EMCLAIRE FINANCIAL CORP
Form 10QSB
May 15, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

|X| QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

OR

|_| TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

For the transition period from ________________ to ________________

Commission file Number: 000-18464

EMCLAIRE FINANCIAL CORP.
(Exact Name of small business issuer as specified in its charter)

PENNSYLVANIA	25-1606091
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

612 Main Street Emlenton, PA	16373
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: (724) 867-2311

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 X ___

As of May 3, 2001, there were 1,332,835 shares outstanding of the issuer's common stock, par value $1.25 per share.

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Emclaire Financial Corp.
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EMCLAIRE FINANCIAL CORP.
CONSOLIDATED BALANCE SHEET
(Unaudited - dollars in thousands)

	March 3 2001
ASSETS	
Cash and due from banks	$
Federal funds sold	
Investment securities	
Available for sale	2
Held to maturity (estimated market value of $217 and $213)	
Loans	15
Less allowance for loan losses	
Net loans	14
Premises and equipment	

Accrued interest and other assets	
TOTAL ASSETS	$20
LIABILITIES	
Deposits	
Noninterest bearing demand	$ 2
Interest bearing demand	2
Savings	2
Money market	2
Time	8
Total deposits	17
Borrowed funds	
Accrued interest and other liabilities	
TOTAL LIABILITIES	17
STOCKHOLDERS' EQUITY	
Preferred stock, par value $1.00; 3,000,000 shares authorized; none issued	
Common stock, par value $1.25; 12,000,000 shares authorized; 1,395,852 shares issued	
Additional paid-in capital	1
Retained earnings	
Accumulated other comprehensive income	
Treasury stock at cost (63,017 shares)	
TOTAL STOCKHOLDERS' EQUITY	2
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$20

See accompanying notes to the consolidated financial statements.

EMCLAIRE FINANCIAL CORP.
CONSOLIDATED STATEMENT OF INCOME
(Unaudited - dollars in thousands, except per share amounts)

	Three 200
INTEREST INCOME	
Loans, including fees	$
Interest bearing deposits in other banks	
Federal funds sold	
Investment securities:	
Taxable	
Exempt from federal income tax	

Total interest income	
INTEREST EXPENSE	
Deposits	
Borrowed funds	
Total interest expense	
NET INTEREST INCOME	
Provision for loan losses	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	
OTHER OPERATING INCOME	
Service fees on deposit accounts	
Other	
Total other operating income	
OTHER OPERATING EXPENSE	
Salaries and employee benefits	
Occupancy, furniture and equipment	
Other	
Total other operating expense	
Income before income taxes	
Income taxes	
NET INCOME	$
EARNINGS PER SHARE	$
DIVIDENDS PER SHARE	$
AVERAGE SHARES OUTSTANDING	1,

See accompanying notes to the consolidated financial statements.

EMCLAIRE FINANCIAL CORP.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited - dollars in thousands, except per share data)

	Common	Additional Paid in	Retained	Accumula Other Comprehen

	Stock	Capital	Earnings	Incom
Balance, December 31, 2000	$ 1,745	$ 10,871	$ 8,320	
Comprehensive income:				
Net income			391	
Other comprehensive income, net unrealized gains on securities net of tax of $111				
Total comprehensive income				
Dividends declared ($.17 per share)			(226)	
Balance March 31, 2001	$ 1,745	$ 10,871	$ 8,485	

See accompanying notes to the consolidated financial statements.

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EMCLAIRE FINANCIAL CORP.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited - dollars in thousands)

	Three M 2001
OPERATING ACTIVITIES	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	
Net amortization of investment security discounts and premiums	
Provision for loan losses	
Decrease (increase) in accrued interest receivable	
Increase in accrued interest payable	
Other, net	
Net cash provided by operating activities	
INVESTING ACTIVITIES	
Proceeds from maturities and repayments of investment securities:	
Available for sale	
Held to maturity	
Purchases of investment securities:	
Available for sale	
Net loan repayments (originations)	
Purchases of premises and equipment	
Proceeds from sales of premises and equipment	
Proceeds from sale of foreclosed assets	

Net cash used for investing activities	----------
FINANCING ACTIVITIES	
Net increase in deposits	
Increase in short-term borrowings	
Acquisition of treasury stock	
Cash dividends paid, including fractional shares	----------
Net cash provided by provided by financing activities	----------
Increase (decrease) in cash and cash equivalents	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	----------
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ ==========

See accompanying notes to the consolidated financial statements.

