EMCLAIRE FINANCIAL CORP
Form 10-Q
August 10, 2007

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 June 30, 2007

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, or a non-accelerated filer.

Large accelerated filer [X] Accelerated filer [] Non-accelerated filer [X]

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

The number of shares outstanding of the Registrant's common stock was 1,267,835 at August 10, 2007.

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 June 30, 2007 (Unaudited) and December 31, 2006
(Dollar amounts in thousands, except per share data)

	June 30, 2007
Assets	
Cash and due from banks	$ 6,044
Interest-earning deposits with banks	126
Cash and cash equivalents	6,170
Securities available for sale, at fair value	52,712
Loans receivable, net of allowance for loan losses of $2,086 and $2,035	220,149
Federal bank stocks, at cost	2,393
Bank-owned life insurance	4,889
Accrued interest receivable	1,379
Premises and equipment, net	7,812
Goodwill	1,422
Deferred tax asset	756
Prepaid expenses and other assets	666
Total Assets	$ 298,348
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits:	
Noninterest-bearing	$ 45,786
Interest-bearing	194,182
Total deposits	239,968
Short-term borrowed funds	1,700
Long-term borrowed funds	30,000
Accrued interest payable	721
Accrued expenses and other liabilities	1,969
Total Liabilities	274,358
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		10,872
Treasury stock, at cost; 128,017 shares		(2,653)
Retained earnings		14,892
Accumulated other comprehensive loss		(866)
Total Stockholders' Equity		23,990
Total Liabilities and Stockholders' Equity	$	298,348

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Income
For the three and six months ended June 30, 2007 and 2006 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For the three months ended June 30,		For
	2007	2006	
Interest and dividend income:			
Loans receivable, including fees	$ 3,788	$ 3,344	$
Securities:			
Taxable	419	367	
Exempt from federal income tax	172	174	
Federal bank stocks	21	23	
Deposits with banks	16	23	
Total interest and dividend income	4,416	3,931	
Interest expense:			
Deposits	1,568	1,448	
Borrowed funds	350	166	
Total interest expense	1,918	1,614	
Net interest income	2,498	2,317	
Provision for loan losses	30	47	
Net interest income after provision for loan losses	2,468	2,270	
Noninterest income:			
Fees and service charges	391	377	
Commissions on financial services	81	114	
Net gain on available for sale securities	118	126	
Net gain on sales of loans	7	-	

Earnings on bank-owned life insurance	54	41	
Other	121	111	
Total noninterest income	772	769	
Noninterest expense:			
Compensation and employee benefits	1,245	1,290	
Premises and equipment	401	372	
Intangible amortization expense	-	3	
Other	690	588	
Total noninterest expense	2,336	2,253	
Income before provision for income taxes	904	786	
Provision for income taxes	197	184	
Net income	$ 707	$ 602	$
Basic and diluted earnings per share	$ 0.56	$ 0.47	$
Average common shares outstanding	1,267,835	1,267,835	
Dilutive shares	-		

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Condensed Consolidated Statements of Cash Flows
For the six months ended June 30, 2007 and 2006 (Unaudited)
(Dollar amounts in thousands)

	For t
	2007
Cash flows from operating activities	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization of premises and equipment	
Provision for loan losses	
Amortization of premiums and accretion of discounts, net	
Amortization of intangible assets and mortgage servicing rights	
Realized gain on sales of available for sale securities, net	
Net gains on sales of loans	
Stock compensation expense	
Earnings on bank owned life insurance, net	
(Increase) decrease in accrued interest receivable	
(Increase) decrease in prepaid expenses and other assets	

Increase (decrease) in accrued interest payable	
Increase (decrease) in accrued expenses and other liabilities	
Net cash provided by operating activities	
Cash flows from investing activities	
Loan originations and principal collections, net	(
Proceeds from the sale of loans	
Available for sale securities:	
Sales	
Maturities, repayments and calls	
Purchases	(1
Held to maturity securities:	
Maturities, repayments and calls	
Purchases of federal bank stocks	
Purchases of premises and equipment	
Net cash used in investing activities	(
Cash flows from financing activities	
Net increase (decrease) in deposits	(
Net increase in overnight borrowed funds	
Dividends paid on common stock	
Net cash provided by (used in) financing activities	(
Net decrease in cash and cash equivalents	(1
Cash and cash equivalents at beginning of period	1
Cash and cash equivalents at end of period	$
Supplemental information:	
Interest paid	$
Income taxes paid	

