3,895	2,720	11,377	10,340
Noninterest income:				
Fees and service charges	428	428	1,254	1,159
Commissions on financial services	48	158	187	383
Title premiums	6	13	55	46
Net gain on sales of available for sale securities	107	390	291	1,352
Net gain on sales of loans	9	-	9	-
Earnings on bank-owned life insurance	97	81	290	205
Other	307	303	877	868
Total noninterest income	1,002	1,373	2,963	4,013
Noninterest expense:				
Compensation and employee benefits	1,847	1,678	5,684	5,488
Premises and equipment	516	509	1,586	1,527
Intangible asset amortization	67	86	213	272
Professional fees	158	135	513	510
Federal deposit insurance	99	92	307	282
Other	856	857	2,447	2,476
Total noninterest expense	3,543	3,357	10,750	10,555

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Income before provision for income taxes	1,354	736	3,590	3,798
Provision for income taxes	272	67	711	835
Net income	1,082	669	2,879	2,963
Preferred stock dividends	115	118	365	368
Net income available to common stockholders	\$ 967	\$ 551	\$ 2,514	\$ 2,595
Basic earnings per common share	\$ 0.55	\$ 0.31	\$ 1.43	\$ 1.48
Diluted earnings per common share	0.54	0.31	1.42	1.48
Average common shares outstanding	1,762,810	1,751,908	1,761,972	1,751,908

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp
 Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
 For the three and nine months ended September 30, 2013 and 2012
 (Dollar amounts in thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Net income	\$ 1,082	\$ 669	\$ 2,879	\$ 2,963
Other comprehensive income (loss)				
Unrealized gains (losses) on securities:				
Unrealized holding gain (loss) arising during the period	(800)	444	(5,271)	887
Reclassification adjustment for gains included in net income	(107)	(390)	(291)	(1,352)
Tax effect	(907)	54	(5,562)	(465)
	308	(18)	1,891	158
Net of tax	(599)	36	(3,671)	(307)
Comprehensive income (loss)	\$ 483	\$ 705	\$ (792)	\$ 2,656

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the nine months ended September 30, 2013 and 2012
(Dollar amounts in thousands)

	For the nine months ended September 30,	
	2013	2012
Cash flows from operating activities		
Net income	\$ 2,879	\$ 2,963
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	503	505
Provision for loan losses	438	1,587
Amortization of premiums, net	152	92
Amortization of intangible assets and mortgage servicing rights	213	277
Realized gains on sales of available for sale securities, net	(291)	(1,352)
Net gains on sales of loans	(9)	-
Net losses on foreclosed real estate	5	21
Originations of loans sold	(202)	-
Proceeds from the sale of loans	211	-
Restricted stock and stock option compensation	133	92
Increase in bank-owned life insurance, net	(247)	(180)
Increase in accrued interest receivable	(74)	(106)
(Increase) decrease in prepaid expenses and other assets	1,159	(643)
Decrease in accrued interest payable	(137)	(25)
Increase (decrease) in accrued expenses and other liabilities	644	(13)
Net cash provided by operating activities	5,377	3,218
Cash flows from investing activities		
Loan originations and principal collections, net	(14,733)	(20,975)
Available for sale securities:		
Sales	21,015	11,639
Maturities, repayments and calls	28,767	78,146
Purchases	(60,116)	(109,243)
(Purchase) redemption of federal bank stocks	(822)	493
Proceeds from the sale of foreclosed real estate	167	271
Write-down of foreclosed real estate	19	-
Purchases of premises and equipment	(2,692)	(431)
Purchase of bank-owned life insurance	-	(4,000)
Net cash used in investing activities	(28,395)	(44,100)
Cash flows from financing activities		
Net increase (decrease) in deposits	(3,017)	37,029
Net change in short-term borrowings	26,650	-
Proceeds from exercise of stock options, including tax benefit	20	-
Dividends paid	(1,423)	(1,313)
Redemption of preferred stock (Series B)	(5,000)	-
Net cash provided by financing activities	17,230	35,716

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Decrease in cash and cash equivalents	(5,788)	(5,166)
Cash and cash equivalents at beginning of period	20,424	28,193
Cash and cash equivalents at end of period	\$ 14,636	\$ 23,027
Supplemental information:		
Interest paid	\$ 3,032	\$ 3,837
Income taxes paid	140	1,465
Supplemental noncash disclosure:		
Transfers from loans to foreclosed real estate	159	288

