EMCLAIRE FINANCIAL CORP
Form 10-Q
May 14, 2008

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, 2008

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, a non-accelerated filer or a smaller reporting company.

Large accelerated filer |_| Accelerated filer |_| Non-accelerated filer |_| Smaller reporting company |X|

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

The number of shares outstanding of the Registrant's common stock was 1,267,835 at May 14, 2008.

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EMCLAIRE FINANCIAL CORP.

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PART I - FINANCIAL INFORMATION

Item 1. Interim Financial Statements

Emclaire Financial Corp. and Subsidiary
Consolidated Balance Sheets
As of March 31, 2008 (Unaudited) and December 31, 2007
(Dollar amounts in thousands, except share data)

	March 31, 2008	December 31, 2007
Assets		
Cash and due from banks	$ 8,079	$ 10,288
Interest earning deposits with banks	6,825	195
Cash and cash equivalents	14,904	10,483
Securities available for sale, at fair value	55,078	51,919
Loans receivable, net of allowance for loan losses of $2,219 and $2,157	232,863	229,819
Federal bank stocks, at cost	2,697	2,662
Bank-owned life insurance	5,036	4,987
Accrued interest receivable	1,360	1,365
Premises and equipment, net	8,091	7,904
Goodwill	1,422	1,422
Prepaid expenses and other assets	1,071	1,159
Total Assets	$ 322,522	$ 311,720
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 48,184	$ 47,111
Interest bearing	203,347	197,151
Total deposits	251,531	244,262
Short-term borrowed funds	8,757	5,400
Long-term borrowed funds	35,000	35,000
Accrued interest payable	780	771
Accrued expenses and other liabilities	1,368	1,584
Total Liabilities	297,436	287,017

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	1,745	1,745
Additional paid-in capital	10,923	10,902
Treasury stock, at cost; 128,017 shares	(2,653)	(2,653)
Retained earnings	15,267	15,114
Accumulated other comprehensive loss	(196)	(405)
Total Stockholders' Equity	25,086	24,703
Total Liabilities and Stockholders' Equity	$ 322,522	$ 311,720
Common shares outstanding	1,267,835	1,267,835

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Income
For the three months ended March 31, 2008 and 2007 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For the three months ended March 31,	
	2008	2007
Interest and dividend income:		
Loans receivable, including fees	$ 3,928	$ 3,604
Securities:		
Taxable	378	364
Exempt from federal income tax	161	173
Federal bank stocks	30	50
Deposits with banks	23	121
Total interest and dividend income	4,520	4,312
Interest expense:		
Deposits	1,572	1,667
Borrowed funds	405	336
Total interest expense	1,977	2,003
Net interest income	2,543	2,309
Provision for loan losses	60	45
Net interest income after provision for loan		

losses	2,483	2,264
Noninterest income:		
Fees and service charges	358	326
Commissions on financial services	118	162
Net gain on available for sale securities	-	58
Net gain on sales of loans	14	-
Earnings on bank-owned life insurance (BOLI)	56	53
Other	114	131
Total noninterest income	660	730
Noninterest expense:		
Compensation and employee benefits	1,417	1,306
Premises and equipment	420	400
Other	576	604
Total noninterest expense	2,413	2,310
Income before provision for income taxes	730	684
Provision for income taxes	171	133
Net income	$ 559	$ 551
Basic and diluted earnings per share	$ 0.44	$ 0.43
Average common shares outstanding	1,267,835	1,267,835

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, 2008 and 2007 (Unaudited)
(Dollar amounts in thousands)

	For the three months ended March 31,	
	2008	2007
Cash flows from operating activities		
Net income	$ 559	$ 551
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	165	170
Provision for loan losses	60	45
Amortization of premiums and accretion of discounts, net	(35)	(2)
Amortization of mortgage servicing		