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the three and six months ended June 30, 2007 and 2006 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For the three months ended June 30,		For
	2007	2006	2
Balance at beginning of period	$ 24,069	$ 23,679	$
Net income	707	602	

Other comprehensive income (loss):			
Change in net unrealized gains (losses) on available for sale securities, net of taxes	(341)	(376)	
Less reclassification adjustment for gains included in net income, net of taxes	(78)	(83)	
Other comprehensive loss	(419)	(459)	
Total comprehensive income	288	143	
Stock compensation expense	1	-	
Dividends declared	(368)	(342)	
Balance at end of period	$ 23,990	$ 23,480	$
Common cash dividend per share	$ 0.29	$ 0.27	$

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, 2006, as contained in the Corporation's 2006 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. 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 83,000 shares of common stock were not included in computing diluted earnings per share because their effects were antidilutive.

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3. Securities.

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

(Dollar amounts in thousands)	Amortized cost	Unreal gain
Available for sale:		
June 30, 2007:		
U.S. Government agencies and related entities	$ 33,356	$
Mortgage-backed securities	2,162	
Municipal securities	14,204	
Corporate securities	-	
Equity securities	3,757	
	$ 53,479	$
December 31, 2006:		
U.S. Government agencies and related entities	$ 31,354	$
Mortgage-backed securities	2,434	
Municipal securities	14,688	
Corporate securities	-	
Equity securities	3,382	
	$ 51,858	$

4. Loans Receivable.

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

(Dollar amounts in thousands)	Ju
Mortgage loans on real estate:	
Residential first mortgages	$
Home equity loans and lines of credit	
Commercial	
Other loans:	
Commercial business	
Consumer	
Total loans, gross	
Less allowance for loan losses	
Total loans, net	$

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5. Deposits.

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

(Dollar amounts in thousands)	June 30, 2007	
Type of accounts	Amount	%
Noninterest-bearing deposits	$ 45,786	19.1
Interest-bearing demand deposits	74,429	31.0
Time deposits	119,753	49.9
	$ 239,968	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 June 30, 2007, $105,000 will expire within the next twelve months, $275,000 will automatically renew within the next twelve months and $349,000 will automatically renew within thirteen to twenty-eight 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 June 30, 2007 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 six months ended June 30, 2007 and 2006 amounted to $67,000 and $42,000, respectively.

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

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

7. Employee Benefit Plans (continued).

The components of the periodic pension cost are as follows:

(Dollar amounts in thousands)	For the three months ended June 30,		For the six months June 30,	
	2007	2006	2007	20
Service cost	$ 57	$ 52	$ 114	$
Interest cost	65	58	130	
Expected return on plan assets	(77)	(66)	(154)	
Transition asset	(2)	(2)	(4)	
Prior service costs	(8)	(8)	(16)	
Recognized net actuarial (gain) loss	7	15	14	
Effect of Special Termination Benefits	-	-	-	
Net periodic pension cost	$ 42	$ 49	$ 84	$

The expected rate of return on plan assets was 8.50% for the periods ended June 30, 2007 and 2006. The Corporation previously disclosed in its financial statements for the year ended December 31, 2006 that it expected to contribute $250,000 to its pension plan in 2007. As of June 30, 2007, there have been no contributions. The Corporation presently anticipates contributing $250,000 to fund its pension plan in 2007.

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 January 1, 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 six-month period ended June 30, 2007, the Corporation recognized $1,000 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:

	Six months ended June 30, 2007
Dividend yield	4.46%
Expected life	10 years
Expected volatility	14.09%
Risk-free interest rate	5.10%

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

8. Stock Compensation Plans (continued).

A summary of option activity under the Plan as of June 30, 2007, and changes during the period then ended is presented below:

	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Va
Outstanding at the beginning of the year	-	$ -	
Granted	83,000	26.00	
Exercised	-	-	
Forfeited	-	-	
Outstanding as of June 30, 2007	83,000	$ 26.00	$
Exercisable as of June 30, 2007	-	$ -	$

A summary of the status of the Corporation's nonvested shares as of June 30, 2007, and changes during the period then ended is presented below;

	Options	
Nonvested at the beginning of the year	-	$
Granted	83,000	
Vested	-	
Forfeited	-	
Nonvested as of June 30, 2007	83,000	$

As of June 30, 2007, there was $280,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of three years.

9. Effect of Recently Issued Accounting Standards.

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 is currently evaluating the potential impact, if any, of the adoption of SFAS 157 on its consolidated financial statements.

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

In September 2006, FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement

Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements (EITF 06-4). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policy holder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS 106 or Accounting Principles Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a

change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The EITF is effective in fiscal years beginning after December 15, 2007, with early adoption permitted. The Corporation is currently evaluating the impact that the implementation of EITF 06-4 may have on its consolidated financial statements.

