EMCLAIRE FINANCIAL CORP
Form 10QSB
August 13, 2002

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

FORM 10-QSB

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For Quarter Ended: June 30, 2002

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

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 No.)

612 Main Street, Emlenton, PA 16373

(Address of principal executive offices)

(724) 867-2311

(Issuer's telephone number)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by the court. Yes ______ No ______

APPLICABLE ONLY TO CORPORATE ISSUERS

Number of shares of issuer's common stock outstanding as of July 31, 2002:

Common Stock, $1.25 par value	1,332,835

(Class) (Outstanding)

Transitional Small Business Disclosure Format (Check one): ____ Yes X No

EMCLAIRE FINANCIAL CORP.

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PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Emclaire Financial Corp. and Subsidiary
Consolidated Balance Sheets
As of June 30, 2002 (Unaudited) and December 31, 2001
(Dollar amounts in thousands, except share data)

	June 30, 2002 (unaudited)	December 31, 2001
Assets		
Cash and due from banks	$ 7,254	$ 7,127
Interest-earning deposits in banks	450	620
Federal funds sold	5,090	1,410
Cash and cash equivalents	12,794	9,157
Securities available for sale	39,336	38,695
Securities held to maturity; fair value of $51 and $61	50	60
Loans receivable held for sale	1,284	-
Loans receivable, net of allowance for loan losses of $1,424 and $1,464	165,741	1160,540
Federal bank stocks, at cost	1,338	1,261
Accrued interest receivable	1,321	1,251
Premises and equipment	3,373	3,388
Intangible assets	1,639	1,737
Prepaid expenses and other assets	697	628
Total assets	$ 227,573	$ 216,717
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$ 199,199	$ 189,470
Borrowed funds	5,000	5,000
Accrued interest payable	477	480
Accrued expenses and other liabilities	834	656
Total liabilities	205,510	195,606
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 and 1,332,835 shares outstanding	1,745	1,745
Additional paid-in capital	10,871	10,871
Treasury stock, at cost; 63,017 shares	(971)	(971)
Retained earnings	9,602	9,094

Accumulated other comprehensive income	816	372
Total stockholders' equity	22,063	21,111
Total liabilities and stockholders' equity	$ 227,573	$ 216,717

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Consolidated Income Statements For
the three and six months ended June 30, 2002 and 2001
(Unaudited)
(Dollar amounts in thousands, except share data)

	Three Months Ended June 30,		Six Months June 3
	2002	2001	2002
Interest and dividend income:			
Loans receivable	$ 3,104	$ 3,150	$ 6,247
Securities:			
Taxable	382	299	751
Exempt from federal income tax	138	92	279
Federal bank stocks	13	26	28
Deposits with banks and federal funds sold	18	89	31
Total interest income	3,655	3,656	7,336
Interest expense:			
Deposits	1,233	1,571	2,461
Borrowed funds	57	3	117
Total interest expense	1,290	1,574	2,578
Net interest income	2,365	2,082	4,758
Provision for loan losses	90	36	201
Net interest income after provision for loan losses	2,275	2,046	4,557
Noninterest income:			

Service fees	232	247	462
Other	111	97	177
Total noninterest income	342	344	639
Noninterest expense:			
Compensation and employee benefits	985	952	1,999
Premises and equipment, net	299	268	588
Intangible amortization expense	49	69	98
Other	535	504	1,098
Total noninterest expense	1,868	1,793	3,783
Net income before provision for income taxes	749	597	1,413
Provision for income taxes	219	176	400
Net income	$ 530	$ 421	$ 1,013
Net income per share	$ 0.40	$ 0.32	$ 0.76
Dividends per share	$ 0.19	$ 0.17	$ 0.38
Weighted average common shares outstanding	1,332,835	1,332,835	1,332,835

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Statement of Changes in Stockholders' Equity
For the six months ended June 30, 2002 (Unaudited)
(Dollar amounts in thousands)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2001	$ 1,745	$10,871	$ (971)	$ 9,094	$ 372	$ 21,111
Comprehensive income:						
Net income	-	-	-	1,013	-	1,013
Change in net unrealized gain on securities available for sale, net of taxes of $229	-	-	-	-	444	444
Comprehensive income						1,457

Dividends paid	-	-	-	(505)	-	(505)
Balance at June 30, 2002	$ 1,745	$10,871	$ (971)	$ 9,602	$ 816	$ 22,063

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
For the six months ended June 30, 2002 and 2001 (Unaudited)
(Dollar amounts in thousands)

