EMCLAIRE FINANCIAL CORP
Form S-1/A
August 08, 2008

QuickLinks -- Click here to rapidly navigate through this document

As filed with the Securities and Exchange Commission on August 8, 2008

Registration No. 333-151993

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Pre-effective Amendment No. 2
to
FORM S-1

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

EMCLAIRE FINANCIAL CORP.

(Exact name of registrant as specified in charter)

Pennsylvania	**6021**	**25-1606091**
(State or other jurisdiction of incorporation or organization)	(Primary SIC Code No.)	(I.R.S. Employer Identification No.)

612 Main Street, Emlenton, Pennsylvania 16373
(724) 867-2311

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

David L. Cox
Chairman of the Board, President and Chief Executive Officer
Emclaire Financial Corp.
612 Main Street, Emlenton, Pennsylvania 16373
(724) 867-2311

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Please send copies of all communications to:

Kevin M. Houlihan, Esquire **Agata S. Troy, Esquire** **Patton Boggs LLP** **2550 M Street, NW** **Washington, D.C. 20037** **(202) 457-6000**	**Martin Meyrowitz, Esquire** **Silver Freedman & Taff, LLP** **3299 K Street, N.W.** **Suite 100** **Washington, D.C. 20007** **(202) 295-4500**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. ý

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ý

Calculation of Registration Fee

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, par value $1.25 per share	$5,115,000	$201.02(2)

(1) Estimated solely for the purpose of calculating the registration fee. Pursuant to Rule 457(c) and (o) under the Securities Act of 1933, as amended, the proposed maximum aggregate offering price has been calculated based upon the average of the high and low prices of shares of Emclaire Financial Corp. common stock on June 26, 2008, as reported on the OTC Bulletin Board.

(2) Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PROSPECTUS

[Emclaire Logo]

EMCLAIRE FINANCIAL CORP.

Up to 200,000 Shares of Common Stock

We are offering shares of our common stock in connection with the conversion merger of Elk County Savings and Loan Association. Elk County, a Pennsylvania-chartered savings association, will convert from the mutual to the stock form of organization and simultaneously merge with and into our wholly-owned subsidiary, The Farmers National Bank of Emlenton.

We are offering up to 200,000 shares of common stock for sale on a best efforts basis. We must sell a minimum of $1,955,000 of our common stock in order to complete the offering.

All shares of our common stock are being offered for sale at a price of $ per share. The offering price is equal to 85% of the average of the last sales price, or average closing bid and asked quotations, if there is no last sales price, of a share of our common stock on the OTC Bulletin Board for the ten trading days ending on the second day prior to the date of this prospectus.

	Minimum		**Maximum**	
Number of shares offered:			200,000	
	Per Share	**Total**	**Per Share**	**Total**
Gross Offering Proceeds		$ 1,955,000		
Estimated Offering Expenses		$ 500,000		
Estimated Net Proceeds		$ 1,455,000		

Our common stock is quoted on the OTC Bulletin Board under the symbol "EMCF." On [ ] , 2008, the last reported sales price of our common stock was $[ ] per share.

Keefe, Bruyette & Woods, Inc. will assist us in selling shares of our common stock on a best efforts basis. The minimum dollar amount of shares of common stock that you may purchase is $400. Funds received prior to completion of the offering will be placed in an escrow or other account established specifically for this purpose at the Bank and will earn interest at our passbook savings rate. This offering is expected to expire on [ ], 2008, at [:] [ ].m., Eastern Time, unless it is extended, up to [ ], 2008.

Investing in our common stock involves risk. See "Risk Factors" beginning on page 7 of this prospectus.

These securities are not deposits or savings accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

Neither the Securities and Exchange Commission, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the Federal Reserve Board, the Pennsylvania Department of Banking nor any state securities regulator has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

For assistance, please contact the Stock Information Center at: (877) 298-6520 from 8:30 a.m. to 5:30 p.m., Eastern Time.

The date of this prospectus is [ ], 2008.

TABLE OF CONTENTS

SUMMARY

This summary highlights selected information from this prospectus and may not contain all the information that is important to you. To understand the stock offering fully, you should read the entire prospectus carefully, including the "Risk Factors" section beginning on page 5, and our consolidated financial statements and the notes to the consolidated financial statements contained in this prospectus, before making an investment decision.

Unless otherwise stated in this prospectus, references to "we," "us," "our," "Emclaire," the "Company," or the "Corporation" refer to Emclaire Financial Corp., references to the "Bank" refer to The Farmers National Bank of Emlenton and references to "Elk County" refer to Elk County Savings and Loan Association. The Agreement and Plan of Conversion Merger, dated as of May 22, 2008, by and among Emclaire, the Bank and Elk County is referred to as the "Agreement." The Plan of Conversion Merger of Elk County with the Bank, dated as of May 22, 2008, is referred to as the "Plan of Conversion Merger," or the "Plan."

The Parties

Emclaire Financial Corp.

We are a Pennsylvania corporation and financial holding company that provides a full range of retail and commercial financial products and services to customers in western Pennsylvania through our wholly-owned subsidiary bank, The Farmers National Bank of Emlenton. The Bank also provides investment advisory services through its Farmers National Financial Services division.

The Bank was organized in 1900 as a national banking association and is a financial intermediary whose principal business consists of attracting deposits from the general public and investing such funds in real estate loans secured by liens on residential and commercial property, consumer loans, commercial business loans, marketable securities and interest-earning deposits. The Bank operates through a network of eleven retail branch offices in Venango, Butler, Clarion, Clearfield, Elk and Jefferson counties, Pennsylvania. The Company and the Bank are headquartered in Emlenton, Pennsylvania.

We are a registered financial holding company pursuant to the Bank Holding Company Act of 1956, as amended, or the BHCA. We are subject to regulation and examination by the Federal Reserve Board, or the FRB, under the BHCA. The Bank is subject to examination and comprehensive regulation by the Office of the Comptroller of the Currency, or the OCC, which is the Bank's chartering authority, and the Federal Deposit Insurance Corporation, or the FDIC, which insures customer deposits held by the Bank to the full extent provided by law. The Bank is a member of the Federal Reserve Bank of Cleveland and the Federal Home Loan Bank of Pittsburgh.

At March 31, 2008, we had $322.5 million in total assets, $25.1 million in stockholders' equity, $232.9 million in net loans receivable and $251.5 million in deposits. Our principal executive office is located at 612 Main Street, Emlenton, Pennsylvania 16373. Our telephone number is (724) 867-2311.

Elk County Savings and Loan Association

Elk County is a Pennsylvania-chartered mutual savings association with one office located in Ridgway, Pennsylvania. Elk County was founded in 1925 and provides financing primarily for home ownership and traditional savings opportunities for customers in the counties of Elk, Cameron, McKean, Clearfield and Jefferson, Pennsylvania. Elk County is converting from the mutual to the stock form of ownership and simultaneously merging with and into the Bank. Upon completion of the conversion merger, Elk County will cease to exist.

Elk County is subject to regulation and examination by the Office of Thrift Supervision, or the OTS, and by the Pennsylvania Department of Banking, or the Department.

At March 31, 2008, Elk County had total assets of $10.4 million, retained earnings of $2.4 million, deposits of $8.0 million, and net loans receivable of $7.9 million. Elk County's principal executive office is located at 210 Main Street, Ridgway, Pennsylvania 15853. Their telephone number is (814) 776-6181.

The Offering

In connection with the conversion merger of Elk County, we are offering up to 200,000 shares of our common stock to eligible depositors and borrowers of Elk County and, to the extent shares remain available, to the general public. We must sell a minimum of $1,955,000 of our common stock in order to complete the conversion merger and the offering. Keefe, Bruyette & Woods, Inc. will use its best efforts to assist us in selling the shares of common stock being offered.

The purchase price of each share of common stock to be issued in the offering is $. The purchase price is equal to 85% of the average of the last sales price, or average closing bid and asked quotations if there is no last sales price, of a share of our common stock as quoted on the OTC Bulletin Board for the ten trading days ending on the second day prior to the date of this prospectus.

We are offering the shares of common stock in a "subscription offering" to the following members of Elk County in the following descending order of priority:

First:	Depositors of Elk County with $50 or more on deposit as of the close of business on December 31, 2006.
Second:	Depositors of Elk County with $50 or more on deposit as of the close of business on [ ], 2008.
Third:	Other depositors and borrowers of Elk County as of the close of business on [ ], 2008.

The subscription offering expires at [:] p.m., Eastern Time, on [ ], 2008, but may be extended to [ ], 2008. You cannot transfer your subscription rights. If you attempt to transfer your rights, you may lose the right to purchase shares of our common stock and may be subject to criminal prosecution and, or, other sanctions.

Shares of common stock not subscribed for in the subscription offering may be offered for sale to the general public in a "community offering," with preference given first to natural persons residing in Elk County, Pennsylvania and then to our stockholders of record as of , 2008. The community offering may begin concurrently with, during or promptly after the subscription offering as we may determine at any time. This part of the offering may terminate at any time without notice, but no later than [ ], 2008. We have the right to reject any orders of stock, in whole or in part, in the community offering.

If necessary, all shares of common stock not purchased in the subscription and community offerings may be offered for sale to the general public in a syndicated community offering through selected dealers managed by Keefe, Bruyette & Woods acting as our agent in the sale of the common stock.

We have described the subscription offering and the community offering in greater detail in the section titled "The Offering and the Conversion Merger The Offering" beginning on page of this prospectus.

The Conversion Merger

Pursuant to the Agreement and the Plan of Conversion Merger, Elk County will convert from a Pennsylvania-chartered mutual savings association to a Pennsylvania-chartered stock savings association. Immediately following Elk County's mutual-to-stock conversion, we will acquire 1,000 shares of common stock of Elk County issued in the conversion for $1.00 in cash, without interest, per share. The 1,000 shares of Elk County common stock will constitute all of Elk County's issued and outstanding shares of common stock. Immediately following our acquisition of Elk County, Elk County will merge with and into the Bank, with the Bank as the resulting institution.

In a typical stand alone conversion, Elk County would conduct an offering of a range of shares of its common stock based on an independent appraisal of Elk County's pro forma market value. RP Financial, LC, an appraisal firm experienced in the valuation and appraisal of business entities, including savings associations, determined that as of June 13, 2008, the estimated aggregate pro forma market value of Elk County was between $1,955,000 and $2,645,000, with a midpoint of $2,300,000. As a result, the minimum of the offering is based on the estimate of the minimum of Elk County's pro forma market value. However, due to the fixed costs associated with the offering and Emclaire's desire to raise additional capital to support future growth and provide additional resources to pursue future acquisition and branching opportunities, Emclaire has established the maximum of the offering at 200,000 shares of Emclaire common stock, or $ based on the offering price of $. As a result, at the maximum, the offering associated with the conversion merger ($ based on the offering price of $) would exceed the maximum of a stand alone conversion of Elk County of $2,645,000 by $. Emclaire believes the additional offering amount is prudent and in the best interests of Emclaire and its stockholders.

Reasons for the Offering and the Conversion Merger

Our primary reasons for the offering and the conversion merger are to:

- issue stock and raise capital to support our future growth;
- consolidate and expand our market presence in Ridgway, Pennsylvania;
- improve our overall competitive position; and
- provide additional financial resources to pursue future acquisition and branching opportunities.

Other than the acquisition of Elk County, we have no current arrangements to acquire other financial institutions.

Elk County has historically faced significant challenges with respect to generating sufficient earnings from its operations and expects to continue to face significant earnings challenges in the future, absent a transaction such as the conversion merger. Since Elk County does not have the size and financial resources to compete and operate profitably, Elk County's board of directors explored various options for Elk County that it believed were in the best interests of Elk County and its members.

Specifically, Elk County's board of directors determined that Elk County would not be able to convert to stock form on a stand alone basis due to the size of Elk County, the lack of profitability and the local market conditions. As a result, Elk County's board determined to pursue a strategic alliance and believed that an in-market partner would be the best fit. Due to the presence of a Bank branch in Ridgway and the Bank's operating culture, Elk County contacted the Bank in the spring of 2007 to gauge the Bank's interest in a merger transaction. Based upon favorable discussions between Elk County and Emclaire during the summer of 2007, the parties pursued the permissibility of such a transaction with the Office of Thrift Supervision and the Pennsylvania Department of Banking. The correspondence with these regulatory agencies continued through the fall of 2007 and the early part of

2008. In connection with the discussions with the Office of Thrift Supervision and the Pennsylvania Department of Banking, Elk County also contacted four mutual savings institutions closest to Elk County concerning a mutual to mutual merger. None of the institutions contacted expressed any interest in a mutual to mutual merger and the transaction with Emclaire remained the best viable opportunity for Elk County. Based on the discussions between the parties as well as discussions and correspondence with the Office of Thrift Supervision and the Pennsylvania Department of Banking, Elk County, Emclaire and the Bank determined to proceed with the conversion merger in May 2008. Such conclusions by Elk County's board of directors were not based on any order or determination by the Office of Thrift Supervision or the Pennsylvania Department of Banking. While the members of Elk County were not involved in these initial determinations by the Elk County board of directors, the conversion merger is subject to approval by the members of Elk County.

Elk County's primary reasons for the conversion merger are as follows:

- limited options on a stand alone basis;
- eliminate growth and earnings pressure;
- reduction of operating expenses;
- the presence of a Bank branch in Ridgway;
- expanded services offered by the Bank; and
- the opportunity for Elk County's customers to purchase Emclaire's common stock at a below market price.

Conditions to Complete the Offering and the Conversion Merger

We cannot complete the offering and the conversion merger unless:

- the members of Elk County approve the conversion merger pursuant to a proxy statement of which this prospectus is a part;
- we receive all required regulatory approvals from the government agencies that regulate Emclaire, the Bank and Elk County; and
- we sell at least $1,955,000 of our common stock.

We have described the conditions to complete the conversion merger in greater detail on page of this prospectus.

The Amount of Stock You May Purchase

The minimum dollar amount of shares of our common stock that you may purchase is $400, provided sufficient shares are available.

Any person, by himself or herself, or with an associate or group of persons acting in concert, may not purchase more than $500,000 of common stock.

For further discussion of the purchase limits and definitions of "associate" and "acting in concert," see "The Offering Limitations on Purchases of Common Stock" on page of this prospectus.

How We Intend to Use the Proceeds from the Offering

We estimate that our net proceeds from the sale of the common stock in this offering will be approximately $1.5 million and $3.9 million at the minimum and maximum of the offering, respectively, after deducting estimated offering expenses payable by us of $500,000, including the fees payable to the investment banking firm assisting us with the offering. We intend to use the proceeds to support future loan and asset growth and for general corporate purposes. See "Use of Proceeds."

Market for Common Stock

Our common stock will continue to be quoted on the OTC Bulletin Board under the symbol "EMCF." See "Stock and Dividend Information."

