

EMCLAIRE FINANCIAL CORP  
Form 10-Q  
May 11, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2015**

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **001-34527**

**EMCLAIRE FINANCIAL CORP**

(Exact name of registrant as specified in its charter)

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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)

**(844) 767-2311**

(Registrant's telephone number)

N/A

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

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

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

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

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

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

The number of shares outstanding of the Registrant's common stock was 1,783,858 at May 11, 2015.



**EMCLAIRE FINANCIAL CORP**

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

Emclaire Financial Corp

Consolidated Balance Sheets (Unaudited)

As of March 31, 2015 and December 31, 2014

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

	March 31, 2015	December 31, 2014
Assets		
Cash and due from banks	\$2,889	\$2,386
Interest earning deposits with banks	19,385	9,470
Cash and cash equivalents	22,274	11,856
Securities available for sale	151,553	149,861
Loans receivable, net of allowance for loan losses of \$5,340 and \$5,224	376,179	379,648
Federal bank stocks, at cost	2,114	2,406
Bank-owned life insurance	10,810	10,728
Accrued interest receivable	1,710	1,543
Premises and equipment, net	15,078	15,144
Goodwill	3,664	3,664
Core deposit intangible, net	700	749
Prepaid expenses and other assets	6,170	6,310
<b>Total Assets</b>	<b>\$590,252</b>	<b>\$581,909</b>
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$119,066	\$111,282
Interest bearing	396,958	390,537
Total deposits	516,024	501,819
Short-term borrowed funds	3,000	6,500
Long-term borrowed funds	15,000	15,000

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Accrued interest payable	197	199
Accrued expenses and other liabilities	6,970	10,401
<b>Total Liabilities</b>	<b>541,191</b>	<b>533,919</b>
<b>Commitments and Contingent Liabilities</b>	<b>-</b>	<b>-</b>
<b>Stockholders' Equity:</b>		
Preferred stock, \$1.00 par value, 3,000,000 shares authorized; Series B, non-cumulative preferred stock, \$5,000 liquidation value, 5,000 shares issued and outstanding	5,000	5,000
Common stock, \$1.25 par value, 12,000,000 shares authorized; 1,884,375 and 1,882,675 shares issued; 1,782,358 and 1,780,658 shares outstanding, respectively	2,355	2,353
Additional paid-in capital	19,795	19,740
Treasury stock, at cost; 102,017 shares	(2,114 )	(2,114 )
Retained earnings	26,338	26,009
Accumulated other comprehensive loss	(2,313 )	(2,998 )
<b>Total Stockholders' Equity</b>	<b>49,061</b>	<b>47,990</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$590,252</b>	<b>\$581,909</b>

See accompanying notes to consolidated financial statements.

## Emclaire Financial Corp

## Consolidated Statements of Net Income (Unaudited)

For the three months ended March 31, 2015 and 2014

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

	For the three months ended March 31,	
	2015	2014
Interest and dividend income:		
Loans receivable, including fees	\$4,200	\$4,030
Securities:		
Taxable	524	404
Exempt from federal income tax	221	265
Federal bank stocks	74	35
Interest earning deposits with banks	15	11
Total interest and dividend income	5,034	4,745
Interest expense:		
Deposits	546	561
Borrowed funds	182	180
Total interest expense	728	741
Net interest income	4,306	4,004
Provision for loan losses	169	163
Net interest income after provision for loan losses	4,137	3,841
Noninterest income:		
Fees and service charges	349	378
Commissions on financial services	5	9
Title premiums	11	8
Net gain on sales of available for sale securities	-	658
Earnings on bank-owned life insurance	97	99
Other	317	287
Total noninterest income	779	1,439
Noninterest expense:		
Compensation and employee benefits	2,069	1,943
Premises and equipment	668	600
Intangible asset amortization	49	57
Professional fees	201	163



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Federal deposit insurance	97	88
Other	880	1,371
Total noninterest expense	3,964	4,222
Income before provision for income taxes	952	1,058
Provision for income taxes	171	217
Net income	781	841
Preferred stock dividends	25	25
Net income available to common stockholders	\$756	\$816
Basic earnings per common share	\$0.42	\$0.46
Diluted earnings per common share	0.42	0.46
Average common shares outstanding	1,781,416	1,769,389

See accompanying notes to consolidated financial statements.

**Emclaire Financial Corp**

## Consolidated Statements of Comprehensive Income (Unaudited)

For the three months ended March 31, 2015 and 2014

(Dollar amounts in thousands)

	For the three months ended March 31,	
	2015	2014
Net income	\$781	\$841
Other comprehensive income		
Unrealized gains on securities:		
Unrealized holding gain arising during the period	1,038	1,231
Reclassification adjustment for gains included in net income	-	(658 )
	1,038	573
Tax effect	(353 )	(195 )
Net of tax	685	378
Comprehensive income	\$1,466	\$1,219

See accompanying notes to consolidated financial statements.