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the three and nine months ended September 30, 2013 and 2012
(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$ 49,613	\$ 51,862	\$ 51,725	\$ 50,730
Net income	1,082	669	2,879	2,963
Other comprehensive income (loss)	(599)	36	(3,671)	(307)
Stock compensation expense	34	31	133	92
Dividends declared on preferred stock	(115)	(118)	(365)	(368)
Dividends declared on common stock	(352)	(315)	(1,058)	(945)
Exercise of stock options, including tax benefit	-	-	20	-
Redemption of preferred stock (5,000 shares, Series B)	(5,000)	-	(5,000)	-
Balance at end of period	\$ 44,663	\$ 52,165	\$ 44,663	\$ 52,165
Common cash dividend per share	\$ 0.20	\$ 0.18	\$ 0.60	\$ 0.54

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Basis of Presentation

Emclaire Financial Corp (the Corporation) is a Pennsylvania corporation and the holding company of The 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 term certificate accounts and its primary lending products are residential and commercial mortgages, commercial business loans 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, 2012, as contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC.

The balance sheet at December 31, 2012 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, real estate owned, the valuation of deferred tax assets and other-than-temporary impairment charges on securities. The results of operations for interim quarterly or year-to-date periods are not necessarily indicative of the results that may be expected for the entire year or any other period. Certain amounts previously reported may have been reclassified to conform to the current year's financial statement presentation.

2. Participation in the Small Business Lending Fund (SBLF) of the U.S. Treasury Department (U.S. Treasury)

On August 18, 2011, the Corporation entered into a Securities Purchase Agreement (the Agreement) with the U.S. Treasury Department, pursuant to which the Corporation issued and sold to the U.S. Treasury 10,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series B (Series B Preferred Stock), having a liquidation preference of \$1,000 per share, for aggregate proceeds of \$10.0 million, pursuant to the U.S. Treasury's SBLF program. On September 17, 2013, with the approval of the Corporation's primary federal banking regulator, the Corporation redeemed 5,000 shares, or 50%, of its Series B Preferred Stock held by the U.S. Treasury at an aggregate redemption price of \$5.0 million, plus accrued but unpaid dividends. Following this redemption, the Treasury holds 5,000 shares of the Series B preferred Stock, representing a remaining liquidation value of \$5.0 million.

The Series B Preferred Stock is entitled to receive non-cumulative dividends payable quarterly on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, which is calculated on the aggregate liquidation amount, was initially set at 5% per annum based upon the current level of Qualified Small Business Lending (QSBL) by the Bank. The dividend rate in subsequent periods is based upon the percentage change in qualified lending between each dividend period and the baseline QSBL level established at the time the Agreement was entered into. Such dividend rate varies from 1% to 5% per annum for the first two and one-half years through the quarter ending December 31, 2013. For the two year period beginning with the quarter ending March 31, 2014, the dividend rate will be fixed at a rate of 1% to 7% per annum. If the Series B Preferred Stock remains outstanding for more than four-and-one-half years, beginning with the quarter ending March 31, 2016, the dividend rate will be fixed at 9%. The dividend rate was 5.0% and 4.72%, respectively, for the quarters ended September 30, 2013 and 2012. For the two-year period beginning with the quarter ended March 31, 2014, the dividend rate will be fixed at 2.0%. Such dividends are not cumulative, but the Corporation may only declare and pay dividends on its common stock (or any other equity securities junior to the Series B Preferred Stock) if it has declared and paid dividends for the current dividend period on the Series B Preferred Stock, and will be subject to other restrictions on its ability to repurchase or redeem other securities.

As more completely described in the Certificate of Designation, holders of the Series B Preferred Stock have the right to vote as a separate class on certain matters relating to the rights of holders of Series B Preferred Stock and on certain corporate transactions. Except with respect to such matters, the Series B Preferred Stock does not have voting rights.

The Corporation may redeem the shares of Series B Preferred Stock, in whole or in part, at any time at a redemption price equal to the sum of the liquidation amount and the per-share amount of any unpaid dividends for the then-current period, subject to any required prior approval by the Corporation's primary federal banking regulator. If paid in part, payments are required to be at least 25% of the original proceeds.

