EMCLAIRE FINANCIAL CORP
Form 10-Q
November 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 September 30, 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 as defined in Rule 12b-2 of the Exchange Act.

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 1,431,404 at November 14, 2008.

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 September 30, 2008 (Unaudited) and December 31, 2007
(Dollar amounts in thousands, except share data)

	September 30, 2008	Decemb 20
Assets		
Cash and due from banks	$ 5,916	$
Interest earning deposits with banks	21,637	
Cash and cash equivalents	27,553	
Securities available for sale, at fair value	57,798	
Loans receivable, net of allowance for loan losses of $2,363 and $2,157	251,043	
Federal bank stocks, at cost	2,890	
Bank-owned life insurance	5,137	
Accrued interest receivable	1,373	
Premises and equipment, net	8,157	
Goodwill	1,422	
Prepaid expenses and other assets	1,535	
Total Assets	$ 356,908	$
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 48,316	$
Interest bearing	230,035	

Total deposits	278,351	
Short-term borrowed funds	13,260	
Long-term borrowed funds	35,000	
Accrued interest payable	841	
Common stock subscriptions payable	3,114	
Accrued expenses and other liabilities	963	
Total Liabilities	331,529	
Commitments and Contingencies	--	
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	
Additional paid-in capital	10,984	
Treasury stock, at cost; 128,017 shares	(2,653)	
Retained earnings	15,713	
Accumulated other comprehensive loss	(410)	
Total Stockholders' Equity	25,379	
Total Liabilities and Stockholders' Equity	$ 356,908	$

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Income
For the three and nine months ended September 30, 2008 and 2007 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,		For th
	2008	2007	2008
Interest and dividend income:			
Loans receivable, including fees	$ 4,059	$ 3,937	$ 1
Securities:			
Taxable	550	388	
Exempt from federal income tax	159	169	
Federal bank stocks	26	35	

Deposits with banks	53	6	
Total interest and dividend income	4,847	4,535	1
Interest expense:			
Deposits	1,650	1,578	
Borrowed funds	467	361	
Total interest expense	2,117	1,939	
Net interest income	2,730	2,596	
Provision for loan losses	140	45	
Net interest income after provision for loan losses	2,590	2,551	
Noninterest income:			
Fees and service charges	446	412	
Commissions on financial services	108	83	
Net gain (loss) on available for sale securities	(116)	18	
Net gain on sales of loans	--	15	
Earnings on bank-owned life insurance	58	55	
Other	124	113	
Total noninterest income	620	696	
Noninterest expense:			
Compensation and employee benefits	1,261	1,241	
Premises and equipment	409	404	
Other	626	610	
Total noninterest expense	2,296	2,255	
Income before provision for income taxes	914	992	
Provision for income taxes	198	238	
Net income	$ 716	$ 754	$
Basic and diluted earnings per share	$ 0.56	$ 0.59	$
Average common shares outstanding	1,267,835	1,267,835	1,26
Dilutive Shares	--	--	

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Condensed Consolidated Statements of Cash Flows
For the nine months ended September 30, 2008 and 2007 (Unaudited)
(Dollar amounts in thousands)

	For the nine Septe 2008
Cash flows from operating activities	
Net income	$ 1,816
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization of premises and equipment	518
Provision for loan losses	285
Amortization of premiums and accretion of discounts, net	(124)
Amortization of intangible assets and mortgage servicing rights	13
Amortization of deferred loan costs	209
Realized (gains) losses on sales of available for sale securities, net	391
Net gains on sales of loans	(8)
Originations of loans sold	(1,263)
Proceeds from the sale of loans	1,261
Stock compensation expense	83
Earnings on bank owned life insurance, net	(150)
Increase in accrued interest receivable	(8)
Increase in prepaid expenses and other assets	(387)
Increase (decrease) in accrued interest payable	70
Increase in accrued expenses and other liabilities	2,493
Net cash provided by operating activities	5,199
Cash flows from investing activities	
Loan originations and principal collections, net	(21,716)
Available for sale securities:	
Sales	--
Maturities, repayments and calls	61,518
Purchases	(67,664)
Purchase of federal bank stocks	(228)
Purchases of premises and equipment	(771)
Net cash used in investing activities	(28,861)
Cash flows from financing activities	
Net increase (decrease) in deposits	34,089
Net increase in short-term borrowed funds	7,860
Dividends paid on common stock	(1,217)
Net cash provided by (used in) financing activities	40,732
Net increase (decrease) in cash and cash equivalents	17,070
Cash and cash equivalents at beginning of period	10,483
Cash and cash equivalents at end of period	$ 27,553