	For the Six Months Ended June 30,	
	2002	2001
Operating activities:		
Net income	$ 1,013	$ 812
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization for premises and equipment	241	435
Provision for loan losses	201	82
Amortization of premiums and accretion of discounts, net	119	22
Net change in loans held for sale	(1,284)	-
Amortization of intangible assets	98	138
Decrease (increase) in accrued interest receivable	(70)	81
Decrease (increase) in prepaid expenses and other assets	(69)	(2)
Increase (decrease) in accrued interest payable	(3)	(25)
Increase (decrease) in accrued expenses and other liabilities	1178	(4)
Other	(219)	(238)
Net cash provided by operating activities	205	1,301
Lending and Investing Activities:		
Loan originations	(32,721)	(26,005)
Purchases of securities available for sale	(12,706)	(4,049)
Purchases of Federal bank stocks	(77)	(22)
Principal repayments of loans receivable	27,248	23,777
Repayments, maturities and calls of securities available for sale	12,680	3,951
Principal repayments of securities held to maturity	10	3
Purchases of premises and equipment	(226)	(92)

Net cash used in lending and investing activities	(5,792)	(2,437)
Deposit and Financing Activities:		
Net increase in deposits	9,729	9,435
Net increase (decrease) in borrowed funds	-	(2,000)
Dividends paid	(505)	(453)
Net cash provided by deposit and financing activities	9,224	6,982
Net increase in cash equivalents	3,637	5,846
Cash equivalents at beginning of period	9,157	8,510
Cash equivalents at end of period	$ 12,794	$ 14,356
Supplemental information:		
Interest paid	$ 2,581	$ 3,139
Income taxes paid	245	447

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Notes to Consolidated Financial Statements

1. Basis of Presentation

Emclaire Financial Corp. (the Corporation) is a Pennsylvania corporation and bank 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), a national banking association. The consolidated financial statements contained herein include the accounts of the Corporation and the Bank. All inter-company amounts have been eliminated.

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 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-QSB 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, 2001, as contained in the Corporation's 2001 Annual Report to Stockholders.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and deferred tax assets. 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. Securities

The following table summarizes the Corporation's securities as of the respective dates:

(In thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale:				
June 30, 2002:				
U.S. Government securities	$ 13,483	$ 393	$ (7)	$ 13,869
Municipal securities	11,444	167	(33)	11,578
Corporate securities	12,201	239	(2)	12,438
Equity securities	971	480	-	1,451
	$ 38,099	$ 1,279	$ (42)	$ 39,336
December 31, 2001:				
U.S. Government securities	$ 12,978	$ 441	$ (14)	$ 13,405
Municipal securities	11,919	24	(176)	11,767
Corporate securities	12,264	157	(115)	12,306
Equity securities	971	246	-	1,217
	$ 38,132	$ 868	$ (305)	$ 38,695
Held to maturity:				
June 30, 2002:				
Mortgage-backed securities	$ 50	$ 1	$ -	$ 51
	$ 50	$ 1	$ -	$ 51
December 31, 2001:				
Mortgage-backed securities	$ 60	$ 1	$ -	$ 61
	$ 60	$ 1	$ -	$ 61

3. Loans Receivable

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

(In thousands)	June 30, 2002	December 31, 2001
Mortgage loans:		
Residential first mortgage	$ 85,290	$ 84,974
Home equity	17,961	15,445
Commercial real estate	30,173	26,470
	133,424	126,889
Other loans:		
Consumer	13,227	16,141
Commercial business	20,514	18,974
	33,741	35,115
Total gross loans	167,165	162,004
Less allowance for loan losses	1,424	1,464
	$ 165,741	$ 160,540

4. Deposits

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

(Dollar amounts in thousands)	June 30, 2002			December 31, 2001	
Type of accounts	Weighted average rate	Amount	%	Weighted average rate	Amount
Noninterest-bearing deposits	-	$33,035	16.6%	-	$29,237
Interest-bearing demand deposits	1.11%	72,749	36.5%	1.32%	69,665
Time deposits	4.51%	93,415	46.9%	4.83%	90,568
	2.52%	$199,199	100.0%	2.79%	$189,470

5. Net Income Per Share

The Corporation maintains a simple capital structure with no common stock equivalents. As such earnings per share computations are based on the weighted average number of common shares outstanding for the respective reporting periods.