rights	5	4
Amortization of deferred loan costs	70	52
Realized gains on sales of available for sale securities, net	-	(58)
Net gains on sales of loans	(14)	-
Originations of loans sold	(355)	(312)
Proceeds from the sale of loans	357	312
Stock compensation expense	20	-
Earnings on bank owned life insurance, net	(49)	(47)
(Increase) decrease in accrued interest receivable	5	(102)
Increase in prepaid expenses and other assets	(25)	(191)
Increase (decrease) in accrued interest payable	9	(71)
Increase (decrease) in accrued expenses and other liabilities	(216)	435
Net cash provided by operating activities	556	786
Cash flows from investing activities		
Loan originations and principal collections, net	(3,164)	312
Available for sale securities:		
Sales	-	265
Maturities, repayments and calls	24,486	126
Purchases	(27,291)	(5,647)
(Purchase) redemption of federal bank stocks	(35)	8
Purchases of premises and equipment	(352)	(103)
Net cash used in investing activities	(6,356)	(5,039)
Cash flows from financing activities		
Net increase (decrease) in deposits	7,269	(1,021)
Net increase in short-term borrowed funds	3,357	-
Dividends paid on common stock	(405)	(368)
Net cash provided by (used in) financing activities	10,221	(1,389)
Net increase (decrease) in cash and cash equivalents	4,421	(5,642)
Cash and cash equivalents at beginning of period	10,483	16,717
Cash and cash equivalents at end of period	$ 14,904	$ 11,075
Supplemental information:		
Interest paid	$ 1,968	$ 2,074

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, 2008 and 2007 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For the three months ended March 31,	
	2008	2007
Balance at beginning of period	$ 24,703	$ 23,917
Net income	559	551
Other comprehensive income (loss):		
Change in net unrealized gains on available for sale securities, net of taxes	209	7
Less reclassification adjustment for gains included in net income, net of taxes	-	(38)
Other comprehensive income (loss)	209	(31)
Total comprehensive income	768	520
Stock compensation expense	20	-
Dividends declared	(405)	(368)
Balance at end of period	$ 25,086	$ 24,069
Common cash dividend per share	$ 0.32	$ 0.29

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, 2007, as contained in the Corporation's 2007 Annual Report of Form 10-K filed with the Securities and Exchange Commission.

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

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. Earnings per Common Share.

Basic earnings per common share (EPS) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Corporation. Options on 85,000 shares of common stock were not included in computing diluted earnings per share because their effects were not dilutive.

3. Securities.

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

(Dollar amounts in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fai valu
Available for sale:				

March 31, 2008:				
U.S. Government agencies and related entities	$ 16,496	$ 145	$ -	$ 16
Mortgage-backed securities	14,476	62	(6)	14
Municipal securities	13,686	669	-	14
Corporate securities	5,987	-	(1)	5
Equity securities	4,265	-	(701)	3
	$ 54,910	$ 876	$ (707)	$ 55
December 31, 2007:				
U.S. Government agencies and related entities	$ 29,356	$ 37	$ (59)	$ 29
Mortgage-backed securities	1,932	-	(48)	1
Municipal securities	13,685	566	-	14
Corporate securities	2,939	-	-	2
Equity securities	4,156	-	(645)	3
	$ 52,068	$ 603	$ (752)	$ 51

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic, market or other concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Based on these considerations, the Corporation does not consider any investment to be other than temporarily impaired at March 31, 2008.

4. Loans Receivable.

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

(Dollar amounts in thousands)	March 31, 2008	December 31, 2007
Mortgage loans on real estate:		
Residential first mortgages	$ 65,798	$ 65,706
Home equity loans and lines of credit	48,892	49,426
Commercial real estate	73,714	71,599
	188,404	186,731
Other loans:		
Commercial business	37,673	35,566
Consumer	9,005	9,679
	46,678	45,245
Total loans, gross	235,082	231,976
Less allowance for loan losses	2,219	2,157

Total loans, net	$ 232,863	$ 229,819

5. Deposits.

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

(Dollar amounts in thousands)	March 31, 2008		December 31, 2007	
Type of accounts	Amount	%	Amount	%
Non-interest bearing deposits	$ 48,184	19.2%	$ 47,111	19
Interest bearing demand deposits	86,345	34.3%	77,614	31
Time deposits	117,002	46.5%	119,537	48
	$ 251,531	100.0%	$ 244,262	100

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, 2008, $85,000 will expire within the next seventeen months, $848,000 will automatically renew within the next twelve months and $206,000 will automatically renew within thirteen to twenty-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, 2008 for guarantees under standby letters of credit issued is not material.

7. Employee Benefit Plans.

The Corporation maintains a defined contribution 401(k) Plan. Eligible employees participate by providing tax-deferred contributions up to 20% of qualified compensation. Employee contributions are vested at all times. The Corporation provides a matching contribution of up to 4% of the participant's salary. Matching contributions for the three months ended March 31, 2008 and 2007 amounted to $37,000 and $33,000, respectively.

