EMCLAIRE FINANCIAL CORP
Form 10-Q
May 10, 2007

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 March 31, 2007

or

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

For the transition period from ______________ to ______________

Commission File Number: 000-18464

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

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

(724) 867-2311
(Registrant's telephone number)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer |_| Accelerated filer |_| Non-accelerated filer |X|

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

The number of shares outstanding of the Registrant's common stock was 1,267,835 at May 10, 2007.

EMCLAIRE FINANCIAL CORP.

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PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

PART I - FINANCIAL INFORMATION

Item 1. Interim Financial Statements

Emclaire Financial Corp. and Subsidiary
Consolidated Balance Sheets
As of March 31, 2007 (Unaudited) and December 31, 2006
(Dollar amounts in thousands, except per share data)

	March 2007
Assets	
Cash and due from banks	$ 5
Interest-earning deposits with banks	5
Cash and cash equivalents	11
Securities available for sale, at fair value	57
Loans receivable, net of allowance for loan losses of $2,078 and $2,035	212
Federal bank stocks, at cost	2
Bank-owned life insurance	4
Accrued interest receivable	1
Premises and equipment, net	7
Goodwill	1
Deferred tax asset	
Prepaid expenses and other assets	
Total Assets	$ 300
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits:	
Noninterest-bearing	$ 43
Interest-bearing	199
Total deposits	243
Long-term borrowed funds	30
Accrued interest payable	
Accrued expenses and other liabilities	1
Total Liabilities	275

Stockholders' Equity:	
Preferred stock, $1.00 par value, 3,000,000 shares authorized; none issued	
Common stock, $1.25 par value, 12,000,000 shares authorized; 1,395,852 shares issued; 1,267,835 shares outstanding	1
Additional paid-in capital	10
Treasury stock, at cost; 128,017 shares	(2
Retained earnings	14
Accumulated other comprehensive loss	
Total Stockholders' Equity	24
Total Liabilities and Stockholders' Equity	$ 300

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Income
For the three months ended March 31, 2007 and 2006 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For
Interest and dividend income:	
Loans receivable, including fees	$
Securities:	
Taxable	
Exempt from federal income tax	
Federal bank stocks	
Deposits with banks	
Total interest and dividend income	
Interest expense:	
Deposits	
Borrowed funds	
Total interest expense	
Net interest income	
Provision for loan losses	

Net interest income after provision for loan losses	
Noninterest income:	
Fees and service charges	
Commissions on financial services	
Gains on securities	
Earnings on bank-owned life insurance (BOLI)	
Other	
Total noninterest income	
Noninterest expense:	
Compensation and employee benefits	
Premises and equipment	
Intangible amortization expense	
Other	
Total noninterest expense	
Income before provision for income taxes	
Provision for income taxes	
Net income	$
Basic earnings per share	$
Average common shares outstanding	1,

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Condensed Consolidated Statements of Cash Flows
For the three months ended March 31, 2007 and 2006 (Unaudited)
(Dollar amounts in thousands)

	For th
	200
Cash flows from operating activities	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization of premises and equipment	
Provision for loan losses	
Amortization of premiums and accretion of discounts, net	
Amortization of intangible assets and mortgage servicing rights	

Realized gain on sale of available for sale securities, net	
Earnings on bank owned life insurance, net	
(Increase) decrease in accrued interest receivable	
Increase in prepaid expenses and other assets	
Increase (decrease) in accrued interest payable	
Increase in accrued expenses and other liabilities	
Net cash provided by operating activities	
Cash flows from investing activities	
Loan originations and principal collections, net	
Proceeds from the sale of loans	
Available for sale securities:	
Sales	
Maturities, repayments and calls	
Purchases	(
Held to maturity securities:	
Maturities, repayments and calls	
Redemption of federal bank stocks	
Purchases of premises and equipment	
Net cash (used in) provided by investing activities	(
Cash flows from financing activities	
Net increase (decrease) in deposits	(
Net decrease in overnight borrowed funds	
Dividends paid on common stock	
Net cash used in financing activities	(
Net decrease in cash and cash equivalents	(
Cash and cash equivalents at beginning of period	1
Cash and cash equivalents at end of period	$ 1
Supplemental information:	
Interest paid	$
Income taxes paid	

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the three months ended March 31, 2007 and 2006 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For t
	20

Balance at beginning of period	$ 23
Net income	
Other comprehensive income (loss):	
Change in net unrealized gains (losses) on available for sale securities, net of taxes	
Less reclassification adjustment for gains included in net income, net of taxes	
Other comprehensive loss	
Total comprehensive income	
Dividends declared	
Balance at end of period	$ 24
Common cash dividend per share	$

See accompanying notes to consolidated financial statements.