6. Comprehensive Income

Total comprehensive income was comprised of the following for the three and six-month periods ended June 30:

	Three Months Ended June 30,		Six Months June 3
In thousands	2002	2001	2002
Net income	$ 530	$ 421	$ 1,013
Change in net unrealized gain on securities available for sale, net of taxes	513	(7)	444
Comprehensive income	$ 1,043	$ 414	$ 1,457

7. Goodwill

On January 1, 2002, the Corporation adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." This statement changed the accounting for goodwill from an amortization method to an impairment-only approach. Thus amortization of goodwill, including goodwill recorded in past business combinations, ceased upon adoption of this statement. However, this statement did not amend SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," which requires recognition and amortization of unidentified assets relating to the acquisitions of certain financial institutions or branches thereof. The FASB has undertaken a limited scope project to reconsider the provisions of SFAS No. 72 and a final determination as to the treatment of goodwill associated with SFAS No. 72 acquisitions should be derived by the end of 2002. At June 30, 2002 and December 31, 2001, the Corporation had $460,000 and $484,000, respectively, in SFAS No. 72 goodwill resulting in intangible amortization expense of $12,000 and $24,000 for the three and six-month periods ended June 30, 2002, respectively.

Had SFAS No. 142 been in effect for all periods presented, previously reported net income and net income per share would have been as follows:

In thousands, except per share data	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six Months June 30 2002
Net income:			
Reported net income	$ 530	$ 421	$ 1,013
Add back goodwill amortization	-	20	-
Adjusted net income	$ 530	$ 441	$ 1,013
Net income per share:			
Reported net income per share	$ 0.40	$ 0.32	$ 0.76
Add back goodwill amortization	-	0.01	-
Adjusted net income per share	$ 0.40	$ 0.33	$ 0.76

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 and six-month periods ended June 30, 2002 and should be read in conjunction with the accompanying consolidated financial statements and notes presented on pages 1 through 7.

Discussions of certain matters in this Report on Form 10-QSB may constitute forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words or phrases such as "believe", "plan", "expect", "intend", "anticipate", "estimate", "project", "forecast", "may increase", "may fluctuate", "may improve" and similar expressions of future or conditional verbs such as "will", "should", "would", and "could". These forward-looking statements relate to, among other things, expectations of the business environment in which the Corporation operates, projections of future performance, potential future credit experience, perceived opportunities in the market, and statements regarding the Corporation's mission and vision. The Corporation's actual results, performance, and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements due to a wide range of factors. These factors include, but are not limited to, changes in interest rates, general economic conditions, the demand for the Corporation's products and services, accounting principles or guidelines, legislative and regulatory changes, monetary and fiscal policies of the US Government, US Treasury, and Federal Reserve, real estate markets, competition in the financial services industry, attracting and retaining key personnel, performance of new employees, regulatory actions, changes in and utilization of new technologies, and other risks detailed in the Corporation's reports filed with the Securities and Exchange Commission (SEC) from time to time, including the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. 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

General. The Corporation's total assets increased $10.9 million or 5.0% to $227.6 million at June 30, 2002 from $216.7 million at December 31, 2001. This net increase was primarily the result of increases in cash equivalents, securities, and loans receivable of $3.6 million, $631,000, and $6.5 million, respectively. The increase in total assets reflects a corresponding increase in total liabilities and total stockholders' equity of $9.9 million or 5.1% and $952,000 or 4.5%, respectively. The increase in total liabilities was primarily the result of an increase in deposits of $9.7 million or 5.1%. The increase in stockholders' equity was primarily the result of increases in retained earnings and accumulated other comprehensive income of $508,000 or 5.6% and $444,000 or 119.4%, respectively.

Cash equivalents. Cash on hand, interest-earning deposits and federal funds sold represent cash equivalents and increased a combined $3.6 million or 39.7% to $12.8 million at June 30, 2002 from $9.2 million at December 31, 2001. The net increase between June 30, 2002 and December 31, 2001 can be attributed primarily to the increase in the Corporation's deposits and maturities of securities, partially offset by net loan originations.

Securities. The Corporation's securities portfolio increased $631,000 or 1.6% to $39.4 million at June 30, 2002 from $38.7 million at December 31, 2001. This net increase was primarily the result of security purchases of $12.7 million, during the six months ended June 30, 2002. Partially offsetting these purchases were security maturities of $12.6 million, during the period.