Dividend Policy

We have traditionally paid a regular quarterly cash dividend on our common stock. The most recent quarterly dividend that we declared was $0.32 per share and was paid on June 20, 2008. The dividend rate and the continued payment of dividends will depend on a number of factors, including regulatory capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. No assurance can be given that we will continue to pay dividends or that dividends will not be reduced in the future.

Tax Consequences

As a general matter, the conversion merger will not be a taxable transaction for federal or state income tax purposes to Emclaire, the Bank, Elk County or persons who receive or exercise subscription rights.

Management After the Conversion Merger

Upon the consummation of the conversion merger, Elk County will cease to exist. The directors and the executive officers of the resulting institution in the merger of Elk County with and into the Bank will be the directors and executive officers of the Bank immediately prior to the conversion merger.

Proposed Stock Purchases by Directors and Executive Officers of Emclaire and Elk County

The directors and executive officers of Elk County propose to purchase approximately [ ] shares of Emclaire common stock in the offering. We expect our directors and executive officers to purchase approximately [ ] shares of common stock. All directors and executive officers will pay the same per share purchase price as all other persons who purchase shares of common stock in the offering. Our directors and executive officers may purchase shares in the subscription offering only if they are eligible depositors or borrowers of Elk County. Otherwise, to the extent shares of Emclaire common stock remain available, such individuals intend to purchase shares in the community offering.

Interests of Elk County Management and Board of Directors

Elk County's directors and officers have interests in the conversion merger as individuals which are in addition to, or different from, their interests as members of Elk County. These interests are as follows:

- appointment of all Elk County directors to an advisory board of Emclaire;
- indemnification by Emclaire of current and former directors and officers;
- healthcare and severance payments to the three employees of Elk County;
- retention bonuses to the three employees of Elk County, to the extent that the particular employee is still employed at the closing of the conversion merger;
- payment of retirement benefits; and

5

payment of consulting fees to the managing officer of Elk County for a period of six months subsequent to the closing of the conversion merger.

The board of directors of Elk County was aware of the foregoing interests and considered them, among other matters, in approving the conversion merger. For further discussion of the interests of Elk County's directors and officers, see "The Offering and the Conversion Merger The Merger Interests of Certain Persons in the Conversion Merger" beginning on page of this prospectus.

How You Can Obtain Additional Information

If you have any questions regarding the conversion merger or the offering, please call the Stock Information Center at (877) 298-6520 from 8:30 a.m. to 5:30 p.m., Eastern Time..

RISK FACTORS

In addition to the other information set forth in this prospectus, you should consider carefully the following risk factors in evaluating an investment in the shares of Emclaire common stock.

Risks Related to Our Business

Deterioration of Economic Conditions in our Geographic Market Area Could Hurt Our Business

We are located in western Pennsylvania and our loans are concentrated in Venango, Clarion and Butler Counties, Pennsylvania. Although we have diversified our loan portfolio into other Pennsylvania counties, and to a very limited extent, into other states, the vast majority of our loans remain concentrated in the three primary counties. As a result of this geographic concentration, our financial results depend largely upon economic and real estate market conditions in these areas. Deterioration in economic or real estate market conditions in our primary market areas could have a material adverse impact on the quality of our loan portfolio, the demand for our products and services, and our financial condition and results of operations.

Future Changes in Interest Rates Could Negatively Affect Our Financial Performance

By nature, all financial institutions are impacted by changing interest rates. Among other issues, changes in interest rates may affect the following:

- the demand for new loans;
- the value of our interest-earning assets;
- prepayment speeds experienced on various asset classes, particularly residential mortgage loans;
- credit profiles of existing borrowers;
- rates received on loans and securities;
- our ability to obtain and retain deposits in connection with other available investment alternatives; and
- rates paid on deposits and borrowings.

Significant fluctuations in interest rates may have an adverse effect upon our financial condition and results of operations. The rates that we earn on our assets and the rates that we pay on our liabilities are generally fixed for a contractual period of time. We, like many financial institutions, have liabilities that generally have shorter contractual maturities than our assets. This imbalance can create significant earnings volatility, because market interest rates change over time. In a period of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities. In a period of declining interest rates, the interest income earned on our assets may decrease more rapidly than the interest paid on our liabilities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Emclaire Market Risk Management" on page .

In addition, changes in interest rates can also affect the average life of our loans and mortgage-backed and related securities. A reduction in interest rates results in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their debt in order to reduce their borrowing cost. This causes reinvestment risk. This means that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities.

We Operate in a Highly Regulated Environment and We May Be Adversely Affected By Any Changes in Laws and Regulations

We are subject to extensive regulation, supervision and examination by federal, state and local governmental authorities, including the Federal Reserve Board and the Office of the Comptroller of the Currency. Any change in the laws or regulations applicable to us, or in the federal or state banking regulators' supervisory policies or examination procedures could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We May Suffer Losses in Our Loan Portfolio Despite Our Underwriting Practices

A significant source of risk arises from the possibility that we could incur losses because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that management believes are appropriate to control this risk by assessing the likelihood of non-performance, tracking loan performance, and diversifying the credit portfolio. Such policies and procedures may not, however, prevent unexpected losses that could have a material adverse effect on our financial condition or results of operations. Unexpected losses may arise from a wide variety of specific or systemic factors, many of which are beyond our ability to predict, influence, or control.

There Are Increased Risks Involved With Commercial Real Estate and Commercial Business and Consumer Lending Activities

Our lending activities include loans secured by commercial real estate. Commercial real estate lending generally is considered to involve a higher degree of risk than single-family residential lending due to a variety of factors, including generally larger loan balances and the dependency on successful operation of the project for repayment. Our lending activities also include commercial business loans to small to medium businesses, which generally are secured by various equipment, machinery and other corporate assets, and a wide variety of consumer loans, including home equity and second mortgage loans, automobile loans and unsecured loans. Although commercial business loans and consumer loans generally have shorter terms and higher interest rates than mortgage loans, they generally involve more risk than mortgage loans because of the nature of, or in certain cases the absence of, the collateral which secures such loans.

In addition, we have a concentration of higher balance commercial real estate and commercial business loans with a limited number of borrowers in our market area. As a result, we have a greater risk of a significant loss due to such concentration and a greater risk of loan defaults in the event of an economic downturn in our market area as adverse economic changes may have a negative effect on the ability of our borrowers to make timely repayment of their loans.

Our Allowance for Loan Losses on Loans May Not Be Adequate to Cover Probable Losses

We have established an allowance for loan losses that we believe is adequate to offset probable losses on our existing loans. There can be no assurance that any future declines in real estate market conditions, general economic conditions or changes in regulatory policies will not require us to increase our allowance for loan losses, which could adversely affect our results of operations.

Strong Competition Within Our Market Area May Limit Our Growth and Profitability

Competition in the banking and financial services industry is intense. In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, and other financial intermediaries operating locally and elsewhere. Some of our competitors have greater name recognition and market presence that benefits them in attracting business and offer certain services that we do not provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long term basis. Our profitability depends upon our continued ability to successfully compete in our market area.

Risks Related to the Stock Offering and the Conversion Merger

You May Not Be Able to Sell Your Shares When You Desire, At or Above Our Offering Price

Publicly traded stocks have recently experienced substantial market price volatility. This is due, in part, to investors' shifting perceptions of the effect on various industry sectors of changes and potential changes in the economy. Volatility, therefore, may be unrelated to the current operating performance of particular companies whose shares are traded. The per share purchase price of the shares of Emclaire common stock that you purchase in the offering will be equal to 85% of the average last sales price, or average of the closing bid and asked quotations, if there is no last sales price, of our common stock on the OTC Bulletin Board for the ten trading days ending the day before the closing of the conversion merger. Our trading price of our common stock is determined by the marketplace. After you purchase the shares of common stock in the offering, the stock's trading price will continue to fluctuate due to many factors, including prevailing interest rates, other economic conditions, our operating performance and investor perceptions of the outlook of Emclaire and the banking industry in general. Therefore, we cannot assure you that if you choose to sell the shares of common stock that you purchased in the stock offering, you will be able to sell your shares at or above the per share purchase price.

We Cannot Guarantee the Maintenance of an Established Trading Market for Our Securities

Although our common stock is quoted on the OTC Bulletin Board, a regular trading market for the securities may not be sustained in the future. The OTC Bulletin Board is an inter-dealer, over-the-counter market that provides significantly less liquidity than the national securities exchanges such as the NASDAQ Stock Market. Quotes for stocks on the OTC Bulletin Board are not listed in the financial sections of newspapers, and newspapers generally have very little coverage of stocks quoted solely on the OTC Bulletin Board. Accordingly, prices for and coverage of securities quoted solely on the OTC Bulletin Board may be difficult to obtain. In addition, securities quoted solely on the OTC Bulletin Board tend to have a limited number of market makers and a larger spread between the bid and ask prices than those listed on a national securities exchange. All of these factors may cause holders of our common stock to be unable to resell their securities at or near their original offering price or at any price.

You May Not Be Able to Profit from the Sale or a Merger of Emclaire Because of Provisions in Our Charter Documents and Other Laws and Regulations

Our articles of incorporation and bylaws contain provisions that may make it difficult for someone to acquire control of the Company. These provisions may discourage takeover attempts and prevent you from receiving a premium over the market price of your shares as part of a takeover. See "Restrictions on Acquisition of Emclaire."

Purchasers of Our Common Stock Will Experience Immediate Dilution

If you purchase shares of our common stock in this offering, and we sell 200,000 shares of our common stock, you will experience immediate dilution of $ per share relative to the book value of your investment, since our net book value per share will be approximately $ compared with the offering price of $ per share. See "Dilution."

SELECTED CONSOLIDATED FINANCIAL DATA OF EMCLAIRE
(Dollar Amounts in Thousands, Except Per Share Data)

The following tables present our selected consolidated financial data as of or for the three months ended March 31, 2008 and as of or for each of the five years ended December 31, 2007. Financial data as of or for each of the five years ended December 31, 2007 is derived from our audited Consolidated Financial Statements. Financial data as of or for the three months ended March 31, 2008 and 2007 is derived from our unaudited Consolidated Financial Statements, which in the opinion of management, include all normal recurring adjustments necessary for a fair presentation of the results for such periods. You should read this information in conjunction with our historical Consolidated Financial Statements, including the related notes, included elsewhere in this prospectus. Results for the three months ended March 31, 2008 are not necessarily indicative of our expected results for the full year ending December 31, 2008.

	As of March 31,		As of December 31,				
Financial Condition Data	**2008**	**2007**	**2007**	**2006**	**2005**	**2004**	**2003**
	(unaudited)						
Total assets	$ 322,522	$ 300,055	$ 311,720	$ 300,560	$ 275,517	$ 273,380	$ 262,512
Securities	55,078	57,044	51,919	51,774	56,304	63,362	49,162
Loans receivable, net	232,863	212,933	229,819	213,344	192,526	179,575	190,482
Deposits	251,531	243,471	244,262	244,492	230,503	232,874	217,110
Borrowed funds	43,757	30,000	40,400	30,000	19,500	15,000	20,700
Stockholders' equity	25,086	24,069	24,703	23,917	23,615	23,616	22,655
Stockholders' equity per common share	$ 19.79	$ 18.98	$ 19.48	$ 18.86	$ 18.63	$ 18.63	$ 17.87
Tangible stockholders' equity per common share	$ 18.66	$ 17.86	$ 18.36	$ 17.74	$ 17.50	$ 17.48	$ 16.70

	For the three months ended March 31,		For the year ended December 31,				
Operations Data	**2008**	**2007**	**2007**	**2006**	**2005**	**2004**	**2003**
	(unaudited)						
Interest and dividend income	$ 4,520	$ 4,312	$ 17,855	$ 16,259	$ 14,877	$ 13,953	$ 14,209
Interest expense	1,977	2,003	7,886	6,968	5,573	5,219	4,901
Net interest income	2,543	2,309	9,969	9,291	9,304	8,734	9,308
Provision for loan losses	60	45	256	358	205	290	330
Net interest income after provision for loan losses	2,483	2,264	9,713	8,933	9,099	8,444	8,978
Noninterest income	660	730	2,943	2,934	3,317	2,535	1,785
Noninterest expense	2,413	2,310	9,164	9,409	9,146	7,909	7,522
Income before income taxes	730	684	3,492	2,458	3,270	3,070	3,241
Provision for income taxes	171	133	795	492	697	513	749
Net income	$ 559	$ 551	$ 2,697	$ 1,966	$ 2,573	$ 2,557	$ 2,492
Average common shares outstanding	1,267,835	1,267,835	1,267,835	1,267,835	1,267,835	1,267,835	1,301,714
Basic and diluted earnings per share	$ 0.44	$ 0.43	$ 2.13	$ 1.55	$ 2.03	$ 2.02	$ 1.91

	For the three months ended March 31,		For the year ended December 31,				
Dividends per share(1)	$ 0.32	$ 0.29	$ 1.54	$ 1.10	$ 1.02	$ 0.94	$ 1.11

Other Data	As of or for the three months ended March 31, 2008(4)	2007(4)	As of or for the year ended December 31, 2007	2006	2005	2004	2003
	(unaudited)						
Performance Ratios							
Return on average assets	0.73%	0.75%	0.90%	0.69%	0.94%	0.96%	0.99%
Return on average equity	9.05%	9.36%	11.13%	8.28%	10.69%	11.08%	10.96%
Yield on interest-earning assets(2)	6.49%	6.43%	6.55%	6.30%	6.00%	5.81%	6.28%
Cost of interest-bearing liabilities	3.40%	3.54%	3.46%	3.23%	2.70%	2.57%	2.56%
Cost of funds	2.85%	2.97%	2.89%	2.69%	2.24%	2.15%	2.16%
Interest rate spread(2)	3.09%	2.89%	3.09%	3.08%	3.30%	3.24%	3.72%
Net interest margin(2)	3.69%	3.52%	3.73%	3.68%	3.82%	3.71%	4.18%
Efficiency ratio(2)(3)	73.02%	74.73%	68.66%	74.18%	69.72%	67.11%	64.16%
Noninterest expense to average assets	3.17%	3.13%	3.06%	3.30%	3.33%	2.96%	2.99%
Interest-earning assets to average assets	93.53%	93.09%	93.13%	92.89%	92.82%	92.86%	92.69%
Loans to deposits	92.58%	87.46%	94.09%	87.26%	83.52%	77.11%	87.74%
Dividend payout ratio(1)	72.64%	66.73%	72.39%	70.93%	50.25%	46.61%	57.98%
Asset Quality Ratios							
Non-performing loans to total loans	0.36%	0.92%	0.41%	0.85%	0.75%	0.46%	0.69%
Non-performing assets to total assets	0.30%	0.66%	0.35%	0.65%	0.57%	0.33%	0.52%
Allowance for loan losses to total loans	0.94%	0.97%	0.93%	0.94%	0.96%	1.00%	0.92%
Allowance for loan losses to non-performing loans	259.53%	104.95%	226.58%	110.54%	128.72%	215.48%	133.71%
Capital Ratios							
Stockholders' equity to assets	7.78%	8.02%	7.92%	7.96%	8.57%	8.64%	8.63%
Tangible stockholder's equity to tangible assets	7.37%	7.55%	7.50%	7.52%	8.09%	8.15%	8.11%
Average equity to average assets	8.10%	7.97%	8.08%	8.32%	8.75%	8.63%	9.02%
Number of Offices	11	11	11	11	10	10	10

(1) Includes special cash dividends of $0.35 per share and $0.25 per share paid in 2007 and 2003, respectively.

