

EMCLAIRE FINANCIAL CORP
Form 10-K
March 25, 2008

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

FORM 10-K

(Mark One):

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

For the fiscal year ended: December 31, 2007

- 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 (I.R.S. Employer Identification No.)
organization)

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

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

Securities registered pursuant to Section 12(b) of the Act: None. OTC Electronic Bulletin Board (OTCBB)
Name of exchange on which registered

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$1.25 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

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Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO .

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 .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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 Act). YES NO .

As of June 29, 2007, the aggregate value of the 1,267,835 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes 150,422 shares held by the directors and officers of the Registrant as a group, was approximately \$28.2 million. This figure is based on the last sales price of \$25.25 per share of the Registrant's Common Stock on June 29, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the Fiscal Year ended December 31, 2007 (Parts I, II, and IV).
 2. Portions of the Proxy Statement for the April 23, 2008 Annual Meeting of Stockholders (Part III).
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EMCLAIRE FINANCIAL CORP.

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PART I

Item 1. Business

General

Emclair Financial Corp. (the Corporation) is a Pennsylvania corporation and financial holding company that provides a full range of retail and commercial financial products and services to customers in western Pennsylvania through its wholly owned subsidiary bank, the Farmers National Bank of Emlenton (the Bank). The Bank also provides investment advisory services through its Farmers National Financial Services division.

The Bank was organized in 1900 as a national banking association and is a financial intermediary whose principal business consists of attracting deposits from the general public and investing such funds in real estate loans secured by liens on residential and commercial property, consumer loans, commercial business loans, marketable securities and interest-earning deposits. The Bank operates through a network of eleven retail branch offices in Venango, Butler, Clarion, Clearfield, Elk and Jefferson counties, Pennsylvania. The Corporation and the Bank are headquartered in Emlenton, Pennsylvania.

The Corporation and the Bank are subject to examination and comprehensive regulation by the Office of the Comptroller of the Currency (OCC), which is the Bank's chartering authority, and the Federal Deposit Insurance Corporation (FDIC), which insures customer deposits held by the Bank to the full extent provided by law. The Bank is a member of the Federal Reserve Bank of Cleveland (FRB) and the Federal Home Loan Bank of Pittsburgh (FHLB). The Corporation is a registered financial holding company pursuant to the Bank Holding Company Act of 1956 (BHCA), as amended.

At December 31, 2007, the Corporation had \$311.7 million in total assets, \$24.7 million in stockholders' equity, \$229.8 million in loans and \$244.3 million in deposits.

Lending Activities

General. The principal lending activities of the Bank are the origination of residential mortgage, commercial mortgage, commercial business and consumer loans. Significantly all of the Bank's loans are secured by property in the Bank's primary market area.

One-to-Four Family Mortgage Loans. The Bank offers first mortgage loans secured by one-to-four family residences located in the Bank's primary lending area. Typically such residences are single-family owner occupied units. The Bank is an approved, qualified lender for the Federal Home Loan Mortgage Corporation (FHLMC). As a result, the Bank may sell loans to and service loans for the FHLMC in market conditions and circumstances where this is advantageous in managing interest rate risk.

Home Equity Loans. The Bank originates home equity loans secured by single-family residences. These loans may be either a single advance fixed-rate loan with a term of up to 20 years, or a variable rate revolving line of credit. These loans are made only on owner-occupied single-family residences.

Commercial Business and Commercial Real Estate Loans. Commercial lending constitutes a significant portion of the Bank's lending activities. Commercial business and commercial real estate loans amounted to 46.2% of the total loan portfolio at December 31, 2007. Commercial real estate loans generally consist of loans granted for commercial purposes secured by commercial or other nonresidential real estate. Commercial loans consist of secured and unsecured loans for such items as capital assets, inventory, operations and other commercial purposes.

Consumer Loans. Consumer loans generally consist of fixed-rate term loans for automobile purchases, home improvements not secured by real estate, capital and other personal expenditures. The Bank also offers unsecured revolving personal lines of credit and overdraft protection.

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Loans to One Borrower. National banks are subject to limits on the amount of credit that they can extend to one borrower. Under current law, loans to one borrower are limited to an amount equal to 15% of unimpaired capital and surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and surplus if the loan is secured by readily marketable collateral. At December 31, 2007, the Bank's loans to one borrower limit based upon 15% of unimpaired capital was \$3.6 million. At December 31, 2007, the Bank's largest single lending relationship had an outstanding balance of \$5.2 million. Credit granted to this borrower in excess of the legal lending limit is part of the Pilot Program approved by the OCC which allows the Bank to exceed its legal lending limit within certain parameters. The Bank's next largest single lending relationship had an outstanding balance of \$4.3 million, which consisted of a loan to a municipality and was not subject to the legal lending limit. The Bank had one additional lending relationship exceeding the legal lending limit totaling \$3.8 million at December 31, 2007. Credit granted to this borrower in excess of the legal lending limit is also part of the Pilot Program. The next largest borrower had loans which totaled \$3.5 million and consisted of loans secured by commercial real estate and business property in the Bank's lending area. At December 31, 2007, all of such loans were performing in accordance with their original terms.

Loan Portfolio. The following table sets forth the composition and percentage of the Corporation's loans receivable in dollar amounts and in percentages of the portfolio as of December 31:

	2007		2006		2005		2004		2003	
	Dollar Amount	%	Dollar Amount	%	Dollar Amount	%	Dollar Amount	%	Dollar Amount	%
(Dollar amounts in thousands)										
Mortgage loans on real estate:										
Residential first mortgages	\$ 65,706	28.3%	\$ 64,662	30.0%	\$ 66,011	34.0%	\$ 69,310	38.2%	\$ 76,396	39.7%
Home equity loans and lines of credit	49,426	21.3%	47,330	22.0%	39,933	20.5%	31,548	17.4%	30,316	15.8%
Commercial	71,599	30.9%	61,128	28.4%	52,990	27.3%	48,539	26.8%	44,935	23.4%