Loans receivable. Net loans receivable increased $6.5 million or 4.0% to $167.0 million at June 30, 2002 from $160.5 million at December 31, 2001. This increase was comprised of an increase in mortgage loans of $7.8 million or 6.2%, partially offset by a decrease in other loans of $1.4 million during the six months ended June 30, 2002. This overall increase in loans receivable can be attributed primarily to higher customer demand for loans in the current lower interest rate environment as well as the introduction of new consumer mortgage loan products.

During the quarter ended June 30, 2002, management identified and designated $1.3 million of residential mortgage loans for sale in the secondary market. These loans were originated for sale and met certain interest rate and term parameters established by management in connection with managing the Corporation's asset and liability mix and interest rate risk. The loans were originated during the first half of 2002 and the sale of these loans is expected to be consummated in July 2002. The servicing of these loans will be retained, and future loans sales are expected in light of expected origination levels, product pricing and anticipated market interest rates.

Non-performing assets. Non-performing assets include non-accrual loans and real estate acquired through foreclosure. Non-performing assets amounted to $1.1 million or 0.47% and $1.3 million or 0.57% of total assets at June 30, 2002 and December 31, 2001, respectively.

Deposits. Total deposits increased $9.7 million or 5.1% to $199.2 million at June 30, 2002 from $189.5 million at December 31, 2001. This increase was comprised of increases in noninterest bearing, interest bearing and time deposits of $3.8 million, $3.1 million, and $2.8 million, respectively. The general increase in deposits during the period can be attributed primarily to: (1) an overall movement of funds in the marketplace by customers from mutual fund and stock investments into FDIC insured bank deposits as a result of recent national economic instability, and (2) the Corporation's development and promotion of new depository products including money market accounts and special certificate of deposit programs, among other initiatives.

Stockholders' equity. Stockholders' equity increased $952,000 or 4.5% to $22.1 million at June 30, 2002 from $21.1 million at December 31, 2001. This increase was principally the result of an increase in retained earnings of $508,000, comprised of net income of $1.0 million offset by dividends paid of $505,000, and an increase in accumulated other comprehensive income of $444,000.

RESULTS OF OPERATIONS

Comparison of Results for the Three-Month Periods Ended June 30, 2002 and 2001

General. The Corporation reported net income of $530,000 and $421,000 for the three months ended June 30, 2002 and 2001, respectively. The $109,000 or 25.9% increase in net income for the three months ended June 30, 2002, as compared to the three months ended June 30, 2001, was attributable to an increase in net interest income of $283,000, partially offset by a decrease in noninterest income of $2,000 and increases in the provision for loan losses, noninterest expense and the provision for income taxes of $54,000, $75,000 and $43,000, respectively.

During 2001, the Corporation and the nation experienced a historically unusual drop in national market interest rates with the federal funds discount rate decreasing 375 basis points to 1.75% in December 2001 from 5.50% in January 2001. Over the same period, the national prime-lending rate has declined similarly from 9.50% to 4.75%. The prime rate and short-term interest rates have remained relatively consistent during the six months ended June 30, 2002.

As outlined in detail below, this declining and lower rate environment has resulted in a significant repricing of the Corporation's loan and deposit products, reducing the yield of the Corporation's interest-earning assets as new loan production and refinancing of existing loans during 2001 and early 2002 has resulted in lower yielding assets. Since the Corporation's time deposit products don't afford a call feature, the cost of funds during 2001, did not decrease as quickly as the yield on interest-earning assets, however, such repricing of deposits is expected to approach that of interest-earning assets, particularly as the current lower interest rate environment continues. The Corporation continues to evaluate the pricing of interest-bearing demand deposits (checking, savings and

money market products) in light of the current rate environment and will adjust pricing to reflect current market conditions. During the first half of 2002, the Corporation's cost of funds experienced a similar decrease to that of loans prior and in light of the lower market interest rate environment.

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resultant 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.

(Dollar amounts in thousands)	Three months ended June 30,			
	2002			
	Average Balance	Interest	Yield / Rate	Bal
Interest-earning assets:				
Loans	167,135	$ 3,104	7.45%	$ 1
Securities, taxable	28,422	382	5.39%	
Securities, tax exempt	11,685	196	6.72%	
	40,107	578	5.78%	
Interest-earning cash equivalents	3,747	18	1.93%	
Federal bank stocks	1,325	13	3.94%	
	5,072	31	2.45%	
Total interest-earning assets	212,314	3,713	7.01%	1
Cash and due from banks	6,842			
Other noninterest-earning assets	5,662			
Total assets	$ 224,818	$ 3,713	6.62%	$ 2
Interest-bearing liabilities:				
Interest-bearing demand deposits	$ 72,144	$ 202	1.12%	$
Time deposits	91,910	1,031	4.50%	
	164,054	1,233	3.01%	1