In September 2006, FASB's EITF issued EITF Issue No. 06-5 Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance (EITF 06-5), The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of key persons. The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The implementation of EITF 06-5 had no effect on the Corporation's consolidated financial statements.

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. The Corporation is evaluating the impact that the adoption of SFAS 159 will have on its consolidated financial statements.

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

This section discusses the consolidated financial condition and results of operations of Emclaire Financial Corp. (the "Corporation") and its wholly owned subsidiary bank, the Farmers National Bank of Emlenton (the "Bank"), for the three and six months ended June 30, 2007 compared to the same periods in 2006 and should be read in conjunction with the Corporation's December 31, 2006 Annual Report of Form 10-K filed with the Securities and Exchange Commission and with the accompanying consolidated financial statements and notes presented on pages 1 through 9 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 decreased $2.2 million to $298.3 million at June 30, 2007 from $300.6 million at December 31, 2006. This decrease resulted from a decrease in cash and cash equivalents of $10.5 million or 63.1% to $6.2 million at June 30, 2007 from $16.7 million at December 31, 2006, as these funds were utilized in funding commercial real estate and business loans. Partially offsetting this decrease was an increase in loans receivable, net of allowance for loan losses of $6.8 million or 3.2% to $220.1 million at June 30, 2007 from $213.3 million at December 31, 2006.

Total liabilities decreased $2.3 million to $274.4 million at June 30, 2007 from $276.6 million at December 31, 2006, while total stockholders' equity increased $73,000 to $24.0 million at June 30, 2007 from $23.9 million at December 31, 2006. The decrease in total liabilities was primarily due to a decrease in customer deposits of $4.5 million partially offset by increases in short-term borrowed funds and accrued expenses and other liabilities of $1.7 million and $644,000, respectively.

RESULTS OF OPERATIONS

Comparison of Results for the Three Month Periods Ended June 30, 2007 and 2006

General. Net income increased $105,000 or 17.4% to $707,000 for the three months ended June 30, 2007 from $602,000 for the same period in 2006. This increase was a result of increases in net interest income and non-interest income of $198,000 and $3,000, respectively, partially offset by increases in noninterest expense and the provision for income taxes of $83,000 and $13,000, respectively.

Net interest income. Net interest income on a tax equivalent basis increased $178,000 or 7.3% to $2.6 million for the three months ended June 30, 2007 from $2.4 million for the same period in 2006. This net increase can be attributed to an increase in tax equivalent interest income of $482,000, partially offset by a $304,000 increase in interest expense.

Interest income. Interest income on a tax equivalent basis increased $482,000 or 11.9% to $4.5 million for the three months ended June 30, 2007, compared to $4.0 million for the same period in the prior year. This increase can be attributed to increases in interest earned on loans and securities of $442,000 and $49,000, respectively, partially offset by decreases in interest earned on interest-earning deposits with banks and federal bank stocks of $7,000 and $2,000, respectively.

Tax equivalent interest earned on loans receivable increased $442,000 or 13.1% to $3.8 million for the three months ended June 30, 2007, compared to $3.4 million for the same period in 2006. During that time, average loans increased $18.3 million or 9.1%, accounting for $315,000 in additional loan interest income. This increase can be primarily attributed to growth in the Corporation's commercial loan portfolios. Additionally, the yield on loans increased 25 basis points to 6.98% for the three months ended June 30, 2007, versus 6.73% for the same period in 2006, contributing $127,000 in additional interest income. Contributing to the increase in the yield on loans between the quarterly periods was the collection of $60,000 of interest due associated with the payoff of a previously non-performing commercial loan in April 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 quarter ended June 30, 2007.

Tax equivalent interest earned on securities increased $49,000 or 7.9% to $668,000 for the three months ended June 30, 2007, compared to $619,000 for the same period in 2006. The average volume of securities increased $1.2 million or 2.2%, accounting for $15,000 in additional interest income. Additionally, the yield on securities increased 25 basis points to 4.92% for the three months ended June 30, 2007, versus 4.67% for the same period in 2006, as a result of certain lower yielding securities maturing. This favorable yield variance contributed an additional $34,000 to interest income.