(2) Interest income utilized in the calculation is on a fully tax equivalent basis.

(3) The efficiency ratio is calculated by dividing noninterest expense (less intangible amortization) by net interest income (on a fully tax equivalent basis) and noninterest income. The efficiency ratio gives a measure of how effectively a financial institution is operating.

(4) Where applicable, ratios have been annualized.

RECENT DEVELOPMENTS OF EMCLAIRE FINANCIAL CORP.

(Dollar Amounts in Thousands, Except Per Share Data)

The following tables present selected consolidated financial data as of or for the three or six months ended June 30, 2008 and as of the year ended December 31, 2007. Financial data as of the year ended December 31, 2007 is derived from our audited Consolidated Financial Statements. Financial data as of or for the three or six months ended June 30, 2008 is derived from our unaudited Consolidated Financial Statements which, in the opinion of management, include all normal recurring adjustments necessary for a fair presentation of the results for such periods. You should read this in conjunction with our historical Consolidated Financial Statements, including the related notes, included elsewhere in this prospectus. Results for the three and six months ended June 30, 2008 are not necessarily indicative of our expected results for the full year ending December 31, 2008.

Financial Condition Data	As of June 30, 2008	As of December 31, 2007
	(unaudited)	
Total assets	$ 334,730	$ 311,720
Securities	61,942	51,919
Loans receivable, net	241,855	229,819
Deposits	259,033	244,262
Borrowed funds	48,651	40,400
Stockholders' equity	25,005	24,703
Stockholders' equity per common share	$ 19.72	$ 19.48
Tangible stockholders' equity per common share	$ 18.60	$ 18.36

	For the three months ended June 30,		For the six months ended June 30,	
Operations Data	2008	2007	2008	2007
	(unaudited)		(unaudited)	
Interest income	$ 4,563	$ 4,416	$ 9,084	$ 8,728
Interest expense	1,999	1,918	3,977	3,921
Net interest income	2,564	2,498	5,107	4,807
Provision for loan losses	85	30	145	75
Net interest income after provision for loan losses	2,479	2,468	4,962	4,732
Noninterest income	496	772	1,157	1,503
Noninterest expense	2,293	2,336	4,708	4,646
Net income before income taxes	682	904	1,411	1,589
Provision for income taxes	141	197	311	331
Net income	$ 541	$ 707	$ 1,100	$ 1,258
Average common shares outstanding	1,267,835	1,267,835	1,267,835	1,267,835
Basic earnings per share	$ 0.43	$ 0.56	$ 0.87	$ 0.99
Dividends per share	$ 0.32	$ 0.29	$ 0.64	$ 0.58

Other Data	As of or for the three months ended June 30, 2008(3)	2007(3)	As of or for the six months ended June 30, 2008(3)	2007(3)
	(unaudited)		(unaudited)	
Performance Ratios				
Return on average assets	0.67%	0.95%	0.70%	0.85%
Return on average equity	8.70%	11.77%	8.87%	10.57%
Yield on interest-earning assets(1)	6.15%	6.54%	6.32%	6.49%
Cost of interest-bearing liabilities	3.23%	3.41%	3.31%	3.47%
Cost of funds	2.70%	2.84%	2.77%	2.91%
Interest rate spread(1)	2.92%	3.13%	3.00%	3.01%
Net interest margin(1)	3.51%	3.77%	3.61%	3.64%
Efficiency ratio(1)(2)	66.76%	71.65%	69.82%	73.13%
Noninterest expense to average assets	2.84%	3.15%	3.00%	3.14%
Loans to deposits	93.37%	91.74%	93.37%	91.74%
Dividend payout ratio	74.99%	52.03%	73.76%	58.48%
Asset Quality Ratios				
Non-performing loans to total loans	0.40%	0.53%	0.40%	0.53%
Non-performing assets to total assets	0.31%	0.39%	0.31%	0.39%
Allowance for loan losses to total loans	0.94%	0.94%	0.94%	0.94%
Allowance for loan losses to non-performing loans	233.13%	177.38%	233.13%	177.38%
Capital Ratios				
Stockholders' equity to assets	7.47%	8.04%	7.47%	8.04%
Tangible stockholder's equity to tangible assets	7.05%	7.56%	7.05%	7.56%
Average equity to average assets	7.89%	8.03%	7.89%	8.03%
Number of offices	12	11	11	11

(1) Interest income utilized in the calculation is on a fully tax equivalent basis.

(2) The efficiency ratio is calculated by dividing noninterest expense (less intangible amortization) by net interest income (on a fully tax equivalent basis) and noninterest income. The efficiency ratio gives a measure of how effectively a financial institution is operating.

(3) Where applicable, ratios have been annualized.

Comparison of Financial Condition at June 30, 2008 and December 31, 2007

Total assets increased $23.0 million to $334.7 million at June 30, 2008 from $311.7 million at December 31, 2007. This 7.4% increase resulted from increases in securities and loans receivable, net of allowance for loan losses, of $10.0 million and $12.0 million, respectively. The increase in the Company's assets was primarily funded by increases in customer deposits and borrowed funds.

Non-performing assets to total assets decreased to 0.31% at June 30, 2008 compared to 0.35% 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 June 30, 2008 calculation above that has exhibited credit weaknesses and has subsequently 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. Although the Bank is in negotiations with the borrower, the Bank believes that it may be required to initiate foreclosure proceedings. However, 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 $22.7 million to $309.7 million at June 30, 2008 from $287.0 million at December 31, 2007, while total stockholders' equity increased $302,000 to $25.0 million at June 30, 2008 from $24.7 million at December 31, 2007. The increase in total liabilities resulted primarily from increases in customer deposits of $14.8 million and borrowed funds of $8.3 million.

At June 30, 2008, the Bank was categorized as well capitalized for regulatory capital purposes with total capital to risk-weighted assets of 10.54%, tier one capital to risk weighted assets of 9.62% and tier one capital to average assets of 7.50.

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

Net income decreased $166,000 or 23.5% to $541,000 for the three months ended June 30, 2008 from $707,000 for the same period in 2007. This decrease was the result of an increase in the provision for loan losses of $55,000 and a decrease in noninterest income of $276,000, partially offset by an increase in net interest income of $66,000 and decreases in noninterest expense and the provision for income taxes of $43,000 and $56,000, respectively.

Net interest income increased $66,000 or 2.6% to $2.6 million for the three months ended June 30, 2008 from $2.5 million for the same period in 2007. This increase can be attributed to an increase in interest income of $147,000, partially offset by an increase in interest expense of $81,000.

The increase in interest income can be attributed primarily to an increase in interest earned on loans receivable as average loans increased $21.2 million or 9.7% to $240.7 million for the three months ended June 30, 2008, compared to $219.5 million for the same period in 2007. Partially offsetting the favorable volume variance, the yield on loans receivable decreased 37 basis points to 6.61% for the three months ended June 30, 2008, versus 6.98% for the same period in 2007, primarily as a result of recent decreases in short-term market interest rates. Also contributing to the decrease in the yield was the collection of $54,000 of interest due associated with the payoff of a previously non-performing commercial loan in April 2007 that had been on non-accrual status, with no such similar payoff during the current period. In connection with the loan payoff, the Company 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 June 30, 2007.

The increase in interest expense primarily resulted from an increase in the average balance of borrowed funds of $12.5 million or 39.3% to $44.3 million for the three months ended June 30, 2008, compared to $31.8 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 an average of $9.3 million in short-term borrowings used to fund security purchases.

The provision for loan losses increased $55,000 or 183.3% to $85,000 for the three months ended June 30, 2008 compared to $30,000 for the same period in 2007. This increase was the result of loan growth, primarily as the Company's commercial loan portfolio increased by 4.7% during the three months ended June 30, 2008.

Noninterest income decreased $276,000 or 35.8% to $496,000 for the three months ended June 30, 2008 from $772,000 for the same period in 2007. This decrease was primarily due to a decrease in gains on securities of $393,000 for the three months ended June 30, 2008, compared to the same period in the prior year as the Company realized security losses of $275,000 in the second quarter of 2008. 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 June 30, 2008, these securities were written down to their current fair value. In addition, during the three month periods ended

June 30, 2007, the Company realized a $108,000 gain from the sale of a community bank stock investment as a result of that bank's merger with a larger financial institution.

Noninterest expenses decreased $43,000 or 1.8% for the three months ended June 30, 2008, compared to the same period in 2007. This decrease can be attributed primarily to a decrease in professional fees relating to Sarbanes-Oxley Section 404 compliance.

The provision for income taxes decreased $56,000 or 28.4% to $141,000 for the three months ended June 30, 2008 from $197,000 for the same period in 2007. This was due to a decrease in pre-tax earnings of $222,000 or 24.6% compared to $682,000 for the three months ended June 30, 2008, compared to $904,000 for the same period in the prior year and a decrease in the effective tax rate to 20.7% for the three months ended June 30, 2008, compared to 21.8% for the same period in 2007.

Comparison of Results for the Six Month Periods Ended June 30, 2008 and 2007

Net income decreased $158,000 or 12.6% to $1.1 million for the six months ended June 30, 2008 from $1.3 million for the same period in 2007. This decrease was a result of increases in the provision for loan losses and noninterest expense of $70,000 and $62,000, respectively, and a decrease in noninterest income of $346,000. Partially offsetting this decrease was an increase in net interest income of $300,000 and a decrease in the provision for income taxes of $20,000.

Net interest income increased $300,000 or 6.2% to $5.1 million for the six months ended June 30, 2008 from $4.8 million for the same period in 2007. This increase can be attributed to an increase in interest income of $356,000, partially offset by an increase in interest expense of $56,000.

The increase in interest income can be attributed primarily to an increase in interest earned on loans receivable as average loans increased $19.8 million or 9.1% to $237.2 million for the six months ended June 30, 2008, compared to $217.4 million for the same period in 2007. Partially offsetting the favorable volume variance, the yield on loans receivable decreased 21 basis points to 6.71% for the six months ended June 30, 2008, versus 6.92% for the same period in 2007, primarily as a result of recent decreases in short-term market interest rates. Also contributing to the decrease in the yield was the collection of $54,000 of interest due associated with the payoff of a previously non-performing commercial loan in April 2007 that had been on non-accrual status, with no such similar payoff during the current period. In connection with the loan payoff, the Company 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 June 30, 2007.

The increase in interest expense primarily resulted from an increase in interest on borrowed funds of $165,000 as the average balance of borrowed funds increased $10.4 million or 33.7% to $41.3 million for the six months ended June 30, 2008, compared to $30.9 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 an average of $5.4 million in short-term borrowings used to fund security purchases. Partially offsetting this unfavorable variance, interest expense on deposits decreased $109,000 as the cost of these deposits decreased to 3.14% for the six months ended June 30, 2008 from 3.31% for the same period in 2007.

The provision for loan losses increased $70,000 or 93.3% to $145,000 for the six months ended June 30, 2008 compared to $75,000 for the same period in 2007. This increase was a result of loan growth, primarily as the Company's commercial loan portfolio increased by 8.8% during the six months ended June 30, 2008.

Noninterest income decreased $346,000 or 23.0% to $1.2 million for the six months ended June 30, 2008 from $1.5 million for the same period in 2007. This decrease was primarily due to a decrease in gains on securities of $451,000 for the six months ended June 30, 2008, compared to the same period in the prior year as the Company realized security losses of $275,000 in the second quarter of 2008.

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 June 30, 2008, these securities were written down to their current fair value. In addition, during the six month period ended June 30, 2007, the Company realized a $166,000 gain from the sale of a community bank stock investment as a result of that bank's merger with a larger financial institution.

Noninterest expense increased $62,000 or 1.3% to $4.7 million for the six months ended June 30, 2008 from $4.6 million for the same period in 2007. This increase can be attributed to increases in compensation and benefits and premises and equipment of $150,000 and $38,000, respectively. The increase in compensation and benefits was due to normal salary and wage increases and the addition of staff at a new branch location. This new branch location also resulted in the increase in premises and equipment. Offsetting these unfavorable variances, other noninterest expense decreased by $126,000. This decrease can be attributed primarily to a decrease in professional fees relating to Sarbanes-Oxley Section 404 compliance.

The provision for income taxes decreased $20,000 or 6.0% to $311,000 for the six months ended June 30, 2008 from $331,000 for the same period in 2007. This was due to a decrease in pre-tax earnings of $178,000 or 11.2% to $1.4 million for the six months ended June 30, 2008, compared to $1.6 million for the same period in the prior year. Partially offsetting this favorable variance, the effective tax rate was 22.0% for the six months ended June 30, 2008, compared to 20.8% for the same period in 2007.

OVERVIEW OF ELK COUNTY

Elk County is a Pennsylvania-chartered mutual savings association with one office located in Ridgway, Pennsylvania. Elk County was founded in 1925 and provides financing primarily for home ownership and traditional savings opportunities for customers in the counties of Elk, Cameron, McKean, Clearfield and Jefferson, Pennsylvania. Elk County is converting from the mutual to the stock form of ownership and simultaneously merging with and into the Bank. Upon completion of the conversion merger, Elk County will cease to exist.

Elk County is subject to regulation and examination by the Office of Thrift Supervision, or the OTS, and by the Pennsylvania Department of Banking, or the Department.

At March 31, 2008, Elk County had total assets of $10.4 million, retained earnings of $2.4 million, deposits of $8.0 million, and net loans receivable of $7.9 million. Elk County's principal executive office is located at 210 Main Street, Ridgway, Pennsylvania 15853. Their telephone number is (814) 776-6181.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Such statements are based upon current expectations and involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words or phrases such as "believe," "plan," "expect," "intend," "anticipate," "estimate," "project," "forecast," "may increase," "may fluctuate," "may improve" and similar expressions of future or conditional verbs such as "will," "should," "would," and "could." These forward-looking statements relate to, among other things, expectations of the business environment in which we operate, projections of future performance, potential future credit experience, perceived opportunities in the market and statements regarding our mission and vision.