3. Earnings per Common Share

Basic earnings per common share (EPS) excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS includes the dilutive effect of additional potential common shares for assumed issuance of restricted stock and shares issued under stock options.

3. Earnings per Common Share (continued)

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

(Dollar amounts in thousands, except for per share amounts)	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Earnings per common share - basic				
Net income	\$ 1,082	\$ 669	\$ 2,879	\$ 2,963
Less: Preferred stock dividends	115	118	365	368
Net income available to common stockholders	\$ 967	\$ 551	\$ 2,514	\$ 2,595
Average common shares outstanding	1,762,810	1,751,908	1,761,972	1,751,908
Basic earnings per common share	\$ 0.55	\$ 0.31	\$ 1.43	\$ 1.48
Earnings per common share - diluted				
Net income available to common stockholders	\$ 967	\$ 551	\$ 2,514	\$ 2,595
Average common shares outstanding	1,762,810	1,751,908	1,761,972	1,751,908
Add: Dilutive effects of assumed exercises of restricted stock and stock options	13,616	-	12,777	-
Average shares and dilutive potential common shares	1,776,426	1,751,908	1,774,749	1,751,908
Diluted earnings per common share	\$ 0.54	\$ 0.31	\$ 1.42	\$ 1.48
Stock options and restricted stock awards not considered in computing diluted earnings per share because they were antidilutive	67,000	84,000	67,000	84,000

4. Securities

The following table summarizes the Corporation's securities as of September 30, 2013 and December 31, 2012:

(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
September 30, 2013:				
U.S. Treasury and federal agency	\$ 4,465	\$ -	\$ (217)	\$ 4,248
U.S. government sponsored entities and agencies	23,636	-	(592)	23,044
Mortgage-backed securities: residential	12,373	486	-	12,859
Collateralized mortgage obligations: residential	44,403	-	(1,851)	42,552
State and political subdivisions	39,820	962	(847)	39,935
Corporate debt securities	250	-	(10)	240
Equity securities	2,356	103	(12)	2,447
	\$ 127,303	\$ 1,551	\$ (3,529)	\$ 125,325
December 31, 2012:				
U.S. Treasury and federal agency	\$ 3,959	\$ 8	\$ -	\$ 3,967
U.S. government sponsored entities and agencies	28,030	132	-	28,162
Mortgage-backed securities: residential	21,137	1,587	-	22,724
Collateralized mortgage obligations: residential	22,508	47	(80)	22,475

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State and political subdivisions	34,904	1,862	(1)	36,765
Corporate debt securities	3,728	34	(1)	3,761
Equity securities	2,356	4	(8)	2,352
	\$ 116,622	\$ 3,674	\$ (90)	\$ 120,206

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4. Securities (continued)

The following table summarizes scheduled maturities of the Corporation's debt securities as of September 30, 2013. 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. Mortgage-backed securities and collateralized mortgage obligations are not due at a single maturity and are shown separately.

(Dollar amounts in thousands)	Available for sale Amortized Cost	Fair Value
Due in one year or less	\$ 1,001	\$ 1,014
Due after one year through five years	19,688	19,609
Due after five through ten years	42,394	42,056
Due after ten years	5,088	4,788
Mortgage-backed securities: residential	12,373	12,859
Collateralized mortgage obligations: residential	44,403	42,552
	\$ 124,947	\$ 122,878

Information pertaining to securities with gross unrealized losses at September 30, 2013 and December 31, 2012, aggregated by investment category and length of time that individual securities have been in a continuous loss position are included in the table below:

(Dollar amounts in thousands)	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2013:						
U.S. Treasury and federal agency	\$ 4,248	\$ (217)	\$ -	\$ -	\$ 4,248	\$ (217)
U.S. government sponsored entities and agencies	23,044	(592)	-	-	23,044	(592)
Collateralized mortgage obligations: residential	42,552	(1,851)	-	-	42,552	(1,851)
State and political subdivisions	15,286	(847)	-	-	15,286	(847)
Corporate debt securities	241	(10)	-	-	241	(10)
Equity securities	954	(12)				