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

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

7. Employee Benefit Plans (continued).

The components of the periodic pension cost are as follows:

(Dollar amounts in thousands)	For the three months ended March 31, 2008	2007
Service cost	$ 63	$ 57
Interest cost	71	65
Expected return on plan assets	(79)	(77)
Transition asset	-	(2)
Prior service costs	(8)	(8)
Recognized net actuarial (gain) loss	4	7
Net periodic pension cost	$ 51	$ 42

The expected rate of return on plan assets was 8.50% for the periods ended March 31, 2008 and 2007. The Corporation previously disclosed in its financial statements for the year ended December 31, 2007 that it expected to contribute $335,000 to its pension plan in 2008. As of March 31, 2008, there have been no contributions. The Corporation presently anticipates contributing $335,000 to its pension plan in 2008.

8. Stock Compensation Plans.

In May 2007, the Corporation adopted the 2007 Stock Incentive Plan and Trust. Under the Plan, the Corporation may grant options to its directors, officers and employees for up to 177,496 shares of common stock. Incentive stock options, non-incentive or compensatory stock options and share awards may be granted under the Plan. The exercise price of each option shall at least equal the market price of a share of common stock on the date of grant and have a contractual term of ten years. Options shall vest and become exercisable at the rate, to the extent and subject to such limitations as may be specified by the Corporation. Effective May 2007, the Corporation adopted SFAS No. 123(R), Share-Based Payment, which requires that compensation cost related to share-based payment transactions be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued. For the three-month period ended March 31, 2008, the Corporation recognized $20,000, net of taxes, in compensation expense for stock options.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	For the three months ended March 31, 2008
Dividend yield	4.46%
Expected life	10 years

Expected volatility	14.09%
Risk-free interest rate	5.10%

The expected volatility is based on historical stock price fluctuations. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on the maximum term of the options. The dividend yield assumption is based on the Corporation's history and expectation of dividend payouts.

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8. Stock Compensation Plans (continued).

A summary of option activity under the Plan as of March 31, 2008, and changes during the period then ended is presented below:

	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Averag Remaining Term (in years)
Outstanding at the beginning of the year	84,000	$26.00		
Granted	1,000	25.90		
Exercised	-	-		
Forfeited	-	-		
Outstanding as of March 31, 2008	85,000	$25.99	$-	
Exercisable as of March 31, 2008	-	$-	$-	

A summary of the status of the Corporation's nonvested shares as of March 31, 2008, and changes during the period then ended is presented below:

	Options	Weighted-Average Grant-date Fair Value
Nonvested at the beginning of the year	84,000	$ 3.39
Granted	1,000	3.09
Vested	-	-
Forfeited	-	-
Nonvested as of March 31, 2008	85,000	$ 3.39

As of March 31, 2008, there was $236,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over an average period of 2.2 years.

9. Fair Values of Financial Instruments.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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 adopted SFAS 157 effective January 1, 2008 for financial assets and liabilities that are measured and reported at fair value. There was no impact from the adoption of SFAS 157 on the amounts reported in the consolidated financial statements. The primary effect of SFAS 157 on the Corporation was to expand the required disclosures pertaining to the methods used to determine fair values.

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

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

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

9. Fair Values of Financial Instruments (continued).

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

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

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2008 are as follows:

(Dollar amounts in thousands)	(Level 1) Quoted Prices in Active Markets	(Level 2) Significant Other	(Level 3) Significan

Description	March 31, 2008	for Identical Assets	Observable Inputs	Unobservabl Inputs
Securities available for sale	$ 55,078	$ 3,565	$ 51,513	$
	$ 55,078	$ 3,565	$ 51,513	$

The Corporation's adoption of SFAS 157 applies only to its financial instruments required to be reported at fair value. The adoption does not apply to non-financial assets and non-financial liabilities until January 1, 2009 in accordance with FSP FAS 157-2. The following valuation technique was used to measure fair value of assets in the table above on a recurring basis as of March 31, 2008:

Available for sale securities - Fair value on available for sale securities were based upon a market approach. Prices for securities that are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are obtained through third party data service providers or dealer market participants which the Corporation has historically transacted both purchases and sales of investment securities. As of March 31, 2008, all fair values on available for sale securities were based on prices obtained from these sources and were based on actual market quotations for each specific security.