Our actual results, performance and achievements, following completion of the conversion merger and the offering, may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements due to a wide range of factors. These factors include, but are not limited to:

- governmental approvals of the conversion merger may not be obtained;
- the members of Elk County may fail to approve the conversion merger;
- changes in interest rates;
- general economic conditions;
- the local economy;
- the demand for our products and services;
- accounting principles or guidelines;
- legislative and regulatory changes;
- monetary and fiscal policies of the U.S. Government, U.S. Treasury, and Federal Reserve;

real estate markets;

competition in the financial services industry;

attracting and retaining key personnel;

performance of new employees;

regulatory actions;

changes in and utilization of new technologies; and

other risks detailed in the reports that we file with the Securities and Exchange Commission from time to time.

These factors and those discussed under "Risk Factors" should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. We do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

USE OF PROCEEDS

The following table sets forth the calculation of our net proceeds at the minimum and maximum of the offering.

	Minimum (88,864 shares sold)(1)	Maximum (200,000 shares sold)(1)
Gross offering proceeds	$ 1,955,000	$ 4,400,000
Estimated expenses of the offering	500,000	500,000
Net proceeds to us	$ 1,455,000	$ 3,900,000

(1) Assumes an offering price of $22.00 per share.

We will use the net proceeds from the offering to support future loan and asset growth, to expand our business operations and for general corporate purposes.

STOCK AND DIVIDEND INFORMATION

Listings and Markets

Our common stock is quoted on the OTC Bulletin Board under the symbol "EMCF." The listed market makers for our common stock include:

Ferris, Baker Watts, Inc.	Boenning and Scattergood	Parker Hunter, Inc.
100 Light Street, 8th Floor	4 Tower Bridge, Suite 300	600 Grant Street, Suite 3100
Baltimore, MD 21202	200 Bar Harbor Drive	Pittsburgh, PA 15219
Telephone: (800) 638-7411	West Conshohocken, PA 19428	Telephone: (412) 562-8000
	Telephone: (610) 862-5360	

Stock Price and Cash Dividend Information

The following table sets forth the high and low sale and quarter-end closing market prices of our common stock as quoted on the OTC Bulletin Board, as well as cash dividends paid for the quarterly periods presented. The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	Market Price			Per Share Cash Dividend
	High	Low	Close	
2008:				
Second quarter through August 13, 2008	$	$	$	$ 0.32
First quarter	28.35	24.55	26.50	0.32
2007:				
Fourth quarter	$ 28.25	$ 25.20	$ 25.75	$ 0.67
Third quarter	27.75	25.00	25.60	0.29
Second quarter	27.00	23.50	25.25	0.29
First quarter	31.00	26.75	27.25	0.29
2006:				
Fourth quarter	$ 30.00	$ 25.30	$ 29.25	$ 0.29
Third quarter	29.00	25.00	25.90	0.27
Second quarter	29.00	25.75	27.00	0.27
First quarter	27.25	25.05	26.00	0.27

The per share closing price of our common stock on May 23, 2008, the last trading day preceding public announcement of the transaction, was $26.95. On August , 2008, the last reported per share closing price of our common stock was $.

Number of Stockholders and Shares Outstanding

As of August , 2008, there were approximately 679 stockholders of record and 1,267,835 shares of common stock entitled to vote, receive dividends and considered outstanding for financial reporting purposes. The number of stockholders of record does not include the number of persons or entities who hold their stock in nominee or "street" name.

Dividend Policy

We have traditionally paid regular quarterly cash dividends. Future dividends will be determined by our board of directors after giving consideration to the Company's financial condition, results of operations, tax status, industry standards, economic conditions and other factors. Dividends will also depend upon the receipt of dividends from the Bank, which is our primary source of income. The Bank is subject to certain regulatory restrictions that may limit its ability to pay dividends to us. See "Supervision and Regulation Dividends and Other Transfers of Funds."

Dividend Reinvestment and Stock Purchase Plan

Common stockholders may have Company dividends reinvested to purchase additional shares. Participants may also make optional cash purchases of common stock through this plan and pay no brokerage commissions or fees.

CAPITALIZATION

Set forth below is the historical capitalization of Emclaire and Elk County as of March 31, 2008, and the pro forma capitalization of Emclaire after giving effect to the conversion merger and the offering. The table also gives affect to the assumptions set forth under "Pro Forma Data." This information should be read in conjunction with our Consolidated Financial Statements and the related notes included elsewhere in this prospectus.

	As of March 31, 2008 (Actual)		Pro Forma Combined(1)	
(Dollars in thousands)	Emclaire	Elk County	Minimum	Maximum
Deposits	$ 251,531	$ 8,020	$ 259,578	$ 259,578
Borrowings:				
Long-term	35,000		35,000	
Short-term	8,757		8,757	8,757
Total deposits and borrowings	$ 295,288	$ 8,020	$ 303,335	$ 303,335
Stockholders' equity/Retained earnings				
Common stock	$ 1,745	$	$ 1,834	$ 1,945
Additional paid-in capital	10,923		12,289	14,623
Treasury stock	(2,653)		(2,653)	(2,653)
Retained earnings	15,267	2,378	16,900	16,900
Accumulated other comprehensive income (loss)	(196)	4	(196)	(196)
Total stockholders' equity/Retained earnings	$ 25,086	$ 2,382	$ 28,173	$ 30,619

(1) Pro forma total deposits and borrowings reflect a $27,000 premium on deposits based on Elk County's December 31, 2007 audited financial statements. Pro forma total stockholders' equity/retained earnings reflects additional common stock and paid-in-capital from the offering, and the net effect of purchase accounting entries, including the elimination of negative goodwill.

DILUTION

At March 31, 2008, Emclaire had a net book value of approximately $25.1 million, or $19.79 per share. Net book value per share represents the amount of Emclaire's stockholders' equity, divided by 1,267,835 shares of common stock, which was the number of shares of common stock outstanding at March 31, 2008. Dilution per share to new investors represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma net book value per share of common stock immediately after completion of the offering. After (i) giving effect to the sale by Emclaire of 88,864 and 200,000 shares in this offering at the minimum and maximum, respectively, at an assumed offering price of $22.00 per share, and (ii) deducting the placement agent fees and estimated offering expenses totaling $500,000, the pro forma net book value of Emclaire at March 31, 2008, would have been approximately $28.2 million, or $20.77 per share at the minimum and $30.6 million or $20.86 per share at the maximum. At the minimum of the offering, this represents an immediate increase in pro forma net book value of $0.98 per share to existing shareholders and an immediate dilution of $1.23 per share to investors. At the maximum of the offering, this represents an immediate increase in pro forma net book value of $1.07 per share to existing shareholders and an immediate dilution of $1.14 per share to investors. The following table illustrates this per share pro forma impact:

		Minimum		Maximum
Public offering price per share(1)		$ 22.00		$ 22.00
Net book value per share at March 31, 2008	$ 19.79		$ 19.79	
Pro forma increase per share attributable to the conversion merger(2)	0.98		1.07	
Pro forma net book value per shareholder after the conversion merger		20.77		20.86
Pro forma dilution per share to new investors relative to book value		$ 1.23		$ 1.14

(1) The public offering price per share was determined based on the average of the last sales price, or average closing bid and asked quotations, if there is no last sales price, of a share of our common stock on the OTC Bulletin Board for the ten trading days ending on the second day prior to the date of this prospectus, or $, and applying a 15% discount to such average, for a final offering price of $.

(2) This represents a 5.0% and 5.4% accretion per share to existing Emclaire shareholders.

PRO FORMA DATA

Our actual net proceeds from the sale of our shares of common stock in this offering cannot be determined until the conversion merger and the offering are complete. However, we estimate that we will receive net proceeds from this offering of approximately $1.5 million and $4.3 million, at the minimum and maximum of the offering, respectively, after deducting estimated offering expenses payable by us of $500,000.

The following table sets forth our and Elk County's historical net earnings and stockholders' equity/retained earnings prior to the conversion merger and the offering, and the pro forma combined consolidated net earnings and stockholders' equity of Emclaire after completion of the transaction. In preparing these tables and in calculating pro forma data, the following assumptions were made:

- All shares of common stock will be sold in the offering at $22.00 per share.

- The pro forma combined data has been prepared based on the purchase method of accounting under United States generally accepted accounting principles. Under purchase accounting, the assets and liabilities of Elk County, after completion of the conversion merger, will be recorded at their respective fair values and added to those of the Bank and included in the consolidated financial statements of Emclaire. See "The Offering and the Conversion Merger The Conversion Accounting Consequences."

- Pro forma earnings have been calculated assuming the shares of common stock had been sold at the beginning of the period and the net proceeds had been invested at an average yield of 4.75% for the three months ended March 31, 2008 and the year ended December 31, 2007. The reinvestment rate was based on the current prime rate, the one-year treasury bill rate and the average yield of the Bank's loan portfolio.

- The pro forma after-tax yield on the net proceeds is assumed to be 3.14% for the three months ended March 31, 2008 and for the year ended December 31, 2007, based on an effective tax rate of 34%.

22

No effect has been given to the withdrawals from deposit accounts of either Elk County or the Bank to purchase shares in the offering.

Historical per share amounts have been calculated by dividing historical amounts by 1,267,835 shares of common stock.

Pro forma per share amounts have been calculated by dividing pro forma amounts by 1,356,699 and 1,467,835 shares of common stock, which represents the pro forma total outstanding shares of Emclaire common stock after the sale of shares at the minimum and maximum of the offering, respectively.

Pro forma stockholders' equity amounts have been calculated as if the stock had been sold on March 31, 2008 and December 31, 2007, respectively, and, accordingly, no effect has been given to the assumed earnings effect of the transaction.

The following pro forma data relies on the assumptions that are outlined above, and this data does not represent the fair market value of the common stock, the current value of assets or liabilities, or the amount of money that would be distributed to stockholders if we were liquidated. The pro forma data does not predict how much we will earn in the future.

	As of or For the Three Months Ended March 31, 2008		As of or For the Year Ended December 31, 2007	
	(Dollars in Thousands, except per share data)			
	Minimum(1)	Maximum(1)	Minimum(1)	Maximum(1)
Gross offering proceeds				
Less: Estimated offering expenses	$ 1,955	$ 4,400	$ 1,955	$ 4,400
Estimated net offering proceeds	(500)	(500)	(500)	(500)
	$ 1,455	$ 3,900	$ 1,455	$ 3,900
Net Earnings:				
Historical Emclaire	$ 559	$ 559	$ 2,697	$ 2,697
Historical Elk County	(9)	(9)	27	27
Historical combined	$ 550	$ 550	$ 2,724	$ 2,724
Pro forma net earnings from proceeds	11	31	46	122
Purchase accounting effect on earnings(2)	(2)	(2)	(10)	(10)
Pro forma combined net earnings	$ 559	$ 579	$ 2,760	$ 2,836
Basic Earnings per share:				
Historical Emclaire	$ 0.44	$ 0.44	$ 2.13	$ 2.13
Pro forma combined net earnings per share	$ 0.41	$ 0.39	$ 2.04	$ 1.93
Total Stockholders' Equity/Retained Earnings:				
Historical Emclaire	$ 25,086	$ 25,086	$ 24,703	$ 24,703
Historical Elk County	2,382	2,382	2,388	2,388
Historical combined	$ 27,468	$ 27,468	$ 27,091	$ 27,091
Estimated net offering proceeds	1,455	3,900	1,455	3,900
Purchase accounting effect on equity(2)	(750)	(750)	(750)	(750)
Pro forma combined stockholders' equity	$ 28,173	$ 30,618	$ 27,796	$ 30,241
Per share:				
Historical Emclaire	$ 19.79	$ 19.79	$ 19.48	$ 19.48
Pro forma combined stockholders' equity	$ 20.76	$ 20.86	$ 20.48	$ 20.60

(1) In a typical stand alone conversion, Elk County would conduct an offering of a range of shares of its common stock based on an independent appraisal of Elk County's pro forma market value. RP Financial, LC, an appraisal firm experienced in the valuation and appraisal of business entities, including savings associations, determined that as of June 13, 2008, the estimated aggregate pro forma market value of Elk County was between $1,955,000 and $2,645,000, with a midpoint of $2,300,000. As a result, the minimum of the offering is based on the estimate of the minimum of Elk County's pro forma market value. However, due to the fixed costs associated with the offering and Emclaire's desire to raise additional capital to support future growth and provide additional resources to pursue future acquisition and branching opportunities, Emclaire has established the maximum of the offering at 200,000 shares of Emclaire common stock, or $ based on the offering price of $. As a result, at the maximum, the offering associated with the conversion merger ($ based on the offering price of $) would exceed the maximum of a stand alone conversion of Elk County of $2,645,000 by $. Emclaire believes the additional offering amount is prudent and in the best interests of Emclaire and its

stockholders.

(2) Reflects the estimated net purchase accounting adjustments to be recorded upon closing of the conversion merger. Such adjustments consist of mark-to-market valuation adjustments for assets acquired and liabilities assumed and incurred, and adjustments for intangible assets established, and the resultant amortization and accretion of these adjustments to earnings over the appropriate periods. It is also anticipated that the merger of Elk County with and into the Bank will provide the combined institution with certain financial benefits that include reduced operating expenses and opportunities to earn more revenue. However, the pro forma information does not reflect any of these anticipated cost savings or benefits. Assumes Elk County loans are at a premium of $131,000; deposits at a premium of $27,000 (both based on December 31, 2007 audited financial statements). Assumes a zero value to core deposits.

BUSINESS OF EMCLAIRE

Business Summary

We are a Pennsylvania corporation and a financial holding company that provides a full range of retail and commercial financial products and services to customers in Western Pennsylvania through our wholly-owned subsidiary, the Bank.

The Bank was organized in 1900 as a national banking association and is a financial intermediary whose principal business consists of attracting deposits from the general public and investing such funds in real estate loans secured by liens on residential and commercial property, consumer loans, commercial business loans, marketable securities and interest-earning deposits. The Bank operates through a network of twelve offices in Venango, Butler, Clarion, Clearfield, Elk, Jefferson and Mercer counties, Pennsylvania. The Company and the Bank are headquartered in Emlenton, Pennsylvania. Farmers National Financial Services, formed in 2004, is a division of the Bank that offers retail brokerage and other investment services to customers in the Bank's market area.

The Bank is subject to examination and comprehensive regulation by the Office of the Comptroller of the Currency, or OCC, which is the Bank's chartering authority, and the Federal Deposit Insurance Corporation, or FDIC, which insures customer deposits held by the Bank to the full extent provided by law. The Bank is a member of the Federal Reserve Bank of Cleveland, or Federal Reserve Bank, and the Federal Home Loan Bank of Pittsburgh, or FHLB. We, as a registered financial holding company, are subject to regulation by the Federal Reserve Board.

At March 31, 2008, we had $322.5 million in total assets, $25.1 million in stockholders' equity, $232.9 million in loans and $251.5 million in deposits.