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

1. Nature of Operations and Basis of Presentation.

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

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

The accompanying unaudited consolidated financial statements for the interim periods include all adjustments, consisting of normal recurring accruals, which are necessary, in the opinion of management, to fairly reflect the Corporation's consolidated financial position and results of operations. Additionally, these consolidated financial statements for the interim periods have been prepared in accordance with instructions for the Securities and Exchange Commission's Form 10-Q and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2006, as contained in the Corporation's 2006 Annual Report to Stockholders.

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

2. Basic Earnings per Common Share.

The Corporation maintains a simple capital structure with no common stock equivalents. Basic earnings per common share is calculated using net income divided by the weighted average number of common shares outstanding during the period.

3. Securities.

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

(Dollar amounts in thousands)	Amortized cost	Unreali gains
Available for sale:		
March 31, 2007:		
U.S. Government agencies and related entities	$31,355	$
Mortgage-backed securities	2,304	
Municipal securities	14,689	5
Corporate securities	5,222	
Equity securities	3,606	
	$57,176	$ 6
December 31, 2006:		
U.S. Government agencies and related entities	$31,354	$
Mortgage-backed securities	2,434	
Municipal securities	14,688	5
Corporate securities	-	
Equity securities	3,382	1
	$51,858	$ 7

4. Loans Receivable.

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

(Dollar amounts in thousands)	Mar
Mortgage loans on real estate:	
Residential first mortgages	$
Home equity loans and lines of credit	
Commercial real estate	
Other loans:	
Commercial business	
Consumer	
Total loans, gross	
Less allowance for loan losses	
Total loans, net	$

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5. Deposits.

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

(Dollar amounts in thousands)	March 31, 2007	
Type of accounts	Amount	%
Noninterest-bearing deposits	$ 43,966	18.1
Interest-bearing demand deposits	72,905	29.9
Time deposits	126,600	52.0

	$ 243,471	100.0

6. Guarantees.

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Of these letters of credit at March 31, 2007, $75,000 will expire within the next twelve months, $233,000 will automatically renew within the next twelve months and $415,000 will automatically renew within thirteen to fifty-five 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 March 31, 2007 for guarantees under standby letters of credit issued is not material.

7. Employee Benefit Plans.

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. Matching contributions for the three months ended March 31, 2007 and 2006 amounted to $33,000 and $21,000, respectively.

The Corporation provides pension benefits for eligible employees through a defined benefit pension plan. Substantially all 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.

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7. Employee Benefit Plans (continued).

The components of the periodic pension cost are as follows:

(Dollar amounts in thousands)	For th
	200
Service cost	$

Interest cost	
Expected return on plan assets	
Transition asset	
Prior service costs	
Recognized net actuarial (gain) loss	
Net periodic pension cost	$

The expected rate of return on plan assets was 8.50% for the periods ended March 31, 2007 and 2006. The Corporation previously disclosed in its financial statements for the year ended December 31, 2006 that it expected to contribute $250,000 to its pension plan in 2007. As of March 31, 2007, there have been no contributions. The Corporation presently anticipates contributing $250,000 to fund its pension plan in 2007.

8. Effect of Recently Issued Accounting Standards.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 109, Accounting for Income Taxes. Specifically, the pronouncement prescribes a recognition threshold and a measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Corporation adopted FASB Interpretation No. 48 as of January 1, 2007. The adoption had no effect on the Corporation's financial statements. The Corporation is subject to U.S. federal income tax as well as income tax of the state of Pennsylvania. The Corporation is no longer subject to examination by taxing authorities for years before 2002. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months. The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense. The Corporation did not have any amounts accrued for interest and penalties at January 1, 2007.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Corporation is currently evaluating the potential impact, if any, of the adoption of SFAS 157 on its consolidated financial statements.

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

In September 2006, FASB's EITF issued EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements (EITF 06-4). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policy holder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS 106 or Accounting Principles Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The disclosures are required in fiscal years beginning after December 15, 2007, with early adoption permitted. The Corporation is currently evaluating the impact that the implementation of EITF 06-4 may have on its consolidated financial statements.