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EMCLAIRE FINANCIAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

The accounting and financial reporting polices of Emclaire Financial Corp. and its wholly-owned subsidiary The Farmers National Bank of Emlenton ("Bank" or "Farmers"), conform to generally accepted accounting principles and to general practice within the banking industry. In the opinion of management, the accompanying unaudited consolidated financial statements of Emclaire Financial Corp. ("Company" or "Emclaire") contain all adjustments, consisting of only normal and recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

2. EARNINGS PER SHARE

The Company maintains a simple capital structure; therefore there are no dilutive effects on earnings per share. As such earnings per share computations are based on the weighted average number of shares outstanding of 1,332,835 and 1,365,079, and for the three month periods in 2001 and 2000, respectively.

3. RECLASSIFICATION

Common stocks of the Federal Home Loan Bank and the Federal Reserve Bank have been classified as other assets to conform to the current period presentation. In prior periods these items had been presented as investment securities available for sale.

4. COMPREHENSIVE INCOME

The components of comprehensive income consist exclusively of unrealized gains and losses on securities available for sale. For the three months ended March 31, 2001, this activity is shown under the heading Accumulated Other

Comprehensive Loss as presented in the Consolidated Statement of Changes in Stockholders' Equity. For the three months ended March 31, 2000 the accumulated other comprehensive loss had a beginning balance of $663,000, a net unrealized loss of $137,000 and an ending balance of $800,000. This net unrealized loss on securities resulted in total comprehensive net income of $254,000, for the three months ended March 31, 2000.

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5. LOANS

Major classifications of loans are summarized as follows (in thousands):

	March 31, 2001	December 31, 2000
Commercial, industrial and other	$ 21,062	$ 20,084
Real estate mortgages		
Residential	91,688	92,429
Commercial and other	24,008	24,661
Consumer	14,669	14,618
	151,427	151,792
Less allowance for loan losses	1,484	1,460
	$149,943	$150,332

The Bank's primary business activity is with customers located within Venango, Clarion, Butler, Elk, Clearfield and Jefferson Counties. Commercial, residential, personal, and agricultural loans are granted. Although the Bank has a diversified loan portfolio at March 31, 2001 and December 31, 2000, loans outstanding to individuals and businesses are dependent upon the local economic conditions within the immediate trade area.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Emclaire Financial Corp. ("Emclaire" or the "Company") is the parent holding company discussion and analysis is intended to provide information about the financial condition and results of operation of the Company and should be read in conjunction with the consolidated financial statements and the related notes thereto appearing elsewhere in this quarterly report.

Certain information presented in this report and other statements concerning future performance, developments or events, and expectations for growth and market forecasts constitute forward-looking statements which are subject to a number of risks and uncertainties, including interest rate fluctuations, changes in local or national economic conditions, and government and regulatory actions which might cause actual results to differ materially from stated expectations or estimates. The Company 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.

Comparison of the Three Months Ended March 31, 2001 and 2000

Net Income - Net income for the three months ended March 31, 2001 totaled $391,000 or $.29 per share, equaling the dollar and per share performance during the same period in 2000. The current period quarterly earnings equaled those reported in 2000, as the decline in net interest income and the increase in overhead costs was offset by the rise in other income.

The net income reported resulted in annualized returns on average assets and average equity of .80% and 7.80% for the quarter ended March 31, 2001, as compared to returns of .82% and 7.58% for the same period in 2000.

Net Interest Income - Tax-equivalent net interest income decreased $57,000 or 3% during the first quarter of 2001 as compared to the same period in 2000. The increase in the volume and rate paid on interest bearing liabilities, particularly certificates of deposit caused interest expense to increase $223,000 or 16% during the first quarter of 2001 as compared to the same period in 2000, as the average cost of funds increased 50 basis points to 4.36%. The increased interest cost exceeded the $166,000 or 5% increase in tax equivalent interest income. Tax equivalent interest income on loans increased $249,000 due largely to the $10.3 million increase in average loan volume, as the average balance on loans totaled $152.0 for the first quarter of 2001. Deposit growth and maturities of investment securities funded this growth in loan volume. The investment maturities caused tax equivalent investment interest income to fall $154,000 or 26%. Additional liquidity that was provided by the growth in deposits, caused the volume of federal funds to rise $5.6 million, as interest income on federal funds increased $74,000 to $82,000. The net tax-equivalent yield on earning assets for the quarter was 4.62%, a 23 basis point decline from the 4.85% yield earned during the same period in 2000.

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Average earning assets totaled $185.0 for the first three months of 2001 representing 93.8% of total average assets. For the same period in 2000, average earning assets totaled $179.3 million or 93.3% of total average assets.