Borrowed funds, term	5,000	57	4.57%	
Borrowed funds, overnight	-	-	0.00%	
	5,000	57	4.57%	
Total interest-bearing liabilities	169,054	1,290	3.06%	1
Noninterest-bearing demand deposits	32,235	-	-	
Funding and cost of funds	201,289	1,290	2.57%	1
Other noninterest-bearing liabilities	1,335			
Total liabilities	202,624			1
Stockholders' equity	21,794			
Total liabilities and stockholders' equity	$ 224,418	$ 1,290	2.57%	$ 2
Net interest income		$ 2,423		
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.95%	
Net interest margin (net interest income as a percentage of average interest-earning assets)			4.58%	

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.

(In thousands)	Three months ended June 30, 2002 versus 2001 Increase (decrease) due to		
	Volume	Rate	Total
Interest income:			

Loans	$ 285	$ (331)	$ (46)
Securities	193	(45)	148
Interest-earning cash equivalents	(35)	(36)	(71)
Federal bank stocks	2	(15)	(13)
Total interest-earning assets	445	(427)	18
Interest expense:			
Deposits	136	(474)	(338)
Borrowed funds	54	-	54
Total interest-bearing liabilities	190	(474)	(284)
Net interest income	$ 255	$ 47	$ 302

Net interest income. Net interest income on a tax equivalent basis increased $302,000 or 14.2% to $2.4 million for the three months ended June 30, 2002, compared to $2.1 million for the same period in the prior year. This increase can be attributed to an increase in interest income of $18,000 and a decrease in interest expense of $284,000.

Interest income. Interest income on a tax equivalent basis increased $18,000 to $3.71 million for the three months ended June 30, 2002, compared to $3.70 million for the same period in the prior year. This net increase in interest income can be attributed to an increase in interest earned on securities of $148,000, partially offset by a decrease in interest earned on loans, cash equivalents and federal bank stocks of $46,000, $71,000 and $13,000, respectively.

Contributing to the increase in net interest income was an increase in average interest-earning assets of $23.4 million or 12.4% to $212.3 million for the three months ended June 30, 2002, compared to $188.9 million for the same period in the prior year. The increase in average interest-earning assets can be attributed to increases in average loans receivable and average securities of $14.5 million and $13.2 million, respectively, partially offset by a decrease in interest-earning cash equivalents of $4.4 million. Average loans receivable increased to $167.1 million and average securities increased to $40.1 million during the three months ended June 30, 2002, compared to $152.6 million and $26.9 million, respectively, during the same period in the prior year. Partially offsetting the increase in interest income due to the increase in volume of interest-earning assets was a decrease in the yield on interest earning assets of 83 basis points to 7.01% for the three months ended June 30, 2002, compared to 7.84% for the same period in the prior year. The yield on average loans, securities and interest-earning deposits decreased to 7.45%, 5.78% and 1.93%, respectively, during the three months ended June 30, 2002, compared to 8.28%, 6.40%, and 4.40%, respectively, for the same period in the prior year.

Interest expense. Interest expense decreased $284,000 or 18.0% to $1.3 million for the three months ended June 30, 2002, compared to $1.6 million for the same period in the prior year. This decrease in interest expense can be attributed to a 114 basis point decline in the interest rate on average interest-bearing liabilities to 3.06% during the three months ended June 30, 2002, compared to 4.20% for the same period in the prior year. The average cost of deposits and borrowed funds decreased to 3.01% and 4.57%, respectively, during the three months ended June 30, 2002, compared to 4.20% and 5.42%, respectively, for the same period in the prior year.

The decrease in interest expense due to rate was partially offset by an increase in the average balance of interest-bearing liabilities, as average interest-bearing deposits and borrowed funds increased to $164.1 million and $5.0 million, respectively, during the three months ended June 30, 2002, compared to $150.0 million and $222,000, respectively, during the same period in the prior year.

Provision for loan losses. The Corporation records provisions for loan losses to bring the total allowance for loan losses to a level deemed adequate to cover probable losses inherent in the loan portfolio. In determining the appropriate level of allowance for loan losses, management considers historical loss experience, the present and prospective financial condition of borrowers, current and prospective economic 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.

The $54,000 increase in the Corporation's provision for loans losses between the three-month periods ended June 30, 2002 and 2001 was primarily the result of continued loan portfolio growth and the charge-off of certain nonperforming loans during 2002.