In September 2006, FASB's EITF issued EITF Issue No. 06-5 Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance (EITF 06-5), The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of key persons. The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The Corporation is currently evaluating the impact that the implementation of EITF 06-5 may have on its consolidated financial statements.

In October 2006, the FASB issued FSP No. 123(R)-5, Amendment of FASB Staff Position FAS 123(R)-1 (FSP 123(R)-5). FSP 123(R)-5 amends FSP 123(R)-1 for equity instruments that were originally issued as employee compensation and then modified, with such modification made solely to reflect an equity restructuring that occurs when the holders are no longer employees. FSP 123(R)-5 is effective for the Corporation January 1, 2007. The adoption of FSP 123(R)-5 did not have a significant effect on the Corporation's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for the Corporation January 1, 2008. The Corporation is evaluating the impact that the adoption of SFAS 159 will have 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. (the "Corporation") and its wholly owned subsidiary bank, the Farmers National Bank of Emlenton (the "Bank"), for the three months ended March 31, 2007 and should be read in conjunction with the Corporation's December 31, 2006 Annual Report of Form 10-K filed with the Securities and Exchange Commission and with the accompanying consolidated financial statements and notes presented on pages 1 through 9 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.

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CHANGES IN FINANCIAL CONDITION

Total assets decreased $505,000 to $300.1 million at March 31, 2007 from $300.6 million at December 31, 2006. This decrease resulted from a decrease in cash and cash equivalents of $5.6 million or 33.8% to $11.1 million at March 31, 2007 from $16.7 million at December 31, 2006, as these funds were utilized in funding security purchases. Partially offsetting this decrease was an increase in securities available for sale of $5.3 million or 10.2% to $57.0 million at March 31, 2007 from $51.8 million at December 31, 2006 due to security purchases of $5.6 million.

Total liabilities decreased $657,000 to $276.0 million at March 31, 2007 from $276.6 million at December 31, 2006, while total stockholders' equity increased $152,000 to $24.1 million at March 31, 2007 from $23.9 million at December 31, 2006. The decrease in total liabilities was primarily due to a decrease in customer deposits of $1.0 million partially offset by an increase in accrued expenses and other liabilities of $435,000.

RESULTS OF OPERATIONS

Comparison of Results for the Three Month Periods Ended March 31, 2007 and 2006

General. Net income decreased $34,000 or 5.8% to $551,000 for the three months ended March 31, 2007 from $585,000 for the same period in 2006. This decrease was a result of increases in noninterest expense and the provision for loan losses of $95,000 and $14,000, respectively, offset by increases in net interest income and noninterest income of $47,000 and $2,000, respectively, and a decrease in the provision for income tax of $26,000.

Net interest income. Net interest income on a tax equivalent basis increased $45,000 or 1.9% to $2.4 million for the three months ended March 31, 2007. This net increase can be attributed to an increase in tax equivalent interest income of $566,000, partially offset by a $521,000 increase in interest expense.

Interest income. Interest income on a tax equivalent basis increased $566,000 or 14.7% to $4.4 million for the three months ended March 31, 2007, compared to $3.9 million for the same period in the prior year. This increase can be attributed to increases in interest earned on loans, federal bank stocks, and interest-earning deposits with banks of $450,000, $32,000 and $103,000, respectively, offset by a decrease in interest earned on securities of $19,000.

Tax equivalent interest earned on loans receivable increased $450,000 or 14.1% to $3.6 million for the three months ended March 31, 2007, compared to $3.2 million for the same period in 2006. During that time, average loans increased $21.7 million or 11.2%, accounting for $364,000 in additional loan interest income. Additionally, the yield on loans increased 18 basis points to 6.85% for the three months ended March 31, 2007, versus 6.67% for the same period in 2006, contributing $86,000 in additional interest income.

Tax equivalent interest earned on securities decreased $19,000 or 3.0% to $615,000 for the three months ended March 31, 2007, compared to $634,000 for the same period in 2006. The average volume of securities decreased $3.7 million or 6.7%, primarily as a result of the utilization of these funds for loan growth. This resulted in a $44,000 decline in interest income. Partially offsetting the decline was an increase in the average yield on securities of 19 basis points to 4.80% for the three months ended March 31, 2007, versus 4.61% for the same period in 2006, as a result of certain lower yielding securities maturing. This favorable yield variance contributed an additional $25,000 to interest income.