Tax equivalent interest income rose $166,000 or 4.7% during the first three months of 2001, as compared to the same period in 2000, due to the increased loan volume and slightly higher interest rates. The tax-equivalent yield on the loan portfolio for the first quarter of 2001 rose 16 basis points to 8.48%, as compared to the first quarter of 2000. This increase was due to the trend of rising interest rates during 1999 and the first half of 2000. This trend ended in 2001 as the Federal Reserve Board has adopted a policy of aggressive interest rate reduction, lowering the federal funds rate 200 basis points since the beginning of 2001. It is reasonable to expect this trend to continue for at least the short-term. This shift in interest rates is expected to have an adverse impact on the yield on earning assets in relation to prior comparative periods during the remainder of 2001.

Interest expense increased $223,000 or 16.3% to $1.59 million during the first quarter of 2001, as compared to the same period in 2000. The increase in the rates related to the cost of funds accounted for $126,000 as the cost of these funds rose to 3.86%. The remainder of the increase resulted from the increase in the volume of average interest-bearing liabilities, which rose $5.6 million to $147.9 million due largely to the increase in time certificates of deposit as deposits were attracted during 2000 through the use of promotional certificates of deposits. The impact of these fixed rate certificates of deposit will remain, in varying degrees, for the next seven quarters. During the first quarter of 2001 a premium money market deposit account was introduced, offering a market based interest rate on balances over a specified amount. This product will allow for the downward adjustment of interest rates during periods of declining interest rates.

Provision for Loan Losses - Based upon management's ongoing assessment of the quality of the loan portfolio, the provision for loan losses for the first quarter of 2001 totaled $46,000, equal to that provided during the same period in 2000.

Other operating income - Other operating income increased $106,000 or 52% for the first quarter of 2001, due to an increase of approximately $69,000 in overdraft and service fees due to the restructuring of service charges in the second half of 2000. In addition, ATM convenience fees and fees generated from the MasterMoney(TM) debit card increased due to increased customer usage. Combined, these fees accounted for $17,000 of the total increase in other operating income. The cumulative effect of increases in other fees, commissions on accident health and life insurance and other income accounted for the remainder of the increase.

Other Operating Expense - Total other operating expense for the first quarter of 2001 increased $52,000 or 3.0% as compared to the same period in 2000. Increases in employee and occupancy costs offset a decrease in other operating expense.

Due to the impact of normal, recurring annual salary adjustments, and several staff additions, salaries and employee benefits increased $42,000 or 5% for the first three months of 2001 as compared to the same period in 2000. For the remainder of 2001 in comparison to 2000 the increase in salaries and benefits is expected to rise due to

converting the Company's health care coverage to a health maintenance organization during the second quarter of 2000.

Occupancy and equipment costs rose $39,000 or 16% for the comparative quarter ended March 31, 2001 due to increased costs associated with operating two branch facilities relocated or renovated late in 2000. Combined these offices added approximately $18,000 in additional depreciation, amortization and other occupancy related costs during the first three months of 2001. During the first quarter of 2001 utility costs, particularly the cost of natural gas increased $14,000 or 59% over the same period in 2000. While the rise in utility costs may mitigate somewhat due the end of the winter heating season, this general increase in costs will continue, and may accelerate if the effect of electric supply concerns experienced in western regions of the country make their way east as the summer cooling season gets underway.

Other operating expense totaled $552,000 for the first quarter of 2001, a decrease of $29,000 or 5%, as compared to the first three months of 2000. Intangible asset amortization declined $12,000 in the comparative quarters due to the revaluation of intangible assets during the fourth quarter of 2000, and the resulting reduction in monthly amortization. Combined with this reduction was a savings of $17,000 related to customer check losses incurred in 2000 that were not repeated in the current quarter.

Income Taxes - Applicable income taxes for the first quarter of 2001 totaled $167,000 and represented 29.9% of pre-tax earnings. This comparable to the $163,000 recorded during the same period in 2000.

Financial Condition

At March 31, 2001 consolidated assets totaled $200.0 million an increase of $5.9 million or 3% from December 31, 2000. Deposits increased $5.3 million or 3%

during the first quarter of 2001. This increase, which is similar to that experienced throughout the industry, provided funds, which increased liquidity as federal funds sold $6.5 million.

The increase in deposits was largely due to the addition of a tiered rate money market account product introduced in February 2001. This account is designed to provide depositors a return on their funds at a level approximating that available from money market accounts offered by brokerages, plus the benefit of applicable federal deposit insurance. During the first quarter of 2001 money market deposits increased $4.0 million or 20% while regular checking and certificates of deposit rose $982,000 or 4% and $1.8 million or 2.2% respectively. These increases more than offset declines in NOW and savings accounts which declined $1.1 million or 5% and $366,000 or 2% during the first quarter of the year. A portion of the declines is due to funds migrating from NOW and savings accounts to the new money market account product.