Supplemental information:

Interest paid	$ 6,024
Income taxes paid	270
Supplemental noncash disclosure:	
Transfers from loans to foreclosed real estate	130

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the three and nine months ended September 30, 2008 and 2007 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,	
	2008	2007
Balance at beginning of period	$ 25,005	$ 23,990
Net income	716	754
Other comprehensive income (loss):		
Change in net unrealized gains (losses) on available for sale securities, net of taxes	(43)	381
Less reclassification adjustment for (gains) losses included in net income, net of taxes	76	(12)
Other comprehensive income (loss)	33	369
Total comprehensive income	749	1,123
Stock compensation expense	31	15
Dividends declared	(406)	(368)
Balance at end of period	$ 25,379	$ 24,760
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 for the three and nine months periods ended September 30, 2008 and 2007.

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
Available for sale:			
September 30, 2008:			
U.S. Government agencies and related entities	$ 17,988	$ 42	$ (113
Mortgage-backed securities	19,801	124	(70
Municipal securities	13,297	366	--
Corporate securities	2,994	--	--
Equity securities	3,874	--	(505
	$ 57,954	$ 531	$ (687
December 31, 2007:			
U.S. Government agencies and related entities	$ 29,356	$ 37	$ (59
Mortgage-backed securities	1,932	--	(48
Municipal securities	13,685	566	--
Corporate securities	2,939	--	--
Equity securities	4,156	--	(645
	$ 52,068	$ 603	$ (752

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.

Effective September 30, 2008, management evaluated the Corporation's investment portfolio and determined that a $51,322 other than temporary impairment existed on Fannie Mae stock and a $65,047 other than temporary impairment existed on Freddie Mac stock. The impairment of these securities was considered to be other than temporary due to continued concerns related to the financial condition and near-term prospects of the issuers, economic conditions of the financial services industry and deteriorating market values. These securities were written down to their fair market value as of September 30, 2008 and the resulting impairment losses were recognized in earnings during the third quarter of 2008. This impairment charge was in addition to a $275,000 other than temporary impairment charge recorded at the end of the second quarter of 2008.

There were no other unrealized losses that were considered other than temporary at September 30, 2008.

4. Loans Receivable.

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

(Dollar amounts in thousands)	September 30, 2008	December 31, 2007
Mortgage loans on real estate:		
Residential first mortgages	$ 67,529	$ 65,706
Home equity loans and lines of credit	56,859	49,426
Commercial real estate	79,684	71,599
	204,072	186,731
Other loans:		
Commercial business	40,171	35,566
Consumer	9,163	9,679
	49,334	45,245
Total loans, gross	253,406	231,976
Less allowance for loan losses	2,363	2,157
Total loans, net	$ 251,043	$ 229,819

5. Deposits.

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

(Dollar amounts in thousands)	September 30, 2008		December 31, 2007	
Type of accounts	Amount	%	Amount	%
Non-interest bearing deposits	$ 48,316	17.3%	$ 47,111	19.3%
Interest bearing demand deposits	103,487	37.2%	77,614	31.8%
Time deposits	126,548	45.5%	119,537	48.9%
	$278,351	100.0%	$244,262	100.0%

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 September 30, 2008, $81,000 will expire within the next seven months, $684,000 will automatically renew within the next twelve months and $305,000 will automatically renew within thirteen to seventeen 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 September 30, 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 nine months ended September 30, 2008 and 2007 amounted to $113,000 and $100,000, 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 three years of service.

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

The components of the periodic pension cost are as follows:

(Dollar amounts in thousands)	For the three months ended September 30,		For the nine Septem
	2008	2007	2008
Service cost	$ 73	$ 66	$ 199
Interest cost	71	68	213
Expected return on plan assets	(79)	(74)	(237)
Transition asset	--	4	--
Prior service costs	(8)	(8)	(24)
Recognized net actuarial (gain) loss	4	10	12
Net periodic pension cost	$ 61	$ 66	$ 163

The expected rate of return on plan assets was 8.50% for the periods ended September 30, 2008 and 2007. The Corporation contributed $335,000 to its pension plan for the 2008 plan year during the quarter ended September 30, 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 nine-month periods ended September 30, 2008 and 2007, the Corporation recognized $83,000 and $16,000, respectively, 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 nine months ended September 30, 2008
Dividend yield	4.46%
Expected life	10 years
Expected volatility	14.09%
Risk-free interest rate	5.10%

8. Stock Compensation Plans (continued).

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.