Lending Activities

General. The principal lending activities of the Bank are the origination of residential mortgage, commercial mortgage, commercial business and consumer loans. Significantly all of the Bank's loans are secured by property in the Bank's primary market area.

One-to-Four Family Mortgage Loans. The Bank offers first mortgage loans secured by one-to-four family residences located in the Bank's primary lending area. Typically such residences are single-family owner occupied units. The Bank is an approved, qualified lender for the Federal Home Loan Mortgage Corporation, or the FHLMC. As a result, the Bank may sell loans to and service loans for the FHLMC in market conditions and circumstances where this is advantageous in managing interest rate risk.

Home Equity Loans. The Bank originates home equity loans secured by single-family residences. These loans may be either a single advance fixed-rate loan with a term of up to 20 years, or a variable rate revolving line of credit. These loans are made only on owner-occupied single-family residences.

Commercial Business and Commercial Real Estate Loans. Commercial lending constitutes a significant portion of the Bank's lending activities. Commercial business and commercial real estate loans amounted to 47.4% of the total loan portfolio at March 31, 2008. Commercial real estate loans generally consist of loans granted for commercial purposes secured by commercial or other nonresidential real estate. Commercial loans consist of secured and unsecured loans for such items as capital assets, inventory, operations and other commercial purposes.

Consumer Loans. Consumer loans generally consist of fixed-rate term loans for automobile purchases, home improvements not secured by real estate, capital and other personal expenditures. The Bank also offers unsecured revolving personal lines of credit and overdraft protection.

Loans to One Borrower. National banks are subject to limits on the amount of credit that they can extend to one borrower. Under current law, loans to one borrower are limited to an amount equal to

15% of unimpaired capital and surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and surplus if the loan is secured by readily marketable collateral. At March 31, 2008, the Bank's loans to one borrower limit based upon 15% of unimpaired capital was $3.5 million. At March 31, 2008, the Bank's largest single lending relationship had an outstanding balance of $5.3 million. Credit granted to this borrower in excess of the legal lending limit is part of the Pilot Program approved by the OCC which allows the Bank to exceed its legal lending limit within certain parameters. The Bank's next largest single lending relationship had an outstanding balance of $4.2 million, which consisted of a loan to a municipality and was not subject to the legal lending limit. The Bank had two additional lending relationships exceeding the legal lending limit totaling $3.9 million and $3.7 million, respectively, at March 31, 2008. Credit granted to these borrowers in excess of the legal lending limit is also part of the Pilot Program. The next largest borrower had loans which totaled $3.5 million and consisted of loans secured by commercial real estate and business property in the Bank's lending area. At March 31, 2008, all of such loans were performing in accordance with their original terms.

Loan Portfolio. The following table sets forth the composition and percentage of our loans receivable in dollar amounts and in percentages of the portfolio as of dates indicated.

			December 31,									
	March 31, 2008		2007		2006		2005		2004		2003	
(Dollar amounts in thousands)	**Dollar Amount**	**%**	**Dollar Amount**	**%**	**Dollar Amount**	**%**	**Dollar Amount**	**%**	**Dollar Amount**	**%**	**Dollar Amount**	**%**
Mortgage loans on real estate:												
Residential first mortgages	$ 65,798	28.0%	$ 65,706	28.3%	$ 64,662	30.0%	$ 66,011	34.0%	$ 69,310	38.2%	$ 76,396	39.7%
Home equity loans and lines of credit	48,892	20.8%	49,426	21.3%	47,330	22.0%	39,933	20.5%	31,548	17.4%	30,316	15.8%
Commercial	73,714	31.4%	71,599	30.9%	61,128	28.4%	52,990	27.3%	48,539	26.8%	44,935	23.4%
Total real estate loans	188,404	80.2%	186,731	80.5%	173,120	80.4%	158,934	81.8%	149,397	82.4%	151,647	78.9%
Other loans:												
Commercial business	37,673	16.0%	35,566	15.3%	34,588	16.0%	27,732	14.2%	23,898	13.2%	26,470	13.8%
Consumer	9,005	3.8%	9,679	4.2%	7,671	3.6%	7,729	4.0%	8,090	4.4%	14,142	7.3%
Total other loans	46,678	19.8%	45,245	19.5%	42,259	19.6%	35,461	18.2%	31,988	17.6%	40,612	21.1%
Total loans receivable	235,082	100.0%	231,976	100.0%	215,379	100.0%	194,395	100.0%	181,385	100.0%	192,259	100.0%
Less:												
Allowance for loan losses	2,219		2,157		2,035		1,869		1,810		1,777	
Net loans receivable	$ 232,863		$ 229,819		$ 213,344		$ 192,526		$ 179,575		$ 190,482	

The following table sets forth the scheduled contractual principal repayments or interest repricing of loans in our portfolio as of March 31, 2008. Demand loans having no stated schedule of repayment and no stated maturity are reported as due within one year.

(Dollar amounts in thousands)	**Due in one year or less**	**Due after one year to five years**	**Due after five years to ten years**	**Due after ten years**	**Total**
Residential mortgages	$ 891	$ 3,911	$ 12,667	$ 48,329	$ 65,798
Home equity loans and lines of credit	324	6,321	16,545	25,702	48,892
Commercial mortgages	2,669	4,989	12,922	53,134	73,714

(Dollar amounts in thousands)	Due in one year or less	Due after one year to five years	Due after five years to ten years	Due after ten years	Total
Commercial business	5,116	9,246	4,164	19,147	37,673
Consumer	447	6,563	1,607	388	9,005
	$ 9,447	$ 31,030	$ 47,905	$ 146,700	$ 235,082

The following table sets forth the dollar amount of our fixed- and adjustable-rate loans with maturities greater than one year as of March 31, 2008.

(Dollar amounts in thousands)	Fixed Rates	Adjustable Rates
Residential mortgage	$ 44,761	$ 20,146
Home equity loans and lines of credit	48,568	
Commercial mortgage	30,139	40,906
Commercial business	26,421	6,136
Consumer	8,398	159
	$ 158,288	$ 67,347

Contractual maturities of loans do not reflect the actual term of our loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and enforcement of due-on-sale clauses, which give the Corporation the right to declare a loan immediately payable in the event, among other things, that the borrower sells the real property subject to the mortgage. Scheduled principal amortization also reduces the average life of the loan portfolio. The average life of mortgage loans tends to increase when current market mortgage rates substantially exceed rates on existing mortgages and conversely, decrease when rates on existing mortgages substantially exceed current market interest rates.

Delinquencies and Classified Assets

Delinquent Loans and Real Estate Acquired Through Foreclosure (REO). Typically, a loan is considered past due and a late charge is assessed when the borrower has not made a payment within fifteen days from the payment due date. When a borrower fails to make a required payment on a loan, we attempt to cure the deficiency by contacting the borrower. The initial contact with the borrower is made shortly after the seventeenth day following the due date for which a payment was not received. In most cases, delinquencies are cured promptly.

If the delinquency exceeds 60 days, we work with the borrower to set up a satisfactory repayment schedule. Typically loans are considered non-accruing upon reaching 90 days delinquent, although we may be receiving partial payments of interest and partial repayments of principal on such loans. When a loan is placed in non-accrual status, previously accrued but unpaid interest is deducted from interest income. We institute foreclosure action on secured loans only if all other remedies have been exhausted. If an action to foreclose is instituted and the loan is not reinstated or paid in full, the property is sold at a judicial or trustee's sale at which we may be the buyer.

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, management periodically performs valuations and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in loss on foreclosed real estate. The Corporation generally attempts to sell its REO properties as soon as practical upon receipt of clear title. The original lender typically handles disposition of those REO properties resulting from loans purchased in the secondary market.

As of March 31, 2008, our non-performing assets, which include non-accrual loans, loans delinquent due to maturity, troubled debt restructuring, repossessions and REO, amounted to $979,000 or 0.30% of our total assets.

Classified Assets. Regulations applicable to insured institutions require the classification of problem assets as "substandard," "doubtful," or "loss" depending upon the existence of certain characteristics as discussed below. A category designated "special mention" must also be maintained for assets currently not requiring the above classifications but having potential weakness or risk characteristics that could result in future problems. An asset is classified as substandard if not adequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. A substandard asset is characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified as substandard. In addition, these weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets classified as loss are considered uncollectible and of such little value that their continuance as assets is not warranted.

Our classification of assets policy requires the establishment of valuation allowances for loan losses in an amount deemed prudent by management. Valuation allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities. When we classify a problem asset as a loss, the portion of the asset deemed uncollectible is charged off immediately.

We regularly review the problem loans and other assets in our portfolio to determine whether any require classification in accordance with the Company's policy and applicable regulations. As of March 31, 2008, our classified and criticized assets amounted to $6.5 million with $3.0 million classified as substandard and $3.5 million identified as special mention.

The following table sets forth information regarding our non-performing assets as of the dates indicated:

(Dollar amounts in thousands)	March 31, 2008	December 31, 2007	2006	2005	2004	2003
Non-performing loans	$ 855	$ 952	$ 1,841	$ 1,452	$ 840	$ 1,329
Total as a percentage of gross loans	0.36%	0.41%	0.85%	0.75%	0.46%	0.69%
Repossessions					2	45
Real estate acquired through foreclosure	124	129	98	106	69	
Total as a percentage of total assets	0.04%	0.04%	0.03%	0.04%	0.03%	0.00%
Total non-performing assets	$ 979	$ 1,081	$ 1,939	$ 1,558	$ 911	$ 1,374
Total non-performing assets as a percentage of total assets	0.30%	0.35%	0.65%	0.57%	0.33%	0.52%
Allowance for loan losses as a percentage of non-performing loans	259.53%	226.58%	110.54%	128.72%	215.48%	133.71%

Allowance for Loan Losses. Management establishes allowances for estimated losses on loans based upon its evaluation of the pertinent factors underlying the types and quality of loans; historical loss experience based on volume and types of loans; trend in portfolio volume and composition; level and trend on non-performing assets; detailed analysis of individual loans for which full collectibility may not be assured; determination of the existence and realizable value of the collateral and guarantees securing such loans and the current economic conditions affecting the collectibility of loans in the portfolio. We analyze our loan portfolio each quarter for valuation purposes and to determine the adequacy of our allowance for losses. Based upon the factors discussed above, management believes that our allowance for losses as of March 31, 2008 of $2.2 million was adequate to cover probable losses inherent in the portfolio.

The following table sets forth an analysis of the allowance for losses on loans receivable for the dates indicated:

(Dollar amounts in thousands)	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Year Ended December 31, 2007	2006	2005	2004	2003
Balance at beginning of period	$ 2,157	$ 2,035	$ 2,035	$ 1,869	$ 1,810	$ 1,777	$ 1,587
Provision for loan losses	60	45	256	358	205	290	330
Charge-offs:							
Mortgage loans		(6)	(82)	(154)	(46)	(165)	(25)
Commercial business loans			(22)	(18)	(60)	(36)	(26)
Consumer loans	(9)	(9)	(60)	(49)	(91)	(117)	(154)
	(9)	(15)	(164)	(221)	(197)	(318)	(205)
Recoveries:							
Mortgage loans			1			17	
Commercial business loans	8	8	16	19	18	19	22
Consumer loans	3	5	13	10	33	25	43
	11	13	30	29	51	61	65
Net recoveries (charge-offs)	2	(2)	(134)	(192)	(146)	(257)	(140)
Balance at end of period	$ 2,219	$ 2,078	$ 2,157	$ 2,035	$ 1,869	$ 1,810	$ 1,777
Ratio of net charge-offs to average loans outstanding	0.00%	0.00%	0.06%	0.09%	0.08%	0.14%	0.08%
Ratio of allowance to total loans at end of period	0.94%	0.97%	0.93%	0.94%	0.96%	1.00%	0.92%

The following table provides a breakdown of the allowance for loan losses by major loan category for the dates indicated:

(Dollar amounts in thousands) Loan Categories:	Three Months Ended March 31, 2008 Dollar Amount	Three Months Ended March 31, 2008 Percent of loans in each category to total loans	Year Ended December 31, 2007 Dollar Amount	2007 Percent of loans in each category to total loans	2006 Dollar Amount	2006 Percent of loans in each category to total loans	2005 Dollar Amount	2005 Percent of loans in each category to total loans	2004 Dollar Amount	2004 Percent of loans in each category to total loans	2003 Dollar Amount	2003 Percent of loans in each category to total loans
Commercial, financial and agricultural	$ 411	18.5%	$ 378	17.5%	$ 532	26.1%	$ 554	29.6%	$ 503	27.8%	$ 623	35.1%
Commercial mortgages	1,077	48.5%	1,042	48.3%	820	40.3%	841	45.0%	1,137	62.8%	798	44.9%
Residential mortgages	276	12.4%	301	14.0%	239	11.7%	211	11.3%	10	0.6%	20	1.1%
Home equity loans	363	16.4%	359	16.6%	339	16.7%	150	8.0%	39	2.2%	68	3.8%
Consumer loans	73	3.3%	77	3.6%	83	4.1%	106	5.7%	121	6.7%	190	10.7%
Unallocated	19	0.9%		0.0	22	1.1%	7	0.4%		0.0%	78	4.4%

			Year Ended December 31,									
	$ 2,219	100.0%	$ 2,157	100.0%	$ 2,035	100.0%	$ 1,869	100.0%	$ 1,810	100.0%	$ 1,777	100.0%

Investment Portfolio

General. We maintain an investment portfolio of securities such as U.S. government and agency securities, state and municipal debt obligations, corporate notes and bonds, and to a lesser extent, mortgage-backed and equity securities. Management generally maintains an investment portfolio with relatively short maturities to minimize overall interest rate risk. However, at March 31, 2008 approximately $13.7 million was invested in longer-term callable municipal securities, as part of a strategy to moderate federal income taxes. The Bank has no investment with any one issuer in an amount greater than 10% of stockholders' equity.

Investment decisions are made within policy guidelines established by the board of directors. This policy is aimed at maintaining a diversified investment portfolio, which complements the overall asset/liability and liquidity objectives of the Bank, while limiting the related credit risk to an acceptable level.

The following table sets forth certain information regarding the fair value, weighted average yields and contractual maturities of our securities as of March 31, 2008:

(Dollar amounts in thousands)	Due in one year or less	Due after one year to five years	Due after five years to ten years	Due after ten years	No scheduled maturity	Total
U.S. Government securities	$ 5,506	$ 3,035	$ 4,043	$ 4,058	$	$ 16,642
Mortgage-backed securities	134	771	849	12,777		14,531
Municipal securities			1,844	12,510		14,354
Corporate securities	5,986					5,986
Equity securities					3,565	3,565
Estimated fair value	$ 11,626	$ 3,806	$ 6,736	$ 29,345	$ 3,565	$ 55,078
Weighted average yield(1)	3.27%	4.26%	4.83%	4.86%	5.15%	4.50%

(1) Weighted average yield is calculated based upon amortized cost.