Interest earned on interest-earning deposit accounts increased $103,000 to $121,000 for the three months ended March 31, 2007 from $18,000 for the same period in 2006. The average volume of these assets increased $7.6 million primarily as a result of the investment of funds from maturing securities contributing $97,000 in additional interest income. Additionally, the average yield on interest-earning deposit accounts increased 109 basis points to 5.23% for the three months ended March 31, 2007, compared to 4.14% for the same period in the prior year, contributing $6,000 in additional interest income. The increase in the average yield reflects the recent increases in short-term interest rates. Interest earned on federal bank stocks increased $32,000 to $50,000 for the three month period ended March 31, 2007 from $18,000 for the same period in the prior year as a result of a higher volume and a higher yield. The higher yield resulted from the recognition during the first quarter of a fourth quarter 2006 special dividend on FHLB capital stock.

Interest expense. Interest expense increased $521,000 or 35.2% to $2.0 million for the three months ended March 31, 2007, compared to $1.5 million for the same period in the prior year. This increase in interest expense can be attributed to increases in interest incurred on deposits and borrowed funds of $353,000 and $168,000, respectively.

Interest expense incurred on deposits increased $353,000 or 26.9% to $1.7 million for the three months ended March 31, 2007, compared to $1.3 million for the same period in the prior year. This increase was principally rate driven as the cost of interest-bearing deposits increased 60 basis points to 3.54% for the three months ended March 31, 2007, compared to 2.94% for the same period in 2006 contributing $269,000 in additional expense. The average volume of deposits increased $11.6 million or 6.1% to $199.7 million for the three months ended March 31, 2007, compared to $188.2 million for the same period in 2006 contributing $84,000 in additional expense.

Interest expense incurred on borrowed funds increased $168,000 or 100.0% to $336,000 for the three months ended March 31, 2007, compared to $168,000 for the same period in the prior year. This increase in interest expense can be attributed to the increase in the average balance of borrowed funds of $14.1 million to $30.0 million for the three months ended March 31, 2007, compared to $15.9 million for the same period in the prior year. This volume increase was the result of $15.0 million of FHLB term borrowings placed in the second and third quarters of 2006 contributing $157,000 in additional expense. Such borrowings were primarily used to fund loan growth.

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.

(Dollar amounts in thousands)	Three months ended			
	2007			
	Average Balance	Interest	Yield / Rate	Av Ba
Interest-earning assets:				
Loans, taxable	$208,776	$3,532	6.86%	$18
Loans, tax exempt	6,495	104	6.49%	
Total loans receivable	215,271	3,636	6.85%	19
Securities, taxable	36,758	364	4.02%	4
Securities, tax exempt	15,224	251	6.68%	1
Total securities	51,982	615	4.80%	5
Interest-earning deposits with banks	9,375	121	5.23%	
Federal bank stocks	2,209	50	9.18%	
Total interest-earning cash equivalents	11,584	171	5.99%	
Total interest-earning assets	278,837	4,422	6.43%	25
Cash and due from banks	6,163			
Other noninterest-earning assets	14,535			1
Total Assets	$299,535			$27
Interest-bearing liabilities:				
Interest-bearing demand deposits	$ 72,176	233	1.31%	$ 7

Time deposits	127,533	1,434	4.56%	11
Total interest-bearing deposits	199,709	1,667	3.39%	18
Borrowed funds, short-term	-	-	0.00%	
Borrowed funds, long-term	30,000	336	4.54%	1
Total borrowed funds	30,000	336	4.54%	1
Total interest-bearing liabilities	229,709	2,003	3.54%	20
Noninterest-bearing demand deposits	43,368	-	-	4
Funding and cost of funds	273,077	2,003	2.97%	24
Other noninterest-bearing liabilities	2,572			
Total Liabilities	275,649			24
Stockholders' Equity	23,886			2
Total Liabilities and Stockholders' Equity	$299,535			$27
Net interest income		$2,419		
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			2.89%	
Net interest margin (net interest income as a percentage of average interest-earning assets)			3.52%	

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Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Corporation's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior year volume), changes in volume (changes in volume multiplied by prior year rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

Three mont

(Dollar amounts in thousands)	2007 Increase Volume
Interest income:	
Loans	$ 364
Securities	(44)
Interest-earning deposits with banks	97
Federal bank stocks	8
Total interest-earning assets	425
Interest expense:	
Deposits	84
Borrowed funds	157
Total interest-bearing liabilities	241
Net interest income	$ 184

Provision for loan losses. The Corporation records provisions for loan losses to maintain a level of total allowance for loan losses that management believes, to the best of its knowledge, covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Management considers historical loss experience, the present and prospective financial condition of borrowers, current conditions (particularly as they relate to markets where the Corporation originates loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio.