10. Adoption of New Accounting Standards.

The Corporation adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157) effective January 1, 2008 for financial assets and liabilities that are measured and reported at fair value. There was no impact from the adoption of SFAS 157 on the amounts reported in the consolidated financial statements. The primary effect of SFAS 157 on the Corporation was to expand required disclosures pertaining to the methods used to determine fair values. See note 9 for further detail.

11. Effect of Recently Issued Accounting Standards.

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. This new accounting pronouncement had no effect on the Corporation's consolidated financial statements as the Corporation elected not to adopt SFAS 159.

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

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective for fiscal years beginning after December 15, 2008. This new pronouncement will impact the Corporation's accounting for business combinations completed beginning January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements - An Amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective for fiscal years beginning after December 15, 2008, which for the Corporation will be January 1, 2009. The Corporation believes that this new pronouncement will have an immaterial impact on its consolidated financial statements.

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

This section discusses the consolidated financial condition and results of operations of Emclaire Financial Corp. (the "Corporation") and its wholly owned subsidiary bank, the Farmers National Bank of Emlenton (the "Bank"), for the three months ended March 31, 2008 compared to the same periods in 2007 and should be read in conjunction with the Corporation's December 31, 2007 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 11 of this Form 10-Q.

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

CHANGES IN FINANCIAL CONDITION

Total assets increased $10.8 million to $322.5 million at March 31, 2008 from $311.7 million at December 31, 2007. This 3.5% increase resulted from increases in cash and cash equivalents, securities and loans receivable, net of allowance for loan losses, of $4.4 million, $3.2 million and $3.0 million, respectively. The increase in the Corporation's assets was primarily funded by increases in customer deposits and short-term borrowed funds.

Total liabilities increased $10.4 million to $297.4 million at March 31, 2008 from $287.0 million at December 31, 2007, while total stockholders' equity increased $383,000 to $25.1 million at March 31, 2008 from $24.7 million at December 31, 2007. The increase in total liabilities resulted primarily from increases in customer deposits of $7.3 million and short-term borrowed funds of $3.4 million.

RESULTS OF OPERATIONS

Comparison of Results for the Three Month Periods Ended March 31, 2008 and 2007

General. Net income increased $8,000 or 1.4% to $559,000 for the three months ended March 31, 2008 from $551,000 for the same period in 2007. This increase was the result of an increase in net interest income of $234,000 partially offset by a decrease in noninterest income of $70,000 and increases in the provision for loan losses, noninterest expense and the provision for income taxes of $15,000, $103,000 and $38,000, respectively.

Net interest income. Net interest income on a tax equivalent basis increased $226,000 or 9.3% to $2.6 million for the three months ended March 31, 2008 from $2.4 million for the same period in 2007. This net increase can be attributed to an increase in tax equivalent interest income of $200,000 and a decrease in interest expense of $26,000.

Interest income. Interest income on a tax equivalent basis increased $200,000 or 4.5% to $4.6 million for the three months ended March 31, 2008, compared to $4.4 million for the same period in the prior year. This increase can be attributed to an increase in interest earned on loans of $322,000, partially offset by decreases in interest on securities and interest-earning deposits with banks and dividends on federal bank stocks of $4,000, $98,000 and $20,000, respectively.

Tax equivalent interest earned on loans receivable increased $322,000 or 8.9% to $4.0 million for the three months ended March 31, 2008, compared to $3.6 million for the same period in 2007. This increase resulted primarily from average loans increasing $18.4 million or 8.6%, accounting for $312,000 in additional loan interest income. This increase can be primarily attributed to growth in the Corporation's commercial loan portfolios.

Tax equivalent interest earned on securities decreased $4,000 to $611,000 for the three months ended March 31, 2008, compared to $615,000 for the same period in 2007. The average volume of securities decreased $5.0 million or 9.5%, accounting for a $61,000 decrease in interest income. Offsetting this volume decrease, the yield on securities increased 43 basis points to 5.23% for the three months ended March 31, 2008, versus 4.80% for the same period in 2007, as a result of certain lower yielding securities maturing. This favorable yield variance contributed an additional $57,000 to interest income.