Total loans decreased $365,000 during the first quarter and totaled $151.4 million at March 31, 2001. The recent sharp decline in interest rates has accentuated the cyclical downturn in loan demand that started in the latter half of 2000. As a result, the origination of new loans has approximated the scheduled payments and prepayments of existing loans during the first three months of 2001. The impact of loan prepayments is most noticeable in the real estate mortgage loans as residential, and commercial and other mortgages decreased $741,000 or 1% and 653,000 or 3% during the quarter.

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This decline was partially offset by commercial loans increasing $978,000 or 5%. The cyclical downturn in loan demand is expected to continue until potential borrowers sense a stabilization in the general interest rate environment.

Retained net earnings of $165,000 combined with a net increase in the unrealized gain in investment securities resulted in a net increase in stockholders' equity of $381,000 or 2% during the first quarter of 2001.

Liquidity

Cash and cash equivalents increased $5.8 million during the first quarter of 2001 and totaled $14.3 million at March 31, 2001. During the same period in 2000 cash and cash equivalents declined $2.0 million to $6.6 million.

Operating activities consisting principally of net income, depreciation and amortization provided $700,000 during the first three months of 2001 as compared to $565,000 during the first quarter of 2000.

Investing activities were largely self-funding during the first three months of 2001, resulting in a net use of $14,000. This flat trend in financing actively was due largely to the downturn in net loan originations, previously discussed, resulting in net loan repayments for the quarter of $271,000. During the same period in 2000, investing activities used $4.9 million due largely to $6.8 million in net loan orginations.

The previously discussed increase in deposits resulted in $5.1 million provided by financing activities during the first quarter of 2001. During the same period in 2000, $2.3 million was provided principally by a $2.4 million increase in borrowed funds.

Due to the increase in liquidity during the first quarter, a $2.0 million Federal Home Loan Bank borrowing originally taken in 1997 was repaid in April 2001.

Aside from liquidity available from customer deposits or through sales and maturities of the investment portfolio, the Company has alternative sources of funds such as a line of credit available from the Federal Home Loan Bank. At March 31, 2001, this short-term revolving credit facility totaling $10 million was available.

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

Risk Elements

At March 31, 2001, non-performing loans, including those past due ninety days or more, and loans on non-accrual status totaled approximately $913,000.

Of the non-performing loan total, $500,000 is considered to be impaired for financial reporting purposes. These impaired loans consist of four commercial loans to a single borrower, secured by real estate. The borrower continues operating under Chapter 11 bankruptcy protection. As part of management's ongoing assessment of the loan portfolio, $40,000 of the allowance for loan losses at March 31, 2001, has been

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allocated for these loans. During the first quarter of 2001, the borrower made payments totaling $23,000, of which $10,000 was recorded against principal and $13,000 was recorded as interest income. During April 2001, one of these loans totaling $50,000 was repaid in full, including non-accrual interest of $16,000. Management believes the underlying collateral, supporting the remaining loans, adequately secures the Company.

The following table presents the components of non-performing loans and other non-performing assets as of the five most recent quarters ended:

	2001	2000		
	March 31,	December 31,	September 30,	Ju
Non-performing loans				
Loans past due 90 days or more	$ 215	$ 158	$ 159	
Non-accrual loans	698	742	909	
Total non-performing loans	913	900	1,068	
Other non-performing assets:				
Real estate acquired through foreclosure	65	33	40	
Total other non-performing assets	65	33	40	
Total non-performing assets	$ 978	$ 933	$ 1,108	
Non-performing loans as a percentage of total loans	.60%	.59%	.70%	
Non-performing assets to assets	.49	.48	.56	

At March 31, 2001, based on the ongoing quarterly review and assessment of credit quality, management is not aware of any trends or uncertainties related to any accounts which might have a material adverse impact on future earnings, liquidity or capital resources. Based on the results of the quarterly internal loan review process, and considering the trend of past loan losses and recoveries, and current risk elements in the loan portfolio, management believes the allowance for loan losses at March 31, 2001 is adequate.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

(None)

Item 2. Changes in Securities

(None)

Item 3. Defaults Upon Senior Securities

(None)

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

(None)

Item 5. Other Information

(None)

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(None)

(b) Reports on Form 8-K

(None)

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Emclaire Financial Corp.
(Registrant)

Date: May 14, 2001 By: /s/ David L. Cox

David L. Cox
President and CEO

Date: May 14, 2001 By: /s/ John J. Boczar

John J. Boczar
Secretary/Treasurer