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Interest earned on interest-earning deposit accounts decreased $7,000 to $16,000 for the three months ended June 30, 2007 from $23,000 for the same period in 2006. The average volume of these assets decreased $726,000 or 38.2%, primarily as a result of funding loans and purchasing securities, decreasing interest income by $10,000. Partially offsetting this decrease in volume, the average yield on interest-earning deposit accounts increased 61 basis points to 5.47% for the three months ended June 30, 2007, compared to 4.86% for the same period in the prior year, contributing $3,000 in additional interest income. The increase in the average yield reflects the recent increases in short-term interest rates. Interest earned on federal bank stocks increased $2,000 or 8.7% to $21,000 for the three month period ended June 30, 2007 from $23,000 for the same period in the prior year as a result of a higher volume offset by a lower yield.

Interest expense. Interest expense increased $304,000 or 18.8% to $1.9 million for the three months ended June 30, 2007, compared to $1.6 million for the same period in the prior year. This increase in interest expense can be attributed to increases in interest incurred on deposits and borrowed funds of $120,000 and $184,000, respectively.

Interest expense incurred on deposits increased $120,000 or 8.3% to $1.6 million for the three months ended June 30, 2007, compared to $1.4 million for the same period in the prior year. This increase can be attributed to the cost of interest-bearing deposits increasing 22 basis points to 3.24% for the three months ended June 30, 2007, compared to 3.02% for the same period in 2006 contributing $108,000 in additional expense. Additionally, the average volume of deposits increased $1.6 million to $194.0 million for the three months ended June 30, 2007, compared to $192.4 million for the same period in 2006 contributing $12,000 in additional expense. The increase in the rate paid on deposits reflects the increases in short-term market interest rates.

Interest expense incurred on borrowed funds increased $184,000 or 110.9% to $350,000 for the three months ended June 30, 2007, compared to $166,000 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 $15.4 million or 93.8% to $31.8 million for the three months ended June 30, 2007, compared to $16.4 million for the same period in the prior year contributing $168,000 in additional expense. This volume increase was the result of $15.0 million of FHLB term borrowings placed in the second and third quarters of 2006 used primarily to fund loan growth.

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 June 3			
	2007			
	Average Balance	Interest	Yield / Rate	Average Balance
Interest-earning assets:				
Loans, taxable	$ 213,162	$ 3,718	7.00%	$ 194,33
Loans, tax exempt	6,325	102	6.49%	6,85
Total loans receivable	219,487	3,820	6.98%	201,19
Securities, taxable	39,587	419	4.25%	38,00
Securities, tax exempt	14,871	249	6.71%	15,20
Total securities	54,458	668	4.92%	53,21
Interest-earning deposits with banks	1,174	16	5.47%	1,90
Federal bank stocks	2,321	21	3.68%	1,70
Total interest-earning cash equivalents	3,495	37	4.28%	3,60
Total interest-earning assets	277,440	4,525	6.54%	258,01
Cash and due from banks	5,668			6,88
Other noninterest-earning assets	14,668			13,33
Total Assets	$ 297,776			$ 278,22
Interest-bearing liabilities:				
Interest-bearing demand deposits	$ 72,859	224	1.23%	$ 72,55
Time deposits	121,095	1,344	4.45%	119,81
Total interest-bearing deposits	193,954	1,568	3.24%	192,36
Borrowed funds, short-term	1,791	25	5.60%	1,12
Borrowed funds, long-term	30,000	325	4.35%	15,27

Total borrowed funds	31,791	350	4.42%	16,40
Total interest-bearing liabilities	225,745	1,918	3.41%	208,77
Noninterest-bearing demand deposits	45,088	-	-	43,77
Funding and cost of funds	270,833	1,918	2.84%	252,55
Other noninterest-bearing liabilities	2,851			2,11
Total Liabilities	273,684			254,66
Stockholders' Equity	24,092			23,56
Total Liabilities and Stockholders' Equity	$ 297,776			$ 278,22
Net interest income		$ 2,607		
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.13%	
Net interest margin (net interest income as a percentage of average interest-earning assets)			3.77%	

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Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Corporation's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior year volume), changes in volume (changes in volume multiplied by prior year rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

(Dollar amounts in thousands)	Three months 2007 v Increase (D	
	Volume	
Interest income:		
Loans	$ 315	$
Securities	15	

Interest-earning deposits with banks		(10)
Federal bank stocks		7
Total interest-earning assets		327
Interest expense:		
Deposits		12
Borrowed funds		168
Total interest-bearing liabilities		180
Net interest income	$	147

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 June 30, 2007 and 2006 is as follows:

(Dollar amounts in thousands)	At or for the t Jun	
	2007	
Balance at the beginning of the period	$	2,078
Provision for loan losses		30
Charge-offs		(32
Recoveries		10
Balance at the end of the period	$	2,086
Non-performing loans	$	1,176
Non-performing assets		1,176
Non-performing loans to total loans		0.53
Non-performing assets to total assets		0.39
Allowance for loan losses to total loans		0.94
Allowance for loan losses to non-performing loans		177.36

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The provision for loan losses decreased $17,000 or 36.2% to $30,000 for the three month period ended June 30, 2007 from $47,000 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 $30,000 in the provision for loan losses during the three months ended June 30, 2007.