Interest earned on interest-earning deposit accounts decreased $98,000 or 81.0% to $23,000 for the three months ended March 31, 2008 from $121,000 for the same period in 2007. The average volume of these assets decreased $6.0 million or 64.1%, primarily as a result of funding loans and purchasing securities, decreasing interest income by $57,000. Additionally, the average yield on interest-earning deposit accounts decreased 248 basis points to 2.75% for the three months ended March 31, 2008, compared to 5.23% for the same period in the prior year, accounting for a $41,000 decrease in interest income. The decrease in the average yield reflects the recent decreases in short-term market interest rates. Dividends on federal bank stocks decreased $20,000 or 40.0% to $30,000 for the three month period ended March 31, 2008 from $50,000 for the same period in 2007. The average volume of these assets increased $309,000 or 14.0%, accounting for a $6,000 increase in income. Offsetting this volume increase, the yield on federal bank stock decreased 439 basis points to 4.79% for the three months ended March 31, 2008, versus 9.18% for the same period in 2007. The higher yield experienced during the first quarter of 2007 resulted from the recognition during the period of a fourth quarter 2006 special dividend on FHLB capital stock.

Interest expense. Interest expense decreased $26,000 or 1.3% to $2.0 million for the three months ended March 31, 2008, and 2007. This decrease in interest expense can be attributed to a decrease in interest incurred on deposits of

$95,000, partially offset by an increase in borrowed funds of $69,000.

Interest expense incurred on deposits decreased $95,000 or 5.7% to $1.6 million for the three months ended March 31, 2008, compared to $1.7 million for the same period in the prior year. The average volume of deposits decreased $4.0 million to $195.7 million for the three months ended March 31, 2008, compared to $199.7 million for the same period in 2007 causing a $33,000 decrease in interest expense. Additionally, the cost of interest-bearing deposits decreased 16 basis points to 3.23% for the three months ended March 31, 2008, compared to 3.39% for the same period in 2007 causing a $62,000 decrease in interest expense.

Interest expense incurred on borrowed funds increased $69,000 or 20.5% to $405,000 for the three months ended March 31, 2008, compared to $336,000 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 $8.4 million or 27.8% to $38.4 million for the three months ended March 31, 2008, compared to $30.0 million for the same period in the prior year contributing $89,000 in additional expense. This volume increase was the result of $5.0 million of FHLB long-term borrowings placed in the fourth quarter of 2007 used primarily to fund loan growth and $8.7 million in short-term borrowings placed in the first quarter of 2008 used to fund security purchases. Partially offsetting this volume increase, the cost of borrowed funds decreased 28 basis points to 4.25% for the three months ended March 31, 2008, compared to 4.54% for the same period in 2007 causing a $20,000 decrease in interest expense.

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 March 31,				
	2008				
	Average Balance	Interest	Yield/ Rate	Average Balance	I
Interest-earning assets:					
Loans, taxable	$227,600	$3,860	6.82%	$208,776	
Loans, tax exempt	6,082	98	6.47%	6,495	
Total loans receivable	233,682	3,958	6.81%	215,271	
Securities, taxable	32,664	378	4.65%	36,758	
Securities, tax exempt	14,361	233	6.53%	15,224	

Total securities	47,025	611	5.23%	51,982	
Interest-earning deposits with banks	3,362	23	2.75%	9,375	
Federal bank stocks	2,518	30	4.79%	2,209	
Total interest-earning cash equivalents	5,880	53	3.63%	11,584	
Total interest-earning assets	286,587	4,622	6.49%	278,837	
Cash and due from banks	5,224			6,163	
Other noninterest-earning assets	14,614			14,535	
Total Assets	$306,425			$299,535	
Interest-bearing liabilities:					
Interest-bearing demand deposits	$78,962	282	1.44%	$72,176	
Time deposits	116,734	1,290	4.44%	127,533	
Total interest-bearing deposits	195,696	1,572	3.23%	199,709	
Borrowed funds, short-term	3,351	4	0.48%	-	
Borrowed funds, long-term	35,000	401	4.61%	30,000	
Total borrowed funds	38,351	405	4.25%	30,000	
Total interest-bearing liabilities	234,047	1,977	3.40%	229,709	
Noninterest-bearing demand deposits	45,163	-	-	43,368	
Funding and cost of funds	279,210	1,977	2.85%	273,077	
Other noninterest-bearing liabilities	2,388			2,572	
Total Liabilities	281,598			275,649	
Stockholders' Equity	24,827			23,886	
Total Liabilities and Stockholders' Equity	$306,425			$299,535	

Net interest income	$2,645	
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)		3.09%
Net interest margin (net interest income as a percentage of average interest-earning assets)		3.69%

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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.