Information pertaining to the allowance for loan losses and non-performing assets for the quarters ended March 31, 2007 and 2006 is as follows:

(Dollar amounts in thousands)	For the thr Ma 2007
Balance at the beginning of the period	$ 2,03
Provision for loan losses	4
Charge-offs	(1
Recoveries	1
Balance at the end of the period	$ 2,07
Non-performing loans	$ 1,98

Non-performing assets	1,98
Non-performing loans to total loans	0.9
Non-performing assets to total assets	0.6
Allowance for loan losses to total loans	0.9
Allowance for loan losses to non-performing loans	104.9

The provision for loan losses increased $14,000 or 45.2% to $45,000 for the three month period ended March 31, 2007 from $31,000 for the same period in the prior year. Management's evaluation of the loan portfolio, including the changing composition of the portfolio as well as economic trends, regulatory considerations and other factors contributed to the recognition of $45,000 in the provision for loan losses during the three months ended March 31, 2007.

Noninterest income. Noninterest income increased $2,000 to $730,000 during the three months ended March 31, 2007, compared to $728,000 during the same period in the prior year. This decrease can be attributed to decreases in customer fees and service charges and gains on the sale of securities of $31,000 and $58,000, respectively. Offsetting this decrease in noninterest income were increases in commissions earned on financial services, earnings on bank-owned life insurance and other noninterest income of $61,000, $3,000 and $27,000, respectively.

Noninterest expense. Noninterest expense increased $95,000 or 4.3% to $2.3 million during the three months ended March 31, 2007, compared to $2.2 million during the same period in the prior year. This increase in noninterest expense can be attributed to increases in premises and equipment and other noninterest expenses of $19,000 and $80,000, respectively.

Premises and equipment increased $19,000 or 5.0% to $400,000 for the three months ended March 31, 2007, compared to $381,000 for the same period in the prior year. This increase can be attributed primarily to the operation of one additional branch facility opened in November 2006.

Other noninterest expense increased $80,000 or 15.4% to $604,000 during the three months ended March 31, 2007, compared to $524,000 for the same period in the prior year. This increase can be attributed primarily to increases in professional fees relating to operations and compliance consulting needed as a result of the 2006 reorganization.

Provision for income taxes. The provision for income taxes decreased $26,000 or 16.4% to $133,000 for the three months ended March 31, 2007, compared to $159,000 for the same period in the prior year due primarily to the decrease in the effective tax rate to 19.4% in 2007 from 21.4% in 2006 in addition to lower pre-tax earnings. The difference between the statutory rate of 34% and the Corporation's effective tax rate is due to tax-exempt income earned on loans, securities and bank-owned life insurance.

LIQUIDITY

The Corporation's primary sources of funds generally have been deposits obtained through the offices of the Bank, borrowings from the FHLB and amortization and prepayments of outstanding loans and maturing securities. During the three months ended March 31, 2007, the Corporation used its sources of funds primarily to fund loan originations and security purchases. As of such date, the Corporation had outstanding loan commitments, including undisbursed loans and amounts available under credit lines, totaling $23.9 million, and standby letters of credit totaling $723,000.

At March 31, 2007, time deposits amounted to $126.6 million or 52.0% of the Corporation's total consolidated deposits, including approximately $60.7 million of which are scheduled to mature within the next year. Management of the Corporation believes that it has adequate resources to fund all of its commitments, that all of its commitments will be funded as required by related maturity dates and that, based upon past experience and current pricing policies, it can adjust the rates of time deposits to retain a substantial portion of maturing liabilities.

Aside from liquidity available from customer deposits or through sales and maturities of securities, the Corporation has alternative sources of funds such as a term borrowing capacity from the FHLB and, to a limited and rare extent, the sale of loans. At March 31, 2007, the Corporation's borrowing capacity with the FHLB, net of funds borrowed, was $107.0 million.

Management is not aware of any conditions, including any regulatory recommendations or requirements, which would adversely impact its liquidity or its ability to meet funding needs in the ordinary course of business.

CRITICAL ACCOUNTING POLICIES

Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses as a critical accounting policy.