Noninterest income. Noninterest income increased $3,000 to $772,000 during the three months ended June 30, 2007, compared to $769,000 during the same period in the prior year. This increase can be attributed to increases in fees and service charges, gains on the sale of loans, earnings on bank-owned life insurance and other noninterest income of $14,000, $7,000, $13,000 and $10,000, respectively. Offsetting this increase in noninterest income were decreases in commissions earned on financial services and gains on securities of $33,000 and $8,000, respectively.

Noninterest expense. Noninterest expense increased $83,000 or 3.7% to $2.3 million during the three months ended June 30, 2007, compared to $2.2 million during the same period in the prior year. This increase in noninterest expense can be attributed to increases in premises and equipment and other noninterest expenses of $29,000 and $102,000, respectively.

Premises and equipment increased $29,000 or 7.8% to $401,000 for the three months ended June 30, 2007, compared to $372,000 for the same period in the prior year. This increase can be attributed primarily to the operation of one additional branch facility opened in November 2006.

Other noninterest expense increased $102,000 or 17.4% to $690,000 during the three months ended June 30, 2007, compared to $588,000 for the same period in the prior year. This increase can be attributed primarily to increases in professional fees relating to Sarbanes-Oxley Section 404 compliance, data processing center information technology initiatives and other operations and compliance consulting needed as a result of the 2006 reorganization.

Provision for income taxes. The provision for income taxes increased $13,000 or 7.1% to $197,000 for the three months ended June 30, 2007, compared to $184,000 for the same period in the prior year due primarily to higher pre-tax earnings. This was partially offset by the decrease in the effective tax rate to 21.8% for the three months ended June 30, 2007, compared to 23.4% for the same period in 2006. 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 Six Month Periods Ended June 30, 2007 and 2006

General. Net income increased $71,000 or 5.9% to $1.3 million for the six months ended June 30, 2007 from $1.2 million for the same period in 2006. This increase was a result of increases in net interest income and non-interest income of $232,000 and $6,000, respectively and a decrease in the provision for income taxes of $11,000, partially offset by an increase in noninterest expense of $178,000.

Net interest income. Net interest income on a tax equivalent basis increased $224,000 or 4.7% to $5.0 million for the six months ended June 30, 2007 from $4.8 million for the same period in 2006. This net increase can be attributed to an increase in tax equivalent interest income of $1.0 million, partially offset by an $824,000 increase in interest expense.

Interest income. Interest income on a tax equivalent basis increased $1.0 million or 13.3% to $8.9 million for the six months ended June 30, 2007, compared to $7.9 million for the same period in the prior year. This increase can be attributed to increases in interest earned on loans, securities, federal bank stocks, and interest-earning deposits with banks of $892,000, $29,000, $31,000 and $96,000, respectively.

Tax equivalent interest earned on loans receivable increased $892,000 or 13.6% to $7.5 million for the six months ended June 30, 2007, compared to $6.6 million for the same period in 2006. During that time, average loans increased $20.0 million or 10.1%, accounting for $680,000 in additional loan interest income. This increase can be primarily attributed to growth in the Corporation's commercial loan portfolios. Additionally, the yield on loans increased 22 basis points to 6.92% for the six months ended June 30, 2007, versus 6.70% for the same period in 2006, contributing $212,000 in additional interest income. Contributing to the increase in the yield on loans between the periods was the collection of $60,000 of interest due associated with the payoff of a previously non-performing commercial loan in April 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 six months ended June 30, 2007.

Tax equivalent interest earned on securities increased $29,000 to $1.3 million for the six months ended June 30, 2007. The average yield on securities increased 22 basis points to 4.86% for the six months ended June 30, 2007, versus 4.64% for the same period in 2006, as a result of certain lower yielding securities maturing. This favorable yield variance contributed an additional $58,000 to interest income. Partially offsetting this increase was a decrease in the average volume of $1.2 million or 2.3%, primarily as a result of the utilization of these funds for loan growth. This resulted in a $29,000 decline in interest income.