A summary of option activity under the Plan as of September 30, 2008, and changes during the period then ended is presented below:

	Options	Weighted-Average Exercise Price	Ag Intri
Outstanding at the beginning of the year	84,000	$ 26.00	
Granted	5,500	25.90	
Exercised	--	--	
Forfeited	4,500	26.00	
Outstanding as of September 30, 2008	85,000	$ 25.99	$
Exercisable as of Septemer 30, 2008	--	$ --	$

A summary of the status of the Corporation's nonvested shares as of September 30, 2008, and changes during the period then ended is presented below:

	Options	Wei Grant
Nonvested at the beginning of the year	84,000	$
Granted	5,500	
Vested	--	
Forfeited	4,500	
Nonvested as of September 30, 2008	85,000	$

As of September 30, 2008, there was $172,000 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 1.8 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:

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9. Fair Values of Financial Instruments (continued).

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.

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 September 30, 2008 are as follows:

(Dollar amounts in thousands)	(Level 1) Quoted Prices in	(Level Signifi

Description	September 30, 2008	Active Markets for Identical Assets	Othe Observ Inpu
Securities available for sale	$ 57,798	$ 3,369	$
	$ 57,798	$ 3,369	$

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 September 30, 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 September 30, 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. Merger Conversion.

On October 17, 2008, the Corporation completed a merger conversion with Elk County Savings and Loan Association (ECSLA) in Ridgway, Pennsylvania. ECSLA merged with and into the Bank, with the Bank as the surviving institution. As a result of the merger, the Corporation added approximately $7.4 million, $6.2 million, and $4.5 million, respectively, in loans, deposits and equity. In connection with this transaction, the Corporation offered between a minimum of 92,435 and maximum of 200,000 shares of its common stock to eligible depositors and borrowers of ECSLA and to the general public. Orders for a total of 163,569 shares of the Corporation's common stock at a price of $21.15 were accepted in the offering, resulting in gross proceeds of $3,459,484. Proceeds received prior to the merger date were classified as a liability on the Corporation's consolidated balance sheet as of September 30, 2008. These funds were reclassified to equity upon the issuance of common shares on October 17, 2008. The Corporation intends to use the proceeds to support future loan and asset growth, to expand its business operations and for general corporate purposes.

12. 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.

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.

In April 2008, the FASB issued FASB Staff Position (FSP) SFAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Corporation is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Corporation is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In June 2008, the FASB ratified EITF Issue No. 07-5, Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock (EITF 07-5). EITF 07-5 provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF is effective for fiscal years beginning after December 15, 2008. The Corporation is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

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

In October 2008, the FASB issued FSP SFAS No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). This FSP clarifies the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to the Corporation's September 30, 2008 financial statements. The application of the provisions of FSP157-3 did not materially affect the Corporation's 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 and nine months ended September 30, 2008 compared to the same periods in 2007 and should be read in conjunction with the Corporation's December 31, 2007 Annual Report on 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 $45.2 million to $356.9 million at September 30, 2008 from $311.7 million at December 31, 2007. This 14.5% increase resulted from increases in cash and cash equivalents, securities and loans receivable, net of allowance for loan losses, of $17.1 million, $5.9 million and $21.2 million, respectively. The increase in the Corporation's assets was primarily funded by increases in customer deposits and borrowed funds.

Non-performing assets to total assets decreased to 0.22% at September 30, 2008 compared to 0.33% at December 31, 2007. The Bank has a $2.3 million personal loan that was not included as a non-performing asset for purposes of the September 30, 2008 calculation that has exhibited credit weaknesses and has been classified as substandard. This loan is secured by local real property pledged by an associate of the borrower as well as proceeds from a life insurance policy. The Bank is in negotiations with the borrower, who has continued to make scheduled payments. Due to the low loan to value ratio at the time of the loan origination in March 2006, the Bank does not believe it will incur any material losses on this loan.

Total liabilities increased $44.5 million to $331.5 million at September 30, 2008 from $287.0 million at December 31, 2007, while total stockholders' equity increased $676,000 to $25.4 million at September 30, 2008 from $24.7 million at December 31, 2007. This 15.5% increase in total liabilities resulted primarily from increases in customer deposits and borrowed funds of $34.1 million and $7.9 million, respectively.

RESULTS OF OPERATIONS

Comparison of Results for the Three Month Periods Ended September 30, 2008 and 2007

General. Net income decreased $38,000 or 5.1% to $716,000 for the three months ended September 30, 2008 from $754,000 for the same period in 2007. This decrease was the result of increases in the provision for loan losses and noninterest expense of $95,000 and $41,000, respectively, and a decrease in noninterest income of $76,000, partially offset by an increase in net interest income of $134,000 and a decrease in the provision for income taxes of $40,000.