For additional information regarding our investment portfolio see "Management's Discussion and Analysis of Financial Condition and Results of Operations of Emclaire" and "Notes to Consolidated Financial Statements" presented elsewhere in this prospectus.

Sources of Funds

General. Deposits are the primary source of the Bank's funds for lending and investing activities. Secondary sources of funds are derived from loan repayments and investment maturities. Loan repayments can be considered a relatively stable funding source, while deposit activity is greatly influenced by interest rates and general market conditions. The Bank also has access to funds through credit facilities available from the FHLB. In addition, the Bank can obtain advances from the Federal Reserve Bank discount window. For a description of the Bank's sources of funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of Emclaire" presented elsewhere in this prospectus.

Deposits. The Bank offers a wide variety of retail deposit account products to both consumer and commercial deposit customers, including time deposits, non-interest bearing and interest bearing demand deposit accounts, savings deposits and money market accounts.

Deposit products are promoted in periodic newspaper and radio advertisements, along with notices provided in customer account statements. The Bank's market strategy is based on its reputation as a community bank that provides quality products and personal customer service.

The Bank pays interest rates on its interest bearing deposit products that are competitive with rates offered by other financial institutions in its market area. Management reviews interest rates on deposits weekly and considers a number of factors, including (1) the Bank's internal cost of funds; (2) rates offered by competing financial institutions; (3) investing and lending opportunities; and (4) the Bank's liquidity position.

For additional information regarding our deposit base and borrowed funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of Emclaire" and "Notes to Consolidated Financial Statements" presented elsewhere in this prospectus.

Subsidiary Activity

We have one wholly-owned subsidiary, the Bank, a national association. As of March 31, 2008, the Bank had no subsidiaries.

Personnel

At March 31, 2008, the Bank had 105 full time equivalent employees. There is no collective bargaining agreement between the Bank and its employees, and the Bank believes its relationship with its employees to be satisfactory.

Competition

The Bank competes for loans, deposits and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions and other nonbank financial service providers.

Properties

We own no real property, but utilized the main office of the Bank. The Company and the Bank's executive offices are located at 612 Main Street, Emlenton, Pennsylvania. We pay no rent or other form of consideration for the use of this facility. The following table sets forth information with respect to the Bank's offices at March 31, 2008:

(Dollar amounts in thousands) Location	County	Owned or Leased	Lease Expiration Date(1)	Net Book Value or Annual Rent	Deposits at 03/31/2008
Corporate and Bank Main Offices:					
Headquarters and Main Office 612 Main Street, Emlenton, Pennsylvania 16373	Venango	Owned		$ 1,880	$ 43,483
Data Center 708 Main Street, Emlenton, Pennsylvania 16373	Venango	Owned		1,041	
Bank Branch Offices					
Bon Aire Office 1101 North Main Street, Butler, Pennsylvania 16003	Butler	Leased	May 2011	40	40,095
Brookville Office 263 Main Street, Brookville, Pennsylvania 15825	Jefferson	Owned		692	27,021
Clarion Office Sixth & Wood Street, Clarion, Pennsylvania 16214	Clarion	Owned		310	34,653
Cranberry Office 7001 Route 322, PO Box 235, Cranberry, Pennsylvania 16319	Venango	Owned		1,198	6,957
DuBois Office 861 Beaver Drive, Dubois, Pennsylvania 15801	Clearfield	Leased	June 2010	21	15,079
East Brady Office 323 Kelly's Way, East Brady, Pennsylvania 16028	Clarion	Owned		47	19,649
Eau Claire Office 207 Washington Street, Eau Claire, Pennsylvania 16030	Butler	Owned		149	16,410
Grove City Office(2) 1319 West Main Street, Grove City, Pennsylvania 16127	Mercer	Owned		688	
Knox Office Route 338 South, Knox, Pennsylvania 16232	Clarion	Leased	December 2011	28	29,275
Meridian Office 101 Meridian Road, Butler, Pennsylvania 16003	Butler	Leased	December 2012	26	8,454
Ridgway Office 173 Main Street, Ridgway, Pennsylvania 15853	Elk	Owned		149	10,455
					$ 251,531

(1) Lease agreements for leased offices typically include renewal options.

(2) Branch office opened in April 2008.

Legal Proceedings

Neither the Company nor the Bank is involved in any material legal proceedings. The Bank, from time to time, is party to litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. In the opinion of management, the resolution of any such issues would not have a material adverse impact on the financial position, results of operation, or liquidity of the Company or the Bank.

SUPERVISION AND REGULATION

General. Financial holding companies and banks are extensively regulated under both federal and state law. Set forth below is a summary description of certain provisions of certain laws that relate to the regulation of the Company and the Bank. The description does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

Emclaire. We are a registered financial holding company, and subject to regulation and examination by the FRB under the Bank Holding Company Act of 1956, as amended, or BHCA. We are required to file with the FRB periodic reports and such additional information as the FRB may require. Recent changes to the Bank Holding Company rating system emphasizes risk management and evaluation of the potential impact of non-depository entities on safety and soundness.

The FRB may require us to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments when the FRB believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any of its banking subsidiaries. The FRB also has the authority to regulate provisions of certain bank and bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt. Under certain circumstances, we must file written notice and obtain FRB approval prior to purchasing or redeeming its equity securities.

Further, we are required by the FRB to maintain certain levels of capital. See " Capital Standards."

We are required to obtain prior FRB approval for the acquisition of more than 5% of the outstanding shares of any class of voting securities or substantially all of the assets of any bank or bank holding company. Prior FRB approval is also required for the merger or consolidation of the Company and another bank holding company.

We are prohibited by the BHCA, except in certain statutorily prescribed instances, from acquiring direct or indirect ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or furnishing services to its subsidiaries. However, subject to the prior FRB approval, we may engage in any, or acquire shares of companies engaged in, activities that the FRB deems to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Under FRB regulations, we are required to serve as a source of financial and managerial strength to the Company's subsidiary bank and may not conduct operations in an unsafe or unsound manner. In addition, it is the FRB's policy that a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of FRB regulations or both.

We are also a bank holding company within the meaning of the Pennsylvania Banking Code. As such, the Company and its subsidiaries are subject to examination by, and may be required to file reports with, the Pennsylvania Department of Banking.

Our securities are registered with the SEC under the Exchange Act. As such, we are subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act. The public may obtain all forms and information filed with the SEC through their website http://www.sec.gov.

The Bank. As a national banking association, the Bank is subject to primary supervision, examination and regulation by the OCC. The Company is also subject to regulations of the FDIC as administrator of the Deposit Insurance Fund, or DIF, and the FRB. If, as a result of an examination of the Bank, the OCC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of our operations are unsatisfactory or that the Bank is violating or has violated any law or regulation, various remedies are available to the OCC. Such remedies include the power to enjoin "unsafe or unsound practices," to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the Bank's growth, to assess civil monetary penalties, and to remove officers and directors. The FDIC has similar enforcement authority, in addition to its authority to terminate the Bank's deposit insurance in the absence of action by the OCC and upon a finding that the Bank is operating in an unsafe or unsound condition, is engaging in unsafe or unsound activities, or that our conduct poses a risk to the deposit insurance fund or may prejudice the interest of its depositors.

A national bank may have a financial subsidiary engaged in any activity authorized for national banks directly or certain permissible activities. Generally, a financial subsidiary is permitted to engage in activities that are "financial in nature" or incidental thereto, even though they are not permissible for the national bank itself. The definition of "financial in nature" includes, among other items, underwriting, dealing in or making a market in securities, including, for example, distributing shares of mutual funds. The subsidiary may not, however, engage as principal in underwriting insurance, issue annuities or engage in real estate development or investment or merchant banking.

The Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 addresses accounting oversight and corporate governance matters, including:

- the prohibition of accounting firms from providing various types of consulting services to public clients and requiring accounting firms to rotate partners among public client assignments every five years;
- increased penalties for financial crimes and forfeiture of executive bonuses in certain circumstances;
- required executive certification of financial presentations;
- increased requirements for board audit committees and their members;
- enhanced disclosure of controls and procedures and internal control over financial reporting;
- enhanced controls on, and reporting of, insider trading; and
- statutory separations between investment bankers and analysts.

The new legislation and its implementing regulations have resulted in increased costs of compliance, including certain outside professional costs. To date these costs have not had a material impact on our operations.

USA Patriot Act of 2001. The USA Patriot Act of 2001 and its implementing regulations significantly expanded the anti-money laundering and financial transparency laws. Under the USA Patriot Act, financial institutions are subject to prohibitions regarding specified financial transactions and account relationships, as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures and controls generally require financial institutions to take reasonable steps:

- To conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;

- To ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- To ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- To ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA Patriot Act, financial institutions are required to establish and maintain anti-money laundering programs which include:

- The establishment of a customer identification program;
- The development of internal policies, procedures, and controls;
- The designation of a compliance officer;
- An ongoing employee training program; and
- An independent audit function to test the programs.

The Bank has implemented comprehensive policies and procedures to address the requirements of the USA Patriot Act.

Privacy. Federal banking rules limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. Pursuant to these rules, financial institutions must provide:

- Initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates;
- Annual notices of their privacy policies to current customers; and
- A reasonable method for customers to "opt out" of disclosures to nonaffiliated third parties.

These privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. The Corporation's privacy policies have been implemented in accordance with the law.

Dividends and Other Transfers of Funds. Dividends from the Bank constitute the principal source of income to the Company. The Company is a legal entity separate and distinct from the Bank. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends to the Company. In addition, the Bank's regulators have the authority to prohibit the Bank from paying dividends, depending upon the Bank's financial condition, if such payment is deemed to constitute an unsafe or unsound practice.

Transactions with Affiliates. The Bank is subject to certain restrictions imposed by federal law on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, any affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of any affiliates. Such restrictions prevent any affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts. Further, such secured loans and investments by the Bank to or in any affiliate are limited, individually, to 10% of the Bank's capital and surplus (as defined by federal regulations), and such secured loans and investments are limited, in the aggregate, to 20% of the Bank's capital and surplus. Some of the entities included in the definition of an affiliate are parent companies, sister banks, sponsored and advised companies, investment companies whereby the Bank or its affiliate serves as investment advisor, and financial subsidiaries of the bank. Additional restrictions on transactions with

36

affiliates may be imposed on the Bank under the prompt corrective action provisions of federal law. See " Prompt Corrective Action and Other Enforcement Mechanisms."

Loans to One Borrower Limitations. With certain limited exceptions, the maximum amount that a national bank may lend to any borrower (including certain related entities of the borrower) at one time may not exceed 15% of the unimpaired capital and surplus of the institution, plus an additional 10% of unimpaired capital and surplus for loans fully secured by readily marketable collateral. At March 31, 2008, the Bank's loans-to-one-borrower limit was $3.5 million based upon the 15% of unimpaired capital and surplus measurement. At March 31, 2008, the Bank's largest single lending relationship had an outstanding balance of $5.3 million. Credit granted to this borrower in excess of the legal lending limit is part of the Pilot Program approved by the OCC which allows the Bank to exceed its legal lending limit within certain parameters. The Bank's next largest single lending relationship had an outstanding balance of $4.2 million, which consisted of a loan to a municipality and was not subject to the legal lending limit. The Bank had two additional lending relationships exceeding the legal lending limit totaling $3.9 million and $3.7 million, respectively, at March 31, 2008. Credit granted to these borrowers in excess of the legal lending limit is also part of the Pilot Program. The next largest borrower had loans which totaled $3.5 million and consisted of loans secured by commercial real estate and business property in the Bank's lending area. At March 31, 2008, all of such loans were performing in accordance with their terms.

Capital Standards. The federal banking agencies have adopted risk-based minimum capital guidelines intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off-balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as federal banking agencies, to 100% for assets with relatively high credit risk.

The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risk. Under the capital guidelines, a banking organization's total capital is divided into tiers. "Tier I capital" consists of (1) common equity, (2) qualifying noncumulative perpetual preferred stock, (3) a limited amount of qualifying cumulative perpetual preferred stock and (4) minority interests in the equity accounts of consolidated subsidiaries (including trust-preferred securities), less goodwill and certain other intangible assets. Not more than 25% of qualifying Tier I capital may consist of trust-preferred securities. "Tier II capital" consists of hybrid capital instruments, perpetual debt, mandatory convertible debt securities, a limited amount of subordinated debt, preferred stock that does not qualify as Tier I capital, a limited amount of the allowance for loan and lease losses and a limited amount of unrealized holding gains on equity securities. "Tier III capital" consists of qualifying unsecured subordinated debt. The sum of Tier II and Tier III capital may not exceed the amount of Tier I capital.

The guidelines require a minimum ratio of qualifying total capital to risk-adjusted assets of 8% and a minimum ratio of Tier 1 capital to risk-adjusted assets of 4%. In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets must be 3%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

In addition, federal banking regulators may set capital requirements higher than the minimums described above for financial institutions whose circumstances warrant it. For example, a financial institution experiencing or anticipating significant growth may be expected to maintain capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets.

Prompt Corrective Action and Other Enforcement Mechanisms. Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall below one or more prescribed minimum capital ratios. Each federal banking agency has promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At March 31, 2008, the Bank was considered adequately capitalized under the regulatory framework for prompt corrective action.

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat a significantly undercapitalized institution as critically undercapitalized unless its capital ratio actually warrants such treatment.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency. Finally, pursuant to an interagency agreement, the FDIC can examine any institution that has a substandard regulatory examination score or is considered undercapitalized without the express permission of the institution's primary regulator.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, (v) earnings, and (vi) compensation, fees and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. These guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

Insurance of Accounts. The deposits of the Bank are insured to the maximum extent permitted by the Deposit Insurance Fund, or DIF, and are backed by the full faith and credit of the U.S. Government. As insurer, the Federal Deposit Insurance Corporation, or FDIC, is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC.

Each FDIC insured institution is assigned to one of three capital groups which are based solely on the level of an institution's capital "well capitalized," "adequately capitalized," and "undercapitalized." These capital levels are defined in the same manner as under the prompt corrective action system discussed above. These three groups are then divided into three subgroups which reflect varying levels of supervisory concern, from those which are considered to be healthy to those which are considered to be of substantial supervisory concern. Assessment rates for insured institutions are determined semi-annually by the FDIC and currently range from zero basis points for well-capitalized healthy institutions to 27 basis points for undercapitalized institutions with substantial supervisory concern.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the DIF. The annual assessment rate set for the first quarter of 2008 was 0.0114% of insured deposits and is adjusted quarterly. These assessments will continue until the Financing Corporation bonds mature in 2019.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of the Bank's deposit insurance.