Interest earned on interest-earning deposit accounts increased $96,000 to $137,000 for the six months ended June 30, 2007 from $41,000 for the same period in 2006. The average volume of these assets increased $3.4 million, primarily as a result of the investment of funds from maturing securities, contributing $88,000 in additional interest income. Additionally, the average yield on interest-earning deposit accounts increased 75 basis points to 5.27% for the six months ended June 30, 2007, compared to 4.52% for the same period in the prior year, contributing $8,000 in additional interest income. The increase in the average yield reflects the recent increases in short-term interest rates. Interest earned on federal bank stocks increased $31,000 to $71,000 for the six month period ended June 30, 2007 from $40,000 for the same period in the prior year as a result of a higher volume and a higher yield. The higher yield resulted from the recognition of a special dividend on FHLB capital stock.

Interest expense. Interest expense increased $824,000 or 26.6% to $3.9 million for the six months ended June 30, 2007, compared to $3.1 million for the same period in the prior year. This increase in interest expense can be attributed to increases in interest incurred on deposits and borrowed funds of $472,000 and $352,000, respectively.

Interest expense incurred on deposits increased $472,000 or 17.16% to $3.2 million for the six months ended June 30, 2007, compared to $2.8 million for the same period in the prior year. This increase can be attributed to the cost of interest-bearing deposits increasing 38 basis points to 3.31% for the six months ended June 30, 2007, compared to 2.93% for the same period in 2006 contributing $375,000 in additional expense. The increase in the rate paid on deposits reflects the increases in short-term interest rates. The average volume of deposits increased $6.5 million or 3.4% to $196.8 million for the six months ended June 30, 2007, compared to $190.3 million for the same period in 2006 contributing $97,000 in additional expense.

Interest expense incurred on borrowed funds increased $352,000 or 105.4% to $686,000 for the six months ended June 30, 2007, compared to $334,000 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 $14.7 million to $30.9 million for the six months ended June 30, 2007, compared to $16.2 million for the same period in the prior year. This volume increase was the result of $15.0 million of FHLB term borrowings placed in the second and third quarters of 2006 contributing $325,000 in additional expense. Such borrowings were primarily used to fund loan growth.

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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.

	Six months ended June 30,				
	2007				
(Dollar amounts in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	In
Interest-earning assets:					
Loans, taxable	$ 210,977	$ 7,250	6.93%	$ 190,559	$
Loans, tax exempt	6,419	206	6.48%	6,854	
Total loans receivable	217,396	7,456	6.92%	197,413	
Securities, taxable	38,176	783	4.14%	39,161	
Securities, tax exempt	15,046	500	6.70%	15,296	
Total securities	53,222	1,283	4.86%	54,457	
Interest-earning deposits with banks	5,247	137	5.27%	1,828	
Federal bank stocks	2,265	71	6.32%	1,671	
Total interest-earning cash equivalents	7,512	208	5.58%	3,499	
Total interest-earning assets	278,130	8,947	6.49%	255,369	
Cash and due from banks	5,913			6,997	
Other noninterest-earning assets	14,601			13,073	
Total assets	$ 298,644	$ 8,947	6.04%	$ 275,439	$

Interest-bearing liabilities:					
Interest-bearing demand deposits	$ 72,513	457	1.27%	$ 72,974	
Time deposits	124,291	2,778	4.51%	117,300	
Total interest-bearing deposits	196,804	3,235	3.31%	190,274	
Borrowed funds, long-term	30,000	661	4.44%	15,138	
Borrowed funds, short-term	908	25	5.55%	1,033	
Total borrowed funds	30,908	686	4.48%	16,171	
Total interest-bearing liabilities	227,712	3,921	3.47%	206,445	
Noninterest-bearing demand deposits	44,230	-	-	43,050	
Funding and cost of funds	271,942	3,921	2.91%	249,495	
Other noninterest-bearing liabilities	2,712			2,357	
Total liabilities	274,654			251,852	
Stockholders' equity	23,990			23,587	
Total liabilities and stockholders' equity	$ 298,644	$ 3,921	2.91%	$ 275,439	$
Net interest income		$ 5,026			$
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.01%		
Net interest margin (net interest income as a percentage of average interest-earning assets)			3.64%		

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Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Corporation's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior year volume), changes in volume (changes in volume multiplied by prior year rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

(Dollar amounts in thousands)	Six months end 2007 versu Increase (Decre Volume	Ra
Interest income:		
Loans	$ 680	$
Securities	(29)	
Interest-earning deposits with banks	88	
Federal bank stocks	17	
Total interest-earning assets	756	
Interest expense:		
Deposits	97	
Borrowed funds	325	
Total interest-bearing liabilities	422	
Net interest income	$ 334	$