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The decrease in noninterest income resulted as the Corporation realized security losses of $116,000 for the three months ended September 30, 2008 related to two marketable equity securities that were determined to be impaired.

Net interest income. Net interest income on a tax equivalent basis increased $125,000 or 4.6% to $2.8 million for the three months ended September 30, 2008 from $2.7 million for the same period in 2007. This net increase can be attributed to an increase in tax equivalent interest income of $303,000, partially offset by an increase in interest expense of $178,000.

Interest income. Interest income on a tax equivalent basis increased $303,000 or 6.5% to $4.9 million for the three months ended September 30, 2008, compared to $4.6 million for the same period in the prior year. This increase can be attributed to increases in interest on loans, securities and interest-earning deposits with banks of $122,000, $152,000 and $47,000, respectively, partially offset by a decrease in interest on federal bank stocks of $9,000.

Tax equivalent interest earned on loans receivable increased $119,000 or 3.0% to $4.1 million for the three months ended September 30, 2008, compared to $3.9 million for the same period in 2007. This increase resulted primarily from average loans increasing $23.2 million or 10.3%, accounting for $394,000 in additional loan interest income. This increase can be primarily attributed to growth in the Corporation's commercial loan portfolios. Offsetting this volume increase, the yield on loans receivable decreased 45 basis points to 6.56% for the three months ended September 30, 2008, versus 7.01% for the same period in 2007, accounting for a $275,000 decrease in interest income. Contributing to this decrease in the average yield on loans receivable were the recent decreases in short-term market interest rates.

In addition, the Corporation collected $60,000 of interest due associated with the payoff of a commercial loan in August 2007 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 interest collected was recorded as loan interest income during the three months ended September 30, 2007.

Tax equivalent interest earned on securities increased $147,000 or 23.2% to $780,000 for the three months ended September 30, 2008, compared to $633,000 for the same period in 2007. The average volume of securities increased $14.2 million, accounting for a $173,000 increase in interest income. Offsetting this volume increase, the average yield on securities decreased 19 basis points to 4.84% for the three months ended September 30, 2008, versus 5.03% for the same period in 2007, as a result of certain higher yielding securities maturing. This unfavorable yield variance accounted for a $26,000 decrease in interest income.

Interest earned on interest-earning deposit accounts increased $47,000 or 783.3% to $53,000 for the three months ended September 30, 2008 from $6,000 for the same period in 2007. The average volume of these assets increased $8.2 million or 180.4%, primarily as a result of an increase in customer deposits, increasing interest income by $52,000. Offsetting this volume increase, the average yield on interest-earning deposit accounts decreased 314 basis points to 2.44% for the three months ended September 30, 2008, compared to 5.58% for the same period in the prior year, accounting for a $6,000 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 $9,000 or 25.7% to $26,000 for the three month period ended September 30, 2008 from $35,000 for the same period in 2007. The average yield on these assets decreased 250 basis points to 3.58% for the three months ended September 30, 2008, compared to 6.08% for the same period the prior year, accounting for a $17,000 decrease in interest income. Offsetting this rate decrease, the average volume of dividends on bank stock increased $609,000 or 26.7% to $2.9 million for the three months ended September 30, 2008, compared to $2.3 million for the same period the prior year, accounting for an $8,000 increase in interest income.

Interest expense. Interest expense increased $178,000 or 9.2% to $2.1 million for the three months ended September 30, 2008, compared to $1.9 million for the same period in 2007. This increase in interest expense can be attributed to an increase in interest incurred on deposits and borrowed funds of $72,000 and $106,000, respectively.

Interest expense incurred on borrowed funds increased $106,000 or 29.4% to $467,000 for the three months ended September 30, 2008, compared to $361,000 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 $13.8 million or 43.0% to $45.9 million for the three months ended September 30, 2008, compared to $32.1 million for the same period in the prior year contributing $143,000 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 a $8.8 million increase in short-term borrowings used to fund security purchases. Partially offsetting this volume increase, the cost of borrowed funds decreased 41 basis points to 4.05% for the three months ended September 30, 2008, compared to 4.46% for the same period in 2007 causing a $37,000 decrease in interest expense.