Noninterest income. Noninterest income, comprised primarily of fees on depository accounts, general transactional income, certain loan transaction costs and other miscellaneous income, remained relatively stable between the three months ended June 30, 2002 and the same period in the prior year.

Noninterest expense. Noninterest expense increased $75,000 or 4.2% to $1.9 million during the three months ended June 30, 2002, compared to $1.8 million during the same period in the prior year. This increase in noninterest expense can be attributed to increases in compensation and employee benefits, premises and equipment and other expenses of $33,000, $31,000 and $31,000, respectively, partially offset by a decrease in intangible amortization expense of $20,000. See "Note 7 - Goodwill" on page 7.

Compensation and employee benefits expense increased $33,000 or 3.5% to $985,000 during the three months ended June 30, 2002, compared to $952,000 for the same period in the prior year. This increase can be attributed primarily to normal and expected salary and benefit cost increases and increased management and employee incentive costs between the two periods.

Premises and equipment costs increased $31,000 or 11.6% to $299,000 during the three months ended June 30, 2002, compared to $268,000 for the same period in the prior year. This increase can be attributed to the realization of certain bank equipment repairs and branch office improvement expenditures during the past year.

Other noninterest expense increased $31,000 or 6.2% to $535,000 during the three months ended June 30, 2002, compared to $504,000 for the same period in the prior year. This increase can primarily be attributed to increased professional fee and telephone cost expenses between the two periods. Professional fees increased as a result of the Corporation retaining a transfer agent during late 2001, costs associated with the recently announced dividend reinvestment plan and enhanced financial reporting requirements.

Provision for income taxes. The provision for income taxes increased $43,000 or 24.4% to $219,000 for the three months ended June 30, 2002, compared to $176,000 for the same period in the prior year. This increase is a direct result of the increase in net income before taxes between the two periods, partially offset by a decrease in the Corporation's effective tax rate as a result of increased investment in tax-free municipal securities.

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Comparison of Results for the Six-Month Periods Ended June 30, 2002 and 2001

General. The Corporation reported net income of $1.0 million and $812,000 for the six months ended June 30, 2002 and 2001, respectively. The $201,000 or 24.8% increase in net income for the six months ended June 30, 2002, as compared to the six months ended June 30, 2001, was attributable to an increase in net interest income of $618,000, partially offset by a decrease in noninterest income of $14,000 and increases in the provision for loan losses, noninterest expense and the provision for income taxes of $119,000, $227,000 and $57,000, respectively.

Average Balance Sheet and Yield/Rate Analysis.

(Dollar amounts in thousands)	Six months ended June 30,			
	2002			20
	Average Balance	Interest	Yield / Rate	Bal
Interest-earning assets:				
Loans	$ 165,538	$ 6,247	7.61%	$ 1
Securities, taxable	28,152	751	5.38%	
Securities, exempt from Federal tax	11,486	397	6.97%	
	39,638	1,148	5.84%	
Interest-earning cash equivalents	2,656	31	2.35%	
Federal bank stocks	1,923	28	2.94%	
	4,579	59	2.60%	
Total interest-earning assets	209,755	7,454	7.17%	1
Cash and due from banks	6,547			
Other noninterest-earning assets	4,953			

Total assets	$ 221,255	$ 7,454	6.79%	$ 1
Interest-bearing liabilities:				
Interest-bearing demand deposits	$ 71,182	$ 405	1.15%	$
Time deposits	91,039	2,056	4.55%	
	162,221	2,461	3.06%	1
Borrowed funds, term	5,000	116	4.68%	
Borrowed funds, overnight	342	1	0.59%	
	5,342	117	4.42%	
Total interest-bearing liabilities	167,563	2,578	3.10%	1
Noninterest-bearing demand deposits	30,643	-	-	
Total financial liabilities/cost of funds	198,206	2,578	2.62%	1
Other noninterest-bearing liabilities	1,443			
Total liabilities	199,649			1
Stockholders' equity	21,606			
Total liabilities and stockholders' equity	$ 221,255	$ 2,578	2.62%	$ 1
Net interest income		$ 4,876		
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			4.07%	
Net interest margin (net interest income as a percentage of average interest-earning assets)			4.69%	

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Analysis of Changes in Net Interest Income.