On February 8, 2006, President George W. Bush signed into law legislation that merged the Bank Insurance Fund, or BIF, and the Savings Association Insurance Fund, or SAIF, to form the DIF, eliminated any disparities in bank and thrift risk-based premium assessments, reduced the administrative burden of maintaining and operating two separate funds and established certain new insurance coverage limits and a mechanism for possible periodic increases. The legislation also gave the FDIC greater discretion to identify the relative risks all institutions present to the DIF and set risk-based premiums.

Major provisions in the legislation include:

- Merging the SAIF and BIF, which became effective March 31, 2006.

- Maintaining basic deposit and municipal account insurance coverage at $100,000 but providing for a new basic insurance coverage for retirement accounts of $250,000. Insurance coverage for basic deposit and retirement accounts could be increased for inflation every five years in $10,000 increments beginning in 2011.

- Providing the FDIC with the ability to set the designated reserve ratio within a range of between 1.15% and 1.50%, rather than maintaining 1.25% at all times regardless of prevailing economic conditions.

- Providing a one-time assessment credit of $4.7 billion to banks and savings associations in existence on December 31, 1996. The institutions qualifying for the credit may use it to offset future premiums with certain limitations.

- Requiring the payment of dividends of 100% of the amount that the insurance fund exceeds 1.5% of the estimated insured deposits and the payment of 50% of the amount that the insurance fund exceeds 1.35% of the estimated insured deposits (when the reserve is greater than 1.35% but no more than 1.5%).

Interstate Banking and Branching. Banks have the ability, subject to certain State restrictions, to acquire, by acquisition or merger, branches outside its home state. The establishment of new interstate branches is also possible in those states with laws that expressly permit it. Interstate branches are subject to certain laws of the states in which they are located. Competition may increase further as banks branch across state lines and enter new markets.

Consumer Protection Laws and Regulations. The bank regulatory agencies are focusing greater attention on compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. The Bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

The Community Reinvestment Act, or CRA, is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank's record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of "outstanding" to a low of "substantial noncompliance." In its most recent examination for CRA compliance for which a written CRA performance report is available, as of May 5, 2004, the Bank was rated "satisfactory." The Bank's CRA performance was evaluated again in April 2008, but the Bank has not yet received the written CRA report, which includes the CRA rating, for that examination.

On September 1, 2005, the federal banking agencies amended the CRA regulations to:

- establish the definition of "Intermediate Small Bank" as an institution with total assets of $250 million to $1 billion, without regard to any holding company; and

- take into account abusive lending practices by a bank or its affiliates in determining a bank's CRA rating.

The Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, or FACT, requires financial firms to help deter identity theft, including developing appropriate fraud response programs, and give consumers more control of their credit data. It also reauthorizes a federal ban on state laws that interfere with corporate credit granting and marketing practices. In connection with FACT, financial institution regulatory agencies proposed rules that would prohibit an institution from using certain information about a consumer it received from an affiliate to make a solicitation to the consumer, unless the consumer has been notified and given a chance to opt out of such solicitations. A consumer's election to opt out would be applicable for at least five years.

The Check Clearing for the 21st Century Act, or Check 21, facilitates check truncation and electronic check exchange by authorizing a new negotiable instrument called a "substitute check," which is the legal equivalent of an original check. Check 21, effective October 28, 2004, does not require banks to create substitute checks or accept checks electronically; however, it does require banks to accept a legally equivalent substitute check in place of an original.

The Equal Credit Opportunity Act, or ECOA, generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act, or TILA, is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The Fair Housing Act, or FH Act, regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FH Act, including some that are not specifically mentioned in the FH Act itself.

The Home Mortgage Disclosure Act, or HMDA, grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

The term "predatory lending," much like the terms "safety and soundness" and "unfair and deceptive practices," is far-reaching and covers a potentially broad range of behavior. As such, it does not lend itself to a concise or a comprehensive definition. But typically predatory lending involves at least one, and perhaps all three, of the following elements:

- making unaffordable loans based on the assets of the borrower rather than on the borrower's ability to repay an obligation ("asset-based lending")

- inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced ("loan flipping")

- engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

FRB regulations aimed at curbing such lending significantly widen the pool of high-cost home-secured loans covered by the Home Ownership and Equity Protection Act of 1994, a federal law that requires extra disclosures and consumer protections to borrowers. Lenders that violate the rules face cancellation of loans and penalties equal to the finance charges paid.

Effective April 8, 2005, OCC guidelines require national banks and their operating subsidiaries to comply with certain standards when making or purchasing loans to avoid predatory or abusive residential mortgage lending practices. Failure to comply with the guidelines could be deemed an unsafe and unsound or unfair or deceptive practice, subjecting the bank to supervisory enforcement actions.

Finally, the Real Estate Settlement Procedures Act (RESPA) requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Penalties under the above laws may include fines, reimbursements and other penalties. Due to heightened regulatory concern related to compliance with the CRA, TILA, FH Act, ECOA, HMDA and RESPA generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Pittsburgh. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the board of directors of the individual FHLB. As an FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. At March 31, 2008, the Bank was in compliance with the stock requirements.

Federal Reserve System. The FRB requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW, and Super NOW checking accounts) and non-personal time deposits. At March 31, 2008, the Bank was in compliance with these requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF EMCLAIRE

The following discussion should be read in conjunction with the Consolidated Financial Statements and related notes appearing elsewhere in this prospectus. In addition to historical information, the following discussion contains forward-looking statements as a result of certain factors, including those discussed in "Risk Factors" contained elsewhere in this prospectus.

QUARTERS ENDED MARCH 31, 2008 AND 2007 (UNAUDITED)

This section discusses the consolidated financial condition and results of operations of Emclaire for the three months ended March 31, 2008 compared to the same period in 2007 and should be read in conjunction with the Consolidated Financial Statements and notes presented elsewhere in this prospectus.

Changes in Financial Condition

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

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

Results of Operations

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

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

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

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

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

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

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

Interest expense. Interest expense decreased $26,000 or 1.3% to $2.0 million for the three months ended March 31, 2008, and 2007. This decrease in interest expense can be attributed to a decrease in interest incurred on deposits of $95,000, partially offset by an increase in borrowed funds of $69,000.

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

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

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for the periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resulting average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resulting average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average loan balances include non-accrual loans and exclude the allowance for loan losses and interest income includes accretion of net deferred loan fees. Interest and yields on tax-exempt loans and securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis. The information is based on average daily balances during the periods presented.

	Three Months ended March 31,					
	2008			2007		
(Dollar amounts in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Interest-earning assets:						
Loans, taxable	$ 227,600	$ 3,860	6.82%	$ 208,776	$ 3,532	6.86%
Loans, tax exempt	6,082	98	6.47%	6,495	104	6.49%
Total loans receivable	233,682	3,958	6.81%	215,271	3,636	6.85%
Securities, taxable	32,664	378	4.65%	36,758	364	4.02%
Securities, tax exempt	14,361	233	6.53%	15,224	251	6.68%
Total securities	47,025	611	5.23%	51,982	615	4.80%
Interest-earning deposits with banks	3,362	23	2.75%	9,375	121	5.23%
Federal bank stocks	2,518	30	4.79%	2,209	50	9.18%
Total interest-earning cash equivalents	5,880	53	3.63%	11,584	171	5.99%
Total interest-earning assets	**286,587**	**4,622**	**6.49%**	**278,837**	**4,422**	**6.43%**
Cash and due from banks	5,224			6,163		
Other noninterest-earning assets	14,614			14,535		
Total Assets	$ 306,425			$ 299,535		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 78,962	282	1.44%	$ 72,176	233	1.31%
Time deposits	116,734	1,290	4.44%	127,533	1,434	4.56%
Total interest-bearing deposits	195,696	1,572	3.23%	199,709	1,667	3.39%
Borrowed funds, short-term	3,351	4	0.48%			0.00%
Borrowed funds, long-term	35,000	401	4.61%	30,000	336	4.54%
Total borrowed funds	38,351	405	4.25%	30,000	336	4.54%
Total interest-bearing liabilities	**234,047**	**1,977**	**3.40%**	**229,709**	**2,003**	**3.54%**
Noninterest-bearing demand deposits	45,163			43,368		
Funding and cost of funds	279,210	1,977	2.85%	273,077	2,033	2.97%
Other noninterest-bearing liabilities	2,388			2,572		
Total Liabilities	281,598			275,649		
Stockholders' Equity	24,827			23,886		
Total Liabilities and Stockholders' Equity	$ 306,425			$ 299,535		

	Three Months ended March 31,			
Net Interest Income	**$ 2,645**		**$ 2,419**	
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)		**3.09%**		**2.89%**
Net interest margin (net interest income as a percentage of average interest-earning assets)		**3.69%**		**3.52%**

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.

	Three months ended March 31, 2008 versus 2007 Increase (Decrease) due to		
(Dollar amounts in thousands)	**Volume**	**Rate**	**Total**
Interest income:			
Loans	$ 312	$ 10	$ 322
Securities	(61)	57	(4)
Interest-earning deposits with banks	(57)	(41)	(98)
Federal bank stocks	6	(26)	(20)
Total interest-earning assets	200		200
Interest expense:			
Deposits	(33)	(62)	(95)
Borrowed funds	89	(20)	69
Total interest-bearing liabilities	56	(82)	(26)
Net interest Income	$ 144	$ 82	$ 226

Provision for loan losses. We record provisions for loan losses to maintain a level of total allowance for loan *losses* that management believes, to the best of its knowledge, covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Management considers historical loss experience, the present and prospective financial condition of borrowers, current conditions (particularly as they relate to markets where the Corporation originates loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio.

Information pertaining to the allowance for loan losses and non-performing assets for the quarters ended March 31, 2008 and 2007 is as follows:

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

The provision for loan losses increased $15,000 or 33.3% to $60,000 for the three month period ended March 31, 2008 from $45,000 for the same period in the prior year. Management's evaluation of the loan portfolio, including the changing composition of the portfolio as well as economic trends, regulatory considerations and other factors contributed to the recognition of $60,000 in the provision for loan losses during the three months ended March 31, 2008.

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

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

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

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

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

Provision for income taxes. The provision for income taxes increased $38,000 or 28.6% to $171,000 for the three months ended March 31, 2008, compared to $133,000 for the same period in the prior year. This was due to an increase in pre-tax earnings of $46,000 or 6.7% to $730,000 for the three months ended March 31, 2008, compared to $684,000 for the same period in the prior year and an increase in the effective tax rate to 23.4% for the three months ended March 31, 2008, compared to 19.4% for the same period in 2007. The difference between the statutory rate of 34% and our effective tax rate is due to tax-exempt income earned on certain tax-free loans and securities and bank-owned life insurance.

YEARS ENDED DECEMBER 31, 2007, 2006 and 2005

The following discussion and analysis represents a review of Emclaire's consolidated financial condition and results of operations for the years ended December 31, 2007, 2006 and 2005. This review should be read in conjunction with the Consolidated Financial Statements and notes presented elsewhere in this prospectus.

Overview

We reported an increase in income for 2007 as consolidated net income amounted to $2.7 million or $2.13 per share, compared to net income of $2.0 million or $1.55 per share for 2006.

The increase in net income of $731,000 or 37.2% for the year ended December 31, 2007 was primarily due to an increase in net interest income and decreases in the provision for loan losses and noninterest expense, partially offset by an increase in the provision for income taxes. Net interest income increased as a result of growth in the loan portfolio, particularly with respect to commercial loans. Noninterest expense decreased as certain charges associated with strategic reorganization initiatives were experienced in 2006. These 2006 charges included $375,000 in pension expense for employees who took part in an early retirement program as well as $184,000 for severance, other benefits and legal costs associated with the reorganization. Excluding these one-time reorganization charges, noninterest expense increased modestly primarily as a result of the opening of a new banking office in November 2006 and professional fees associated with Sarbanes-Oxley compliance. The provision for income taxes increased due to increased pre-tax income.

During the year ended December 31, 2007, we experienced asset growth of 3.7% as total assets increased $11.2 million or 3.7% to $311.7 million at year end from $300.6 million at December 31, 2006. This asset growth was driven by total loan portfolio growth of $16.5 million or 7.7% funded by a decrease in cash and equivalents of $6.2 million or 37.3% and an increase in borrowed funds of $10.4 million or 34.7%.

Changes in Financial Condition

Total assets increased $11.2 million or 3.7% to $311.7 million at December 31, 2007 from $300.6 million at December 31, 2006. This increase was primarily due to increases in loans receivable of $16.5 million, partially offset by a decrease in cash and equivalents of $6.2 million.

The increase in our total assets was primarily funded by increases in total liabilities of $10.4 million or 3.7% and total stockholders' equity of $786,000 or 3.3%. The increase in total liabilities was primarily due to an increase in borrowed funds of $10.4 million or 34.7%.

Cash and cash equivalents. These accounts decreased a combined $6.2 million to $10.5 million at December 31, 2007 from $16.7 million at December 31, 2006. These accounts are typically increased by net operating results, deposits by customers into savings and checking accounts, loan and security repayments and proceeds from borrowed funds. Decreases result from customer deposit withdrawals, new loan originations or other loan fundings, security purchases, repayments of borrowed funds and cash dividends to stockholders. We maintained a lower balance of cash at year end December 31, 2007 than at the prior year end primarily as a result of loan growth experienced during the year and the purchase of commercial paper late in the year.

Securities. Securities increased $145,000 or 0.3% to $51.9 million at December 31, 2007 from $51.8 million at December 31, 2006. The overall increase in securities for the year resulted from the purchase of commercial paper late in the year, partially offset by management deploying funds from security maturities, calls and repayments into loan growth during the year.

Loans receivable. Net loans receivable increased $16.5 million or 7.7% to $229.8 million at December 31, 2007 from $213.3 million at December 31, 2006, resulting from strong loan production of $82.0 million during 2007. This increase can be primarily attributed to growth in our commercial loan portfolios. Commercial real estate loans increased $10.5 million or 17.1% and commercial business loans increased $1.0 million or 2.8%. This growth in commercial loans can be attributed to the production success of the Bank's Corporate Banking Group established during 2004 and the related continued market penetration in larger communities served by the Bank.

Also contributing to the growth in the loan portfolio was an increase in home equity loans of $2.1 million or 4.4% due primarily to home equity loan campaigns put forth during the year. In addition, consumer loans increased $2.0 million or 26.2% due to an auto loan campaign during the year. Residential first mortgage loans increased $1.0 million or 1.6% during the year, net of $1.7 million of loans sold, due to strong residential mortgage production of $11.6 million.

Non-performing assets. Non-performing assets include non-accrual loans, loans 90 days past due and still accruing, and real estate acquired through foreclosure, or REO. Non-performing assets decreased $858,000 to $1.1 million or 0.35% of total assets at December 31, 2007 from $1.9 million or 0.65% of total assets at December 31, 2006 primarily as the result of the full payoff of one larger credit relationship during the year. Non-performing assets consisted of non-performing loans and REO of $1.0 million and $129,000, respectively, at December 31, 2007 and $1.8 million and $98,000, respectively, at December 31, 2006. At December 31, 2007 non-performing assets consisted primarily of residential mortgage loans.