Interest expense incurred on deposits increased $72,000 or 4.6% to $1.7 million for the three months ended September 30, 2008 compared $1.6 million for the same period in 2007. The average volume of interest-bearing deposits increased $28.5 million to $220.8 million for the three months ended September 30, 2008, compared to $192.3 million for the same period in 2007 causing a $221,000 increase in interest expense. Partially offsetting this favorable volume variance, the cost of interest-bearing deposits decreased 29 basis points to 2.97% for the three months ended September 30, 2008, compared to 3.26% for the same period in 2007 causing a $149,000 decrease in interest expense.

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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 Sep			
	2008			
	Average Balance	Interest	Yield / Rate	A B
Interest-earning assets:				
Loans, taxable	$ 241,985	$ 3,995	6.57%	$
Loans, tax exempt	5,919	92	6.15%	
Total loans receivable	247,904	4,087	6.56%	
Securities, taxable	50,196	550	4.36%	
Securities, tax exempt	13,914	230	6.58%	
Total securities	64,110	780	4.84%	
Interest-earning deposits with banks	8,644	53	2.44%	
Federal bank stocks	2,892	26	3.58%	
Total interest-earning cash equivalents	11,536	79	2.72%	

Total interest-earning assets	323,550	4,946	6.08%	
Cash and due from banks	5,935			
Other noninterest-earning assets	15,082			
Total Assets	$ 344,567			$
Interest-bearing liabilities:				
Interest-bearing demand deposits	$ 95,121	355	1.48%	$
Time deposits	125,711	1,295	4.10%	
Total interest-bearing deposits	220,832	1,650	2.97%	
Borrowed funds, short-term	10,894	72	2.63%	
Borrowed funds, long-term	35,000	395	4.49%	
Total borrowed funds	45,894	467	4.05%	
Total interest-bearing liabilities	266,726	2,117	3.16%	
Noninterest-bearing demand deposits	50,064	--	--	
Funding and cost of funds	316,790	2,117	2.66%	
Other noninterest-bearing liabilities	2,723			
Total Liabilities	319,513			
Stockholders' Equity	25,054			
Total Liabilities and Stockholders' Equity	$ 344,567			$
Net interest income		$ 2,829		
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			2.92%	
Net interest margin (net interest income as a percentage of average interest-earning assets)			3.48%	

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 September 30, 2008 versus 2007 Increase (Decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$ 394	$ (275)	$ 119
Securities	173	(26)	147
Interest-earning deposits with banks	52	(6)	46
Federal bank stocks	8	(17)	(9
Total interest-earning assets	627	(324)	303
Interest expense:			
Deposits	221	(149)	72
Borrowed funds	143	(37)	106
Total interest-bearing liabilities	364	(186)	178
Net interest income	$ 263	$ (138)	$ 125

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 September 30, 2008 and 2007 is as follows:

(Dollar amounts in thousands)	At or for the three months ended September 30,	
	2008	2007
Balance at the beginning of the period	$ 2,301	$ 2
Provision for loan losses	140	
Charge-offs	(86)	
Recoveries	8	

Balance at the end of the period	$ 2,363	$ 2
Non-performing loans	$ 783	$
Non-performing assets	797	1
Non-performing loans to total loans	0.31%	
Non-performing assets to total assets	0.22%	
Allowance for loan losses to total loans	0.93%	
Allowance for loan losses to non-performing loans	301.79%	22

The provision for loan losses increased $95,000 or 211.1% to $140,000 for the three month period ended September 30, 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 $140,000 in the provision for loan losses during the three months ended September 30, 2008.

Noninterest income. Noninterest income decreased $76,000 or 10.9% to $620,000 during the three months ended September 30, 2008, compared to $696,000 during the same period in the prior year. This decrease can be attributed to the decreases in gains and losses on securities and gains on the sale of loans of $134,000 and $15,000, respectively. Partially offsetting this decrease in noninterest income were increases in fees and service charges, commissions on financial services, earnings on bank-owned life insurance and other noninterest income of $34,000, $25,000, $3,000 and $11,000, respectively.

The Corporation realized security losses of $116,000 in the third quarter of 2008 compared to gains of $18,000 for the same period in 2007. Management determined that two marketable equity securities were impaired. The impairment of these financial industry securities were considered to be other than temporary due to recent developments in the financial condition and near-term prospects of the issuers, a downturn in the economic conditions affecting the industry and declining book values of the securities. At September 30, 2008, these securities were written down to their current fair value.

Noninterest expense. Noninterest expense increased $41,000 or 1.8% to $2.3 million during the three months ended September 30, 2008 compared to the same period in 2007. This increase in noninterest expense can be attributed to increases in compensation and employee benefits, premises and equipment and other noninterest expense of $20,000, $5,000 and $16,000, respectively.