The allowance for loan losses provides for an estimate of probable losses in the loan portfolio. In determining the appropriate level of the allowance for loan loss, the loan portfolio is separated into risk-rated and homogeneous pools. Migration analysis/historical loss rates, adjusted for relevant trends, have been applied to these pools. Qualitative adjustments are then applied to the portfolio to allow for quality of lending policies and procedures, national and local economic and business conditions, changes in the nature and volume of the portfolio, experience, ability and depth of lending management, changes in the trends, volumes and severity of past due, non-accrual and classified loans and loss and recovery trends, quality of the Corporation's loan review system, concentrations of credit, and external factors. The methodology used to determine the adequacy of the Corporation's allowance for loan losses is comprehensive and meets regulatory and accounting industry standards for assessing the allowance, however, it is still an estimate. Loan losses are charged against the allowance while recoveries of amounts previously charged-off are credited to the allowance. Loan loss provisions are charged against current earnings based on management's periodic evaluation and review of the factors indicated above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk for the Corporation consists primarily of interest rate risk exposure and liquidity risk. Since virtually all of the interest-earning assets and interest-bearing liabilities are at the Bank, virtually all of the interest rate risk and liquidity risk lies at the Bank level. The Bank is not subject to currency exchange risk or commodity price risk, and has no trading portfolio, and therefore, is not subject to any trading risk. In addition, the Bank does not participate in hedging transactions such as interest rate swaps and caps. Changes in interest rates will impact both income and expense recorded and also the market value of long-term interest-earning assets. Interest rate risk and liquidity risk management is performed at the Bank level. Although the Bank has a diversified loan portfolio, loans outstanding to individuals and businesses depend upon the local economic conditions in the immediate trade area.

One of the primary functions of the Corporation's asset/liability management committee is to monitor the level to which the balance sheet is subject to interest rate risk. The goal of the asset/liability committee is to manage the relationship between interest rate sensitive assets and liabilities, thereby minimizing the fluctuations in the net interest margin, which achieves consistent growth of net interest income during periods of changing interest rates.

Interest rate sensitivity is the result of differences in the amounts and repricing dates of the Bank's rate sensitive assets and rate sensitive liabilities. These differences, or interest rate repricing "gap", provide an indication of the extent that the Corporation's net interest income is affected by future changes in interest rates. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities and is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. Generally, during a period of rising interest rates, a negative gap would adversely affect net interest income while a positive gap would result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would result in an increase in net interest income and a positive gap would adversely affect net interest income. The closer to zero that gap is maintained, generally, the lesser the impact of market interest rate changes on net interest income.

Based on certain assumptions provided by a federal regulatory agency, which management believes most accurately represents the sensitivity of the Corporation's assets and liabilities to interest rate changes, at March 31, 2007, the Corporation's interest-earning assets maturing or repricing within one year totaled $83.0 million while the Corporation's interest-bearing liabilities maturing or repricing within one-year totaled $90.8 million, providing an excess of interest-bearing liabilities over interest-earning assets of $7.8 million or a negative 2.6% of total assets. At March 31, 2007, the percentage of the Corporation's assets to liabilities maturing or repricing within one year was 91.4%.

For more information, see "Market Risk Management" in Exhibit 13 to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

Item 4. Controls and Procedures

The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Corporation's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e).

There has been no change made in the Corporation's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

As of the quarter ended March 31, 2007, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on the foregoing, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective. There have been no significant changes in the Corporation's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Corporation completed its evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Corporation is involved in various legal proceedings occurring in the ordinary course of business. It is the opinion of management, after consultation with legal counsel, that these matters will not materially effect the Corporation's consolidated financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes in the Corporation's risk factors from those previously disclosed in the 2006 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

(a) Not applicable.

(b) Not applicable.

Item 6. Exhibits

Exhibit 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
Exhibit 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
Exhibit 32.1 CEO Certification Pursuant to 18 U.S.C. Section 1350
Exhibit 32.2 CFO Certification Pursuant to 18 U.S.C. Section 1350

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMCLAIRE FINANCIAL CORP. AND SUBSIDIARY

Date: May 10, 2007 By: /s/ David L. Cox

David L. Cox
Chairman of the Board,
President and Chief Executive Officer

Date: May 10, 2007 By: /s/ William C. Marsh

William C. Marsh
Executive Vice President,
Chief Financial Officer and Treasurer