(In thousands)	Six months ended June 30, 2002 versus 2001 Increase (decrease) due to		
	Volume	Rate	Total
Interest income:			

Loans	$ 524	$ (601)	$ (77)
Securities	395	(87)	308
Interest-earning cash equivalents	(78)	(63)	(141)
Federal bank stocks	16	(29)	(13)
Total interest-earning assets	857	(780)	77
Interest expense:			
Deposits	279	(950)	(671)
Borrowed funds	95	(10)	85
Total interest-bearing liabilities	374	(960)	(586)
Net interest income	$ 483	$ 180	$ 663

Net interest income. Net interest income on a tax equivalent basis increased $663,000 or 15.7% to $4.9 million for the six months ended June 30, 2002, compared to $4.2 million for the same period in the prior year. This increase can be attributed to an increase in interest income of $77,000 and a decrease in interest expense of $586,000.

Aside from changes in the volume and rates of interest-earning assets and interest-bearing liabilities discussed herein, $93,000 of the increase in net interest income between the periods can be attributed to the payoff of a previously non-performing commercial real estate loan in March 2002 that had been on non-accrual status. In connection with the loan payoff, the Corporation received all principal and interest due under the contractual terms of the loan agreement and therefore interest collected was recorded as loan interest income during the current period.

Interest income. Interest income on a tax equivalent basis increased $77,000 to $7.5 million for the six months ended June 30, 2002, compared to $7.4 million for the same period in the prior year. This net increase in interest income can be attributed to the aforementioned $93,000 collection and recognition of interest on a non-performing commercial real estate loan and an increase in interest earned on securities of $308,000; partially offset by decreases in interest earned on loans, cash equivalents and federal bank stocks of $77,000, $141,000 and $13,000, respectively.

Contributing to the increase in net interest income was an increase in average interest-earning assets of $22.8 million or 12.2% to $209.8 million for the six months ended June 30, 2002, compared to $187.0 million for the same period in the prior year. The increase in average interest-earning assets can be attributed to increases in average loans receivable and average securities of $13.2 million and $13.4 million, respectively, partially offset by a decrease in interest-earning cash equivalents of $4.5 million. Average loans receivable increased to $165.5 million and average securities increased to $39.6 million during the six months ended June 30, 2002, compared to $152.3 million and $26.2 million, respectively, during the same period in the prior year. Partially offsetting the increase in interest income due to the increase in volume of interest-earning assets was a decrease in the yield on interest earning assets of 79 basis points to 7.17% for the six months ended June 30, 2002, compared to 7.96% for the same period in the prior year. The yield on average loans, securities and interest-earning cash equivalents decreased to 7.61%, 5.84% and 2.35%, respectively, during the six months ended June 30, 2002, compared to

8.37%, 6.46%, and 5.11%, respectively, for the same period in the prior year.

Interest expense. Interest expense decreased $586,000 or 18.5% to $2.6 million for the six months ended June 30, 2002, compared to $3.2 million for the same period in the prior year. This decrease in interest expense can be attributed to a 118 basis point decline in the interest rate on average interest-bearing liabilities to 3.10% during the six months ended June 30, 2002, compared to 4.28% for the same period in the prior year. The average cost of deposits and borrowed funds decreased to 3.06% and 4.42%, respectively, during the six months ended June 30, 2002, compared to 4.27% and 5.84%, respectively, for the same period in the prior year.

The decrease in interest expense due to rate was partially offset by an increase in the average balance of interest-bearing liabilities as average interest-bearing deposits and borrowed funds increased to $162.2 million and $5.3 million, respectively, during the six months ended June 30, 2002, compared to $148.0 million and $1.1 million, respectively, during the same period in the prior year.

Provision for loan losses. The $119,000 increase in the Corporation's provision for loans losses between the six-month periods ended June 30, 2002 and 2001 was primarily the result of continued loan portfolio growth and the charge-off of certain nonperforming loans during the current year.

Noninterest income. Noninterest income decreased $14,000 or 2.1% to $639,000 for the six months ended June 30, 2002 compared to $653,000 for the same period in the prior year. This decrease was the result of lower overdraft and other transactional fees in 2002 versus 2001.

Noninterest expense. Noninterest expense increased $227,000 or 6.4% to $3.8 million during the six months ended June 30, 2002, compared to $3.6 million during the same period in the prior year. This increase in noninterest expense can be attributed to increases in compensation and employee benefits, premises and equipment and other expenses of $101,000, $33,000 and $133,000, respectively, partially offset by a decrease in intangible amortization expense of $40,000.