(Dollar amounts in thousands)	Three months ended March 31, 2008 versus 2007 Increase (Decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$ 312	$ 10	$ 3
Securities	(61)	57	
Interest-earning deposits with banks	(57)	(41)	(
Federal bank stocks	6	(26)	(
Total interest-earning assets	200	-	2
Interest expense:			
Deposits	(33)	(62)	(
Borrowed funds	89	(20)	
Total interest-bearing liabilities	56	(82)	(
Net interest income	$ 144	$ 82	$ 2

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, 2008 and 2007 is as follows:

(Dollar amounts in thousands)	For the three months ended March 31, 2008	2007
Balance at the beginning of the period	$ 2,157	$ 2,035
Provision for loan losses	60	45
Charge-offs	(9)	(15)
Recoveries	11	13
Balance at the end of the period	$ 2,219	$ 2,078
Non-performing loans	$ 855	$ 1,980
Non-performing assets	979	1,980
Non-performing loans to total loans	0.36%	0.92%
Non-performing assets to total assets	0.30%	0.66%
Allowance for loan losses to total loans	0.94%	0.97%
Allowance for loan losses to non-performing loans	259.53%	104.95%

The provision for loan losses increased $15,000 or 33.3% to $60,000 for the three month period ended March 31, 2008 from $45,000 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 $60,000 in the provision for loan losses during the three months ended March 31, 2008.

Noninterest income. Noninterest income decreased $70,000 or 9.6% to $660,000 during the three months ended March 31, 2008, compared to $730,000 during the same period in the prior year. This decrease can be attributed to decreases in commissions earned on financial services, gains on securities and other noninterest income of $44,000, $58,000 and $17,000, respectively. Partially offsetting this decrease in noninterest income were increases in fees and service charges, gains on the sale of loans and earnings on bank-owned life insurance of $32,000, $14,000, and $3,000, respectively.

Noninterest expense. Noninterest expense increased $103,000 to $2.4 million during the three months ended March 31, 2008, compared to $2.3 million during the same period in the prior year. This increase in noninterest expense can be attributed to increases in compensation and employee benefits and premises and equipment of $111,000 and $20,000, respectively, partially offset by a decrease in other noninterest expenses of $28,000.

Compensation and employee benefits increased $111,000 or 8.5% to $1.4 million for the three months ended March 31, 2008, compared to $1.3 million for the same period the prior year. This increase can be attributed primarily to normal salary and wage increases and the addition of staff at a new branch location.

Premises and equipment increased $20,000 or 5.0% to $420,000 for the three months ended March 31, 2008, compared to $400,000 for the same period in the prior year. This increase can be attributed primarily to costs associated with an additional branch office which was opened in April 2008.

Other noninterest expense decreased $28,000 or 4.6% to $576,000 during the three months ended March 31, 2008, compared to $604,000 for the same period in the prior year. This decrease can be attributed primarily to a decrease in professional fees relating to Sarbanes-Oxley Section 404 compliance.

Provision for income taxes. The provision for income taxes increased $38,000 or 28.6% to $171,000 for the three months ended March 31, 2008, compared to $133,000 for the same period in the prior year. This was due to an increase in pre-tax earnings of $46,000 or 6.7% to $730,000 for the three months ended March 31, 2008, compared to $684,000 for the same period in the prior year and an increase in the effective tax rate to 23.4% for the three months ended March 31, 2008, compared to 19.4% for the same period in 2007. The difference between the statutory rate of 34% and the Corporation's effective tax rate is due to tax-exempt income earned on certain tax-free loans and 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, 2008, 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 $28.8 million, and standby letters of credit totaling $1.1 million.

At March 31, 2008, time deposits amounted to $117.0 million or 46.5% of the Corporation's total consolidated deposits, including approximately $47.1 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, 2008, the Corporation's borrowing capacity with the FHLB, net of funds borrowed, was $119.4 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
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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, 2008, the Corporation's interest-earning assets maturing or repricing within one year totaled $97.4 million while the Corporation's interest-bearing liabilities maturing or repricing within one-year totaled $94.5 million, providing an excess of interest-earning assets over interest-bearing liabilities of $2.9 million or 1.0% of total assets. At March 31, 2008, the percentage of the Corporation's assets to liabilities maturing or repricing within one year was 103.0%.

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, 2007.

Item 4T. 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 March 31, 2008, 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 2007 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 14, 2008	By: /s/ David L. Cox David L. Cox Chairman of the Board, President and Chief Executive Officer
Date: May 14, 2008	By: /s/ William C. Marsh William C. Marsh

Chief Financial Officer and Treasurer