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 six months ended June 30, 2007 and 2006 is as follows:

(Dollar amounts in thousands)	At or for the six months ended June 30, 2007	2006	
Balance at the beginning of the period	$ 2,035	$ 1,869	$
Provision for loan losses	75	78	
Charge-offs	(47)	(74)	
Recoveries	23	17	
Balance at the end of the period	$ 2,086	$ 1,890	$
Non-performing loans	$ 1,176	$ 1,546	$
Non-performing assets	1,176	1,632	
Non-performing loans to total loans	0.53%	0.73%	
Non-performing assets to total assets	0.39%	0.57%	

Allowance for loan losses to total loans	0.94%	0.89%
Allowance for loan losses to non-performing loans	177.36%	122.25%

The provision for loan losses decreased $3,000 or 3.9% to $75,000 for the six month period ended June 30, 2007 from $78,000 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 $75,000 in the provision for loan losses during the six months ended June 30, 2007.

Noninterest income. Noninterest income increased $6,000 to $1.5 million for the six months ended June 30, 2007. This increase can be attributed to increases in commissions earned on financial services, gains on the sale of loans, earnings on bank-owned life insurance and other noninterest income of $28,000, $7,000, $17,000 and $38,000, respectively. Offsetting this increase in noninterest income were decreases in fees and service charges and gains on securities of $18,000 and $66,000, respectively.

Noninterest expense. Noninterest expense increased $178,000 or 4.0% to $4.6 million during the six months ended June 30, 2007, compared to $4.5 million during the same period in the prior year. This increase in noninterest expense can be attributed to increases in premises and equipment and other noninterest expenses of $48,000 and $182,000, respectively, partially offset by a decrease in compensation and benefits of $47,000.

Premises and equipment increased $48,000 or 6.4% to $801,000 for the six months ended June 30, 2007, compared to $753,000 for the same period in the prior year. This increase can be attributed primarily to the operation of one additional branch facility opened in November 2006.

Other noninterest expense increased $182,000 or 16.4% to $1.3 million during the six months ended June 30, 2007, compared to $1.1 million for the same period in the prior year. This increase can be attributed primarily to increases in professional fees relating to Sarbanes-Oxley Section 404 compliance, data processing center information technology initiatives and other operations and compliance consulting needed as a result of the 2006 reorganization.

Effective January 1, 2007, the Federal Deposit Insurance Corporation (FDIC) created a new risk framework of four risk categories and established assessment rates to coincide with each category. Assessment rates for Risk Category I institutions, which includes the Bank, range from 5 to 7 basis points. The FDIC also approved a one-time assessment prior to that date. The Bank believes that the one-time credit will more than offset the new FDIC assessment cost for 2007 and anticipates that the credit will be depleted in the second quarter of 2008. Accordingly, the Bank will begin to recognize the FDIC assessment cost at that time.

Compensation and benefits decreased $47,000 or 1.8% to $2.6 million for the six months ended June 30, 2007. This decrease can be attributed primarily to cost savings from staffing reductions associated with the 2006 reorganization.

Provision for income taxes. The provision for income taxes decreased $11,000 or 3.2% to $331,000 for the six months ended June 30, 2007, compared to $342,000 for the same period in the prior year due primarily to the decrease in the effective tax rate to 20.8% for the six months ended June 30, 2007, compared to 22.4% for the same period in 2006. Partially offsetting this favorable variance was higher pre-tax earnings. 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 six months ended June 30, 2007, 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 $26.2 million, and standby letters of credit totaling $729,000.

At June 30, 2007, time deposits amounted to $119.8 million or 49.9% of the Corporation's total consolidated deposits, including approximately $64.3 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 June 30, 2007, the Corporation's borrowing capacity with the FHLB, net of funds borrowed, was $107.0 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.

CRITICAL ACCOUNTING POLICIES

Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses as a critical accounting policy.