Federal bank stocks. Federal bank stocks were comprised of FHLB stock and FRB stock of $2.3 million and $333,000, respectively, at December 31, 2007. These stocks are purchased and redeemed at par as directed by the federal banks and levels maintained are based primarily on borrowing and other correspondent relationships between us and the banks. The increase at December 31, 2007 compared to December 31, 2006 can be attributed to an increase in FHLB borrowings during 2007.

Bank-owned life insurance, or BOLI. We maintain single premium life insurance policies on twenty current and former officers and employees of the Bank. In addition to providing life insurance coverage, whereby the Bank as well as the officers and employees receive life insurance benefits, the appreciation of the cash surrender value of the BOLI will serve to offset and finance existing and future employee benefit costs. Increases in this account during 2007 were associated with the increase in the cash surrender value of the policies, partially offset by certain administrative expenses.

Premises and equipment. Premises and equipment decreased $54,000 to $7.9 million at December 31, 2007 from $8.0 million at December 31, 2006. The overall decrease in premises and equipment during the year was due to the normal depreciation of fixed assets of $663,000, partially offset by capital expenditures of $609,000. Capital expenditures during the year consisted primarily of investments in technology and improvements made at the full service banking facility purchased in December of 2006.

Deposits. Total deposits decreased $230,000 to $244.3 million at December 31, 2007 from $244.5 million at December 31, 2006. While noninterest-bearing deposits increased $3.1 million or 7.0% during the year, interest-bearing deposits decreased by $3.3 million or 1.6%. This change in the deposit composition resulted principally from the Corporation's focus on maintaining core deposit accounts and establishing strong relationship accounts while allowing certain high rate certificates of deposit to mature. In addition, the Bank opened a new office in November 2006. At December 31, 2007, this office had total deposits of $6.3 million with $3.1 million generated in 2007. Of these deposits, $625,000 is noninterest-bearing and $5.7 million is interest-bearing.

Borrowed funds. Borrowed funds, or advances from the FHLB, increased $10.4 million or 34.7% to $40.4 million at December 31, 2007 from $30.0 million at December 31, 2006. The increase in advances was the result of management matching $5.0 million in long-term borrowed funds with loans originated during the third quarter of 2007. In addition, short-term borrowings of $5.4 million were utilized in funding loan growth and purchasing commercial paper late in the year.

Results of Operations

We reported net income of $2.7 million, $2.0 million and $2.6 million in 2007, 2006 and 2005, respectively. The following "Average Balance Sheet and Yield/Rate Analysis" and "Analysis of Changes in Net Interest Income" tables should be utilized in conjunction with the discussion of the net interest income and interest expense components of net income.

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.

	Year ended December 31,								
	2007			2006			2005		
(Dollar amounts in thousands)	**Average Balance**	**Interest**	**Yield / Rate**	**Average Balance**	**Interest**	**Yield / Rate**	**Average Balance**	**Interest**	**Yield / Rate**
Interest-earning assets:									
Loans, taxable	$ 215,771	$ 15,006	6.95%	$ 200,499	$ 13,554	6.76%	$ 181,109	$ 12,011	6.63%
Loans, tax-exempt	6,286	407	6.47%	6,781	438	6.46%	7,052	454	6.44%
Total loans receivable	222,057	15,413	6.94%	207,280	13,992	6.75%	188,161	12,465	6.62%
Securities, taxable	36,882	1,571	4.26%	37,944	1,481	3.90%	47,075	1,714	3.64%
Securities, tax-exempt	14,750	996	6.75%	15,250	1,013	6.64%	15,468	1,012	6.53%
Total securities	51,632	2,567	4.97%	53,194	2,494	4.69%	62,543	2,726	4.36%
Interest-earning deposits with banks	3,209	166	5.17%	2,608	129	4.95%	2,978	81	2.72%
Federal bank stocks	2,315	144	6.22%	1,945	94	4.83%	1,633	58	3.55%
Total interest-earning cash equivalents	5,524	310	5.61%	4,553	223	4.90%	4,611	139	3.01%
Total interest-earning assets	**279,213**	**18,290**	**6.55%**	**265,027**	**16,709**	**6.30%**	**255,315**	**15,330**	**6.00%**
Cash and due from banks	5,952			6,922			7,399		
Other noninterest-earning assets	14,649			13,376			12,340		
Total Assets	$ 299,814			$ 285,325			$ 275,054		
Interest-bearing liabilities:									
Interest-bearing demand deposits	$ 73,364	956	1.30%	$ 72,584	770	1.06%	$ 79,063	570	0.72%
Time deposits	121,889	5,484	4.50%	120,544	5,197	4.31%	110,829	4,324	3.90%
Total interest-bearing deposits	195,253	6,440	3.30%	193,128	5,967	3.09%	189,892	4,894	2.58%
Borrowed funds, short-term	1,208	33	2.73%	1,147	53	4.62%	1,199	50	4.17%
Borrowed funds, long-term	31,233	1,413	4.52%	21,521	948	4.40%	15,000	629	4.19%
Total borrowed funds	32,441	1,446	4.46%	22,668	1,001	4.42%	16,199	679	4.19%
Total interest-bearing liabilities	**227,694**	**7,886**	**3.46%**	**215,796**	**6,968**	**3.23%**	**206,091**	**5,573**	**2.70%**
Noninterest-bearing demand deposits	45,086			43,556			42,450		
Funding and cost of funds	**272,780**	**7,886**	**2.89%**	**259,352**	**6,968**	**2.69%**	**248,541**	**5,573**	**2.24%**
Other noninterest-bearing liabilities	2,810			2,224			2,452		
Total Liabilities	275,590			261,576			250,993		
Stockholders' Equity	24,224			23,749			24,061		

	Year ended December 31,		
Total Liabilities and Stockholders' Equity	$ 299,814	$ 285,325	$ 275,054
Net Interest Income	**$ 10,404**	**$ 9,741**	**$ 9,757**
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)	**3.09%**	**3.08%**	**3.30%**
Net interest margin (net interest income as a percentage of average interest-earning assets)	**3.73%**	**3.68%**	**3.82%**

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 our 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.

	2007 versus 2006 Increase (decrease) due to			2006 versus 2005 Increase (decrease) due to		
(Dollar amounts in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest income:						
Loans	$ 1,018	$ 403	$ 1,421	$ 1,287	$ 240	$ 1,527
Securities	(75)	148	73	(428)	196	(232)
Interest-earning deposits with banks	31	6	37	(11)	59	48
Federal bank stocks	20	30	50	13	23	36
Total interest-earning assets	994	587	1,581	861	518	1,379
Interest expense:						
Deposits	66	407	473	85	988	1,073
Borrowed funds	436	9	445	284	38	322
Total interest-bearing liabilities	502	416	918	369	1,026	1,395
Net interest income	$ 492	$ 171	$ 663	$ 492	$ (508)	$ (16)

Comparison of Results for the Years Ended December 31, 2007 and 2006

We reported net income of $2.7 million and $2.0 million for 2007 and 2006, respectively. The $731,000 or 37.2% increase in net income can primarily be attributed to an increase in net interest income of $678,000 and decreases in the provision for loan losses and noninterest expense of $102,000 and $245,000, respectively. Partially offsetting these favorable comparisons, the provision for income taxes increased $303,000.

In addition, 2006 operating results were adversely impacted as we realized one-time charges associated with strategic reorganization initiatives. Excluding these one-time charges, we experienced a modest income in noninterest expense for 2007.

Net interest income. The primary source of our revenue is net interest income. Net interest income is the difference between interest income on earning assets such as loans and securities, and interest expense on liabilities, such as deposits and borrowed funds, used to fund the earning assets. Net interest income is impacted by the volume and composition of interest-earning assets and interest-bearing liabilities, and changes in the level of interest rates. Tax equivalent net interest income increased $663,000 to $10.4 million for 2007, compared to $9.7 million for 2006. This increase in net interest income can be attributed to an increase in tax equivalent interest income of $1.6 million partially offset by an increase in interest expense of $918,000.

Interest income. Tax equivalent interest income increased $1.6 million or 9.5% to $18.3 million for 2007, compared to $16.7 million for 2006. This increase can be attributed to an increase in interest earned on loans, securities, interest-earning deposits and federal bank stocks of $1.4 million, $73,000, $37,000 and $50,000, respectively.

Tax equivalent interest earned on loans receivable increased $1.4 million or 10.2% to $15.4 million for 2007, compared to $14.0 million for 2006. During that time, average loans increased $14.8 million or 7.1%, accounting for $1.0 million in additional loan interest income. The increase in average loans outstanding can be attributed to the aforementioned commercial and home equity loan growth experienced during 2007 as well as the positive impact in 2007 of loan growth in 2006. Additionally, the interest rate earned on loans increased as market interest rates for lending were more favorable in 2007 compared to 2006 and the yield on loans increased 19 basis points to 6.94% for 2007, versus 6.75% for 2006 contributing $403,000 in additional interest income. Contributing to the increase in the yield on loans between the periods was the collection of $125,000 of interest and late fees due associated with the payoff of previously non-performing commercial loans during the year that had been on non-accrual status. In connection with the loan payoffs, we received all principal and interest due under the contractual terms of the loan agreements and interest collected was recorded as loan interest income during the year. In addition, we recognized $42,000 in prepayment fees resulting from the early payoff of a large commercial mortgage in the fourth quarter of 2007.

Tax equivalent interest earned on securities increased $73,000 or 2.9% to $2.6 million for 2007, compared to $2.5 million for 2006. The average yield on securities increased by 28 basis points as a result of certain lower yielding securities maturing. Partially offsetting the increase in interest income associated with the yield increase was the decrease in the average volume of these assets of $1.6 million or 2.9% primarily as a result of the utilization of these funds for loan growth.

Interest earned on interest-earning deposit accounts increased $37,000 to $166,000 for 2007, compared to $129,000 for 2006, as a result of a higher yield realized on higher average balances maintained. Interest earned on federal bank stocks increased $50,000 to $144,000 for 2007, compared to $94,000 for 2006 as a result of higher volume and higher yield.

Interest expense. Interest expense increased $918,000 or 13.2% to $7.9 million for 2007, compared to $7.0 million for 2006. This increase in interest expense can be attributed to an increase in interest incurred on deposits and borrowed funds of $473,000 and $445,000, respectively.

Deposit interest expense increased $473,000 or 7.9% to $6.4 million for 2007, compared to $6.0 million for 2006. This increase in deposit interest expense was principally rate driven as the cost of interest-bearing deposits increased 21 basis points to 3.30% for 2007 versus 3.09% for 2006 contributing $407,000 in additional expense. The increase in the interest rate on deposits can be attributed to the Company offering certain higher priced certificate products in the fourth quarter of 2006. The average volume of deposits increased by $2.1 million or 1.1% contributing an additional $66,000 in interest expense.

Interest expense on borrowed funds increased $445,000 to $1.5 million for 2007, compared to $1.0 million for 2006 due to $15.0 million of FHLB long term borrowings placed in the second and third quarters of 2006 and $5.0 million of FHLB long term borrowings placed in the fourth quarter of 2007. We utilized these borrowings primarily to fund loan growth.

Provision for loan losses. We record 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 we originate loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio.

The provision for loan losses decreased $102,000 or 28.5% to $256,000 for 2007, compared to $358,000 for 2006. Our allowance for loan losses amounted to $2.2 million or 0.93% of our total loan portfolio at December 31, 2007, compared to $2.0 million or 0.94% at December 31, 2006. The allowance for loan losses as a percentage of non-performing loans at December 31, 2007 and 2006 was 226.6% and 110.5%, respectively. The decrease in the provision for loan losses from 2006 to 2007 was primarily due to a lower allowance for loan losses necessary in connection with the aforementioned payoff of previously non-performing large commercial loans during the year.

Noninterest income. Noninterest income includes revenue that is not related to interest rates, but rather to services rendered and activities conducted in the financial services industry, including fees on depository accounts, general transaction and service fees, commissions on financial services, security and loan gains and losses, and earnings on BOLI. Noninterest income increased a modest $9,000, remaining stable at $2.9 million for 2007 and 2006. This increase can be primarily attributed to increases in fees and service charges, commissions on financial services, earnings on BOLI, and other noninterest income of $65,000, $40,000, $24,000 and $98,000, respectively. Partially offsetting the increase in noninterest income were decreases in gains on loan sales and gains on available for sale securities of $25,000 and $193,000, respectively. This decrease in gains on available for sale securities resulted primarily from the 2006 gains realized of $372,000 as management elected to divest a community bank stock investment. During 2007, we realized $166,000 in gains from the sale of another community bank stock investment as a result of that banks merger with a larger financial institution.

Noninterest expense. Noninterest expense decreased $245,000 or 2.6% to $9.2 million for 2007, compared to $9.4 million for 2006. This decrease in noninterest expense was comprised of decreases in compensation and employee benefits, premises and equipment and intangible amortization expense of $542,000, $48,000 and $7,000, respectively, partially offset by an increase in other expenses of $352,000.

The largest component of noninterest expense, compensation and employee benefits, decreased $542,000 or 9.6%. This decrease was primarily the result of the Company realizing non-recurring charges of $559,000 relating to the aforementioned reorganization during 2006. These charges included $375,000 in pension expense for employees who took part in an early retirement program as well as $184,000 for severance, other benefits and legal costs associated with the reorganization. Excluding these one-time charges, we realized a slight increase in compensation and employee benefits resulting from normal salary and wage adjustments and increases in 401(k) match expense, training expense, director's fees, incentive expense and stock option expense. Mitigating these increases was the realization of ongoing savings in salaries and wages and employee benefits resulting from the 2006 reorganization.

Premises and equipment expense decreased $48,000 or 2.9% as we focused on controlling expenses. This decrease was primarily the result of lower equipment and software depreciation. The decrease in equipment depreciation resulted from the write-off of an asset determined to be obsolete during 2006. Partially offsetting these decreases were increased occupancy costs related to a new branch location opened during the fourth quarter of 2006.

Other expense increased $352,000 or 16.5% primarily due to increases in professional fees, travel, entertainment and conferences and telephone expenses of $174,000, $43,000 and $41,000, respectively. Also contributing to this increase was an increase in other noninterest expense of $70,000 primarily consisting of increases in subscriptions, credit bureau expense, and internet banking expense of $41,000, $25,000 and $26,000, respectively. The increase in professional fees resulted primarily from fees associated with required Sarbanes-Oxley compliance initiatives pursued during 2007.

The provision for income taxes increased $303,000 or 61.6% to $795,000 for 2007, compared to $492,000 for 2006, primarily due to the increase in the our