Compensation and employee benefits increased $20,000 or 1.6% to $1.3 million for the three months ended September 30, 2008. This increase can be attributed primarily to normal salary and wage increases, partially offset by a decrease in incentive expense.

Premises and equipment increased $5,000 or 1.2% to $409,000 for the three months ended September 30, 2008, compared to $404,000 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 Grove City, Pennsylvania during April 2008.

Other noninterest expense increased $16,000 or 2.6% to $626,000 during the three months ended September 30, 2008, compared to $610,000 for the same period in the prior year. This increase can be attributed primarily to increases in FDIC insurance and internet banking expense, partially offset by decreases in marketing and professional fees.

The Corporation anticipates a significant increase in the cost of federal deposit insurance from current levels of five to seven basis points. The FDIC has recently proposed to increase the assessment rate for the most highly rated institutions to between 12 and 14 basis points for the first quarter of 2009 and to between 10 and 14 basis points thereafter. Assessment rates could be further increased if an institution's FHLB advances exceed 15% of deposits. The FDIC has also established a program under which it fully guarantees all non-interest bearing transaction accounts and senior unsecured debt of a bank or its holding company. Institutions that do not opt out of the program by December 5, 2008 will be assessed ten basis points for non-interest bearing transaction account balances in excess of $250,000 and 75 basis points of the amount of debt issued.

Provision for income taxes. The provision for income taxes decreased $40,000 or 16.8% to $198,000 for the three months ended September 30, 2008, compared to $238,000 for the same period in the prior year. This was due to a decrease in pre-tax earnings of $79,000 or 7.9% to $914,000 for the three months ended September 30, 2008, compared to $992,000 for the same period in the prior year and a decrease in the effective tax rate to 21.7% for the three months ended September 30, 2008, compared to 24.0% 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.

Comparison of Results for the Nine Month Periods Ended September 30, 2008 and 2007

General. Net income decreased $196,000 or 9.7% to $1.8 million for the nine months ended September 30, 2008 from $2.0 million for the same period in 2007. This decrease was a result of increases in the provision for loans losses and noninterest expense of $165,000 and $103,000, respectively, and a decrease in noninterest income of $421,000. Partially offsetting this decrease was an increase in net interest income of $434,000 and a decrease in the provision for income taxes of $59,000.

Net interest income. Net interest income on a tax equivalent basis increased $411,000 or 5.3% to $8.1 million for the nine months ended September 30, 2008 from $7.7 million for the same period in 2007. This net increase can be attributed to an increase in tax equivalent interest income of $645,000, partially offset by a $234,000 increase in interest expense.

Interest income. Interest income on a tax equivalent basis increased $645,000 or 4.7% to $14.2 million for the nine months ended September 30, 2008, compared to $13.6 million for the same period in the prior year. This increase can be attributed to an increase in interest earned on loans and securities of $579,000 and $121,000, respectively, partially offset by decreases in interest earned on federal bank stocks, and interest-earning deposits with banks of $24,000 and $31,000, respectively.

Tax equivalent interest earned on loans receivable increased $579,000 or 5.1% to $12.0 million for the nine months ended September 30, 2008, compared to $11.4 million for the same period in 2007. During that time, average loans increased $20.8 million or 9.5%, accounting for $1.1 million in additional loan interest income. This increase can be primarily attributed to growth in the Corporation's commercial loan portfolios. Partially offsetting this volume increase, the yield on loans decreased 29 basis points to 6.66% for the nine months ended September 30, 2008, versus 6.95% for the same period in 2007, accounting for a $473,000 decrease in interest income. Contributing to this unfavorable yield variance were the recent decreases in short-term market interest rates. In addition, the Corporation collected $120,000 of interest due as a result of the payoff of a commercial loan in April and August 2007 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 interest collected was recorded as loan interest income during the nine months ended September 30, 2007.

Tax equivalent interest earned on securities increased $121,000 or 6.4% to $2.0 million for the nine months ended September 30, 2008, compared to $1.9 million for the same period in 2007. The average volume of securities increased $3.1 million to $55.2 million for the nine months ended September 30, 2008, compared to $52.1 million for the nine months ended September 30, 2007. This resulted in a $113,000 increase in interest income. In addition to this favorable volume variance, the average yield on securities increased one basis point to 4.93% for the nine months ended September 30, 2008, versus 4.92% for the same period in 2007, accounting for an additional $8,000 in interest income.