The allowance for loan losses provides for an estimate of probable losses in the loan portfolio. In determining the appropriate level of the allowance for loan loss, the loan portfolio is separated into risk-rated and homogeneous pools. Migration analysis/historical loss rates, adjusted for relevant trends, have been applied to these pools. Qualitative adjustments are then applied to the portfolio to allow for quality of lending policies and procedures, national and local economic and business conditions, changes in the nature and volume of the portfolio, experience, ability and depth of lending management, changes in the trends, volumes and severity of past due, non-accrual and classified loans and loss and recovery trends, quality of the Corporation's loan review system, concentrations of credit, and external factors. The methodology used to determine the adequacy of the Corporation's allowance for loan losses is comprehensive and meets regulatory and accounting industry standards for assessing the allowance, however, it is still an estimate. Loan losses are charged against the allowance while recoveries of amounts previously charged-off are credited to the allowance. Loan loss provisions are charged against current earnings based on management's periodic evaluation and review of the factors indicated above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk for the Corporation consists primarily of interest rate risk exposure and liquidity risk. Since virtually all of the interest-earning assets and interest-bearing liabilities are at the Bank, virtually all of the interest rate risk and liquidity risk lies at the Bank level. The Bank is not subject to currency exchange risk or commodity price risk, and has no trading portfolio, and therefore, is not subject to any trading risk. In addition, the Bank does not participate in hedging transactions such as interest rate swaps and caps. Changes in interest rates will impact both income and expense recorded and also the market value of long-term interest-earning assets. Interest rate risk and liquidity risk management is performed at the Bank level. Although the Bank has a diversified loan portfolio, loans outstanding to individuals and businesses depend upon the local economic conditions in the immediate trade area.

One of the primary functions of the Corporation's asset/liability management committee is to monitor the level to which the balance sheet is subject to interest rate risk. The goal of the asset/liability committee is to manage the relationship between interest rate sensitive assets and liabilities, thereby minimizing the fluctuations in the net interest margin, which achieves consistent growth of net interest income during periods of changing interest rates.

Interest rate sensitivity is the result of differences in the amounts and repricing dates of the Bank's rate sensitive assets and rate sensitive liabilities. These differences, or interest rate repricing "gap", provide an indication of the extent that the Corporation's net interest income is affected by future changes in interest rates. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities and is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. Generally, during a period of rising interest rates, a negative gap would adversely affect net interest income while a positive gap would result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would result in an increase in net interest income and a positive gap would adversely affect net interest income. The closer to zero that gap is maintained, generally, the lesser the impact of market interest rate changes on net interest income.

Based on certain assumptions provided by a federal regulatory agency, which management believes most accurately represents the sensitivity of the Corporation's assets and liabilities to interest rate changes, at June 30, 2007, the Corporation's interest-earning assets maturing or repricing within one year totaled $76.9 million while the Corporation's interest-bearing liabilities maturing or repricing within one-year totaled $96.1 million, providing an excess of interest-bearing liabilities over interest-earning assets of $19.2 million or a negative 6.5% of total assets. At June 30, 2007, the percentage of the Corporation's assets to liabilities maturing or repricing within one year was 80.0%.

For more information, see "Market Risk Management" in Exhibit 13 to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

Item 4. Controls and Procedures

The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's

Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Corporation's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e).

There has been no change made in the Corporation's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

As of the quarter ended June 30, 2007, 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 2006 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

(a) The annual meeting of stockholders of the Corporation was held April 25, 2007. Of 1,267,835 common shares eligible to vote, 1,011,469 or 79.8% were voted in person or by proxy.

(b) The following Class B directors were elected for a three year term expiring in 2010:

Name	Shares For	Shares Withheld
J. Michael King	898,229	113,240
David L. Cox	986,640	24,828
Mark A. Freemer	892,581	118,887

In addition to the above listed individuals, the following persons continue to serve as directors: Ronald L. Ashbaugh, James M. Crooks, George W. Freeman, Robert L. Hunter, William C. Marsh, John B. Mason and Brian C. McCarrier.

The recommendation of the Board of Directors to ratify the appointment of Beard Miller Company LLP as the Corporation's independent auditors, as described in the proxy statement for the annual meeting was approved with 1,001,933 shares in favor, 1,472 shares against and 8,064 shares abstained.

The recommendation of the Board of Directors to approve the 2007 Stock Incentive Plan and Trust as described in the proxy statement for the annual meeting was approved with 687,422 shares in favor, 160,221 shares against and 8,630 shares abstained.

Item 5. Other Information

(a) Not applicable.

(b) Not applicable.

Item 6. Exhibits

Exhibit 31.1	Rule 13a-14(a) Certification of Chief Executive Officer
Exhibit 31.2	Rule 13a-14(a) Certification of Chief Financial Officer
Exhibit 32.1	CEO Certification Pursuant to 18 U.S.C. Section 1350
Exhibit 32.2	CFO Certification Pursuant to 18 U.S.C. Section 1350

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMCLAIRE FINANCIAL CORP. AND SUBSIDIARY

Date: August 10, 2007

By: /s/ David L. Cox

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

Date: August 10, 2007

By: /s/ William C. Marsh

William C. Marsh
Chief Financial Officer and Treasurer