**Emclaire Financial Corp**

## Condensed Consolidated Statements of Cash Flows (Unaudited)

For the three months ended March 31, 2015 and 2014

(Dollar amounts in thousands)

	For the three months ended March 31,	
	2015	2014
Cash flows from operating activities		
Net income	\$781	\$841
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	245	184
Provision for loan losses	169	163
Amortization of premiums, net	71	65
Amortization of intangible assets and mortgage servicing rights	49	57
Realized gains on sales of available for sale securities, net	-	(658 )
Net gains on foreclosed real estate	(20 )	(2 )
Stock compensation expense	53	42
Increase in bank-owned life insurance, net	(82 )	(83 )
Increase in accrued interest receivable	(167 )	(87 )
Increase in prepaid expenses and other assets	(85 )	(354 )
Decrease in accrued interest payable	(2 )	(37 )
Increase (decrease) in accrued expenses and other liabilities	(414 )	43
Net cash (used in) provided by operating activities	598	174
Cash flows from investing activities		
Loan originations and principal collections, net	3,029	7,285
Settlement of syndicated national credits	(3,018 )	-
Available for sale securities:		
Sales	-	21,559
Maturities, repayments and calls	4,349	1,131
Purchases	(4,999 )	(26,350)
Redemption of federal bank stocks	292	1,225
Proceeds from the sale of foreclosed real estate	86	29
Write-down of foreclosed real estate	3	-
Additions to premises and equipment	(179 )	(713 )
Net cash provided by investing activities	(437 )	4,166
Cash flows from financing activities		
Net increase in deposits	14,205	35,156
Repayments on Federal Home Loan Bank advances	-	(5,000 )

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Net change in short-term borrowings	(3,500 )	(22,000)
Proceeds from exercise of stock options, including tax benefit	4	26
Dividends paid	(452 )	(414 )
Net cash provided by financing activities	10,257	7,768
Increase in cash and cash equivalents	10,418	12,108
Cash and cash equivalents at beginning of period	11,856	16,658
Cash and cash equivalents at end of period	\$22,274	\$28,766
Supplemental information:		
Interest paid	\$730	\$778
Income taxes paid	100	-
Supplemental noncash disclosure:		
Transfers from loans to foreclosed real estate	197	-

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

For the three months ended March 31, 2015 and 2014

(Dollar amounts in thousands, except per share data)

	For the three months ended March 31, 2015      2014	
Balance at beginning of period	\$47,990	\$45,072
Net income	781	841
Other comprehensive income	685	378
Stock compensation expense	53	42
Dividends declared on preferred stock	(25 )	(25 )
Dividends declared on common stock	(427 )	(389 )
Exercise of stock options, including tax benefit	4	26
Balance at end of period	\$49,061	\$45,945
Common cash dividend per share	\$0.24	\$0.22

See accompanying notes to consolidated financial statements.

## **Emclair Financial Corp**

Notes to Consolidated Financial Statements (Unaudited)

### **1. Nature of Operations and Basis of Presentation**

Emclair Financial Corp (the Corporation) is a Pennsylvania corporation and the holding company of The Farmers National Bank of Emlenton (the Bank) and Emclair Settlement Services, LLC (the Title Company). The Corporation provides a variety of financial services to individuals and businesses through its offices in Western Pennsylvania. Its primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential and commercial mortgages, commercial business loans and consumer loans.

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

The accompanying unaudited consolidated financial statements for the interim periods include all adjustments, consisting of normal recurring accruals, which are necessary, in the opinion of management, to fairly reflect the Corporation's consolidated financial position and results of operations. Additionally, these consolidated financial statements for the interim periods have been prepared in accordance with instructions for the Securities and Exchange Commission's (SEC's) Form 10-Q and Article 10 of Regulation S-X and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP). For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2014, as contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC.

The balance sheet at December 31, 2014 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements.

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, fair value of financial instruments, goodwill, real estate owned, the valuation of deferred tax assets and other-than-temporary impairment charges on securities. The results of operations for interim quarterly or year-to-date periods are not necessarily indicative of the results that may be expected for the entire year or any other period. Certain amounts previously reported may have been reclassified to

conform to the current year's financial statement presentation.

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

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

The Series B Preferred Stock is entitled to receive non-cumulative dividends payable quarterly on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, which is calculated on the aggregate liquidation amount, was initially set at 5% per annum based upon the current level of Qualified Small Business Lending (QSBL) by the Bank at that time. The dividend rate in the subsequent periods for the first two and one-half years through the quarter ending December 31, 2013 was based upon the percentage change in qualified lending between each dividend period and the baseline QSBL level established at the time the Agreement was entered into. Such dividend rate