Compensation and employee benefits expense increased $101,000 or 5.3% to $2.0 million during the six months ended June 30, 2002, compared to $1.9 million for the same period in the prior year. This increase can be attributed primarily to normal and expected salary and benefit cost increases and increased management and employee incentive costs between the two periods.

Other noninterest expense increased $133,000 or 13.8% to $1.1 million during the six months ended June 30, 2002, compared to $965,000 for the same period in the prior year. This increase can primarily be attributed to increased professional fee and telephone cost expenses between the two periods. Professional fees increased as a result of the Corporation retaining a transfer agent during late 2001, costs associated with the recently announced dividend reinvestment plan and enhanced financial reporting requirements.

Provision for income taxes. The provision for income taxes increased $57,000 or 16.6% to $400,000 for the six months ended June 30, 2002, compared to $343,000 for the same period in the prior year. This increase is a direct result of the increase in net income before taxes between the two periods, partially offset by a decrease in the Corporation's effective tax rate as a result of increased investment in tax-free municipal securities during the latter half of 2001.

LIQUIDITY

The Corporation's primary sources of funds generally have been deposits obtained through the offices of the Bank, borrowings from the Federal Home Loan Bank of Pittsburgh (FHLB), and amortization and prepayments of outstanding loans and maturing securities. During the six months ended June 30, 2002, the Corporation used its sources of funds primarily to fund loan commitments and, to a lesser extent, purchase securities. As of such date, the Corporation had outstanding loan commitments, including undisbursed loans and amounts available under credit lines, totaling $14.6 million, and standby letters of credit totaling $737,000.

At June 30, 2002, time deposits amounted to $93.4 million or 46.9% of the Corporation's total consolidated deposits, including approximately $38.1 million, which were 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 line of credit and term borrowing capacity from the FHLB and, to a limited and rare extent, the sale of loans. At June 30, 2002, the Corporation's borrowing capacity with the FHLB, net of funds borrowed, was approximately $90.0 million.

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

RECENT REGULATORY DEVELOPMENTS

On July 30, 2002, President Bush signed into law new legislation that addresses accounting oversight and corporate governance. The new law creates a five member oversight board appointed by the Securities and Exchange Commission (SEC) that will set standards for accountants and have investigative and disciplinary powers. The new legislation bars accounting firms from providing a number of consulting services to audit clients and requires accounting firms to rotate partners among client assignments every five years. The new legislation also increases penalties for financial crimes, requires expanded disclosure of corporate operations and internal controls, enhances controls on and reporting of insider trading, expands the SEC's budget, and places statutory separations between investment bankers and analysts. Various aspects of the new legislation are dependent upon subsequent rulemaking by the SEC. Management is currently evaluating what impacts the new legislation will have upon the Corporation. The Corporation utilizes its external attestation auditor only for audit services and assistance with the preparation of tax returns.

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 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

(a) The annual meeting of stockholders of the Corporation was held May 21, 2002. Of 1,332,835 common shares eligible to vote, 1,145,860 or 85.97% were voted in person or by proxy.

(b) The following Class B directors were elected for a three year term expiring in 2005:

Name	Shares For	Shares Withheld
Bernadette H. Crooks	1,100,828	45,032
Robert L. Hunter	1,072,562	73,298
John B. Mason	1,091,400	54,460

In addition to the above listed individuals, the following persons continue to serve as directors: Ronald L. Ashbaugh, David L. Cox, George W. Freeman, Rodney C. Heeter, J. Michael King, Brian C. McCarrier and Elizabeth C. Smith.

(c) The recommendation of the Board of Directors to ratify the appointment of Crowe, Chizek and Company, LLP as the Corporation's independent auditors, as described in the proxy statement for the annual meeting, was approved with 1,135,321 shares in favor and 10,539 shares against.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 99.1 CEO Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 99.2 CFO Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

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.

Date: August 13, 2002

By: /s/ David L. Cox

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

Date: August 13, 2002

By: /s/ William C. Marsh

William C. Marsh
Treasurer/Secretary
(Principal Financial and Accounting Officer)

Exhibit 99.1

CEO CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Emclaire Financial Corp. (the Corporation) on Form 10-QSB for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date here (the Report), I, David L. Cox, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David L. Cox

David L. Cox
Chief Executive Officer

August 13, 2002

Exhibit 99.2

CFO CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Emclaire Financial Corp. (the Corporation) on Form 10-QSB for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date here (the Report), I, William C. Marsh, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ William C. Marsh

William C. Marsh
Chief Financial Officer

August 13, 2002