Interest earned on interest-earning deposit accounts decreased $31,000 or 21.7% to $112,000 for the nine months ended September 30, 2008 from $143,000 for the same period in 2007. The average yield on interest-earning deposit accounts decreased 291 basis points to 2.35% for the nine months ended September 30, 2008, compared to 5.26% for the same period in the prior year, accounting for the decline in interest income. The decrease in the average yield reflects the recent decreases in short-term market interest rates. Interest earned on federal bank stocks decreased $24,000 to $82,000 for the nine month period ended September 30, 2008 from $106,000 for the same period in the prior year as a result of a lower yield. The lower yield resulted from the recognition of a special dividend on FHLB capital stock during the nine months ended September 30, 2007.

Interest expense. Interest expense increased $234,000 or 4.0% to $6.1 million for the nine months ended September 30, 2008, compared to $5.9 million for the same period in the prior year. This increase in interest expense can be attributed to an increase in interest incurred on borrowed funds of $271,000, partially offset by a decrease in interest incurred on deposits of $37,000.

Interest expense incurred on borrowed funds increased $271,000 or 25.9% to $1.3 million for the nine months ended September 30, 2008, compared to $1.0 million 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 $11.4 million to $42.7 million for the nine months ended September 30, 2008, compared to $31.3 million for the same period in the prior year. 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 a $6.4 million increase in average short-term borrowings used primarily to fund security purchases. This volume variance contributed $358,000 in additional expense. Partially offsetting this volume increase, the cost of borrowed funds decreased 35 basis points to 4.12% for the nine months ended September 30, 2008, compared to 4.47% for the same period in 2007 causing a $87,000 decrease in interest expense.

Interest expense incurred on deposits decreased $37,000 or 1.0% at $4.8 million for the nine months ended September 30, 2008 and 2007. This decrease can be attributed to the cost of interest-bearing deposits decreasing 21 basis points to 3.08% for the nine months ended September 30, 2008, compared to 3.29% for the same period in 2007 accounting for a $317,000 decline in interest expense. The decrease in the rate paid on deposits reflects the recent decreases in short-term market interest rates. Partially offsetting this favorable yield variance, the average volume of deposits increased $11.7 million or 6.0% to $207.0 million for the nine months ended September 30, 2008, compared to $195.3 million for the same period in 2007 contributing $280,000 in additional expense.

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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)	Nine months ended Sept			
	2008			
	Average Balance	Interest	Yield / Rate	Av Ba
Interest-earning assets:				
Loans, taxable	$ 234,642	$ 11,722	6.67%	$
Loans, tax exempt	6,024	281	6.24%	
Total loans receivable	240,666	12,003	6.66%	
Securities, taxable	40,970	1,339	4.37%	
Securities, tax exempt	14,201	698	6.57%	
Total securities	55,171	2,037	4.93%	
Interest-earning deposits with banks	6,374	112	2.35%	
Federal bank stocks	2,721	82	4.00%	
Total interest-earning cash equivalents	9,095	194	2.84%	
Total interest-earning assets	304,932	14,234	6.24%	
Cash and due from banks	5,578			
Other noninterest-earning assets	14,762			
Total assets	$ 325,272			$

Interest-bearing liabilities:				
Interest-bearing demand deposits	$ 87,077	949	1.46%	$
Time deposits	119,933	3,827	4.26%	
Total interest-bearing deposits	207,010	4,776	3.08%	
Borrowed funds, long-term	35,000	1,177	4.49%	
Borrowed funds, short-term	7,728	141	2.44%	
Total borrowed funds	42,728	1,318	4.12%	
Total interest-bearing liabilities	249,738	6,094	3.26%	
Noninterest-bearing demand deposits	48,041	--	--	
Funding and cost of funds	297,779	6,094	2.73%	
Other noninterest-bearing liabilities	2,525			
Total liabilities	300,304			
Stockholders' equity	24,968			
Total liabilities and stockholders' equity	$ 325,272			$
Net interest income		$ 8,140		
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			2.98%	
Net interest margin (net interest income as a percentage of average interest-earning assets)			3.57%	

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)	Nine months ended September 30, 2008 versus 2007 Increase (Decrease) due to

	Volume	Rate	Total
Interest income:			
Loans	$ 1,052	$ (473)	$ 579
Securities	113	8	121
Interest-earning deposits with banks	73	(104)	(31)
Federal bank stocks	18	(42)	(24)
Total interest-earning assets	1,256	(611)	645
Interest expense:			
Deposits	280	(317)	(37)
Borrowed funds	358	(87)	271
Total interest-bearing liabilities	638	(404)	234
Net interest income	$ 618	$ (207)	$ 411

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 nine months ended September 30, 2008 and 2007, and the year ended December 31, 2007 is as follows:

	At or for the nine months ended September 30,	
	2008	2007
Balance at the beginning of the period	$ 2,157	$ 2,035
Provision for loan losses	285	120
Charge-offs	(113)	(63
Recoveries	34	26
Balance at the end of the period	$ 2,363	$ 2,118
Non-performing loans	$ 783	$ 931
Non-performing assets	797	1,015

Non-performing loans to total loans	0.31%	0.41
Non-performing assets to total assets	0.22%	0.34
Allowance for loan losses to total loans	0.93%	0.93
Allowance for loan losses to non-performing loans	301.79%	227.48

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The provision for loan losses increased $165,000 or 137.5% to $285,000 for the nine month period ended September 30, 2008 from $120,000 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 $285,000 in the provision for loan losses during the nine months ended September 30, 2008.

Noninterest income. Noninterest income decreased $421,000 to $1.8 million for the nine months ended September 30, 2008, compared to $2.2 million for the same period in the prior year. This decrease can be attributed to decreases in gains on securities and loan sales of $585,000 and $14,000, respectively, partially offset by increases in fees and service charges, commissions earned on financial services, earnings on bank-owned life insurance and other noninterest income of $83,000, $29,000, $8,000 and $59,000, respectively.

The Corporation realized security losses of $391,000 during the nine months ended September 30, 2008 compared to gains of $194,000 for the same period in 2007. During the second and third quarters of 2008, management determined there were other than temporary impairment losses related to Fannie Mae and Freddie Mac stock due to financial and economic condition concerns and declining book values of the securities. The gain during the nine month period ended September 30, 2007, was primarily due to gains from the sale of a community bank stock investment as a result of that bank's merger with a larger financial institution.

Noninterest expense. Noninterest expense increased $103,000 or 1.5% to $7.0 million during the nine months ended September 30, 2008, compared to $6.9 million during the same period in the prior year. This increase in noninterest expense can be attributed to increases in compensation and benefits and premises and equipment of $170,000 and $42,000, respectively, partially offset by a decrease in other noninterest expense of $109,000.

Compensation and benefits increased $170,000 or 4.5% to $4.0 million during the nine months ended September 30, 2008, compared to $3.8 million for the same period in the prior year. This increase can be attributed primarily to normal salary and wage increases and the addition of staff associated with the opening of the Grove City office in April 2008.

Premises and equipment increased $42,000 or 3.5% to $1.2 million during the nine months ended September 30, 2008.. This increase is primarily related to increased building and equipment depreciation, utilities, and general building expense associated with the additional branch office which was opened in April 2008.

Other noninterest expense decreased $109,000 or 5.7% to $1.8 million during the nine months ended September 30, 2008, compared to $1.9 million for the same period in the prior year. This decrease can be attributed to decreases in professional fees relating to Sarbanes-Oxley Section 404 compliance and marketing and courier expense decreases. Partially offsetting these decreases were increases in FDIC insurance, membership and subscription, postage, and printing and office supplies.

Provision for income taxes. The provision for income taxes decreased $59,000 or 10.4% to $510,000 for the nine months ended September 30, 2008, compared to $569,000 for the same period in the prior year due primarily to the decrease in pre-tax earnings of $255,000 or 9.9% to $2.3 million for the nine months ended September 30, 2008, compared to $2.6 million for the same period in the prior year. In addition, the effective tax rate was 21.9% for the nine months ended September 30, 2008, compared to 22.0% 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 loans, 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 nine months ended September 30, 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 $27.3 million, and standby letters of credit totaling $1.1 million.

At September 30, 2008, time deposits amounted to $126.5 million or 45.5% of the Corporation's total consolidated deposits, including approximately $51.9 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 September 30, 2008, the Corporation's borrowing capacity with the FHLB, net of funds borrowed, was $122.8 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 and the evaluation of securities for other than temporary impairment as critical accounting policies.

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 losses, 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.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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 and interest-bearing liabilities. 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 September 30, 2008, the Corporation's interest-earning assets maturing or repricing within one year totaled $112.2 million while the Corporation's interest-bearing liabilities maturing or repricing within one-year totaled $111.8 million, providing an excess of interest-earning assets over interest-bearing liabilities of $400,000. At September 30, 2008, the percentage of the Corporation's assets to liabilities maturing or repricing within one year was 100.4%.

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 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 September 30, 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

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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: November 14, 2008	By: /s/ David L. Cox
	David L. Cox Chairman of the Board, President and Chief Executive Officer
Date: November 14, 2008	By: /s/ William C. Marsh
	William C. Marsh Treasurer and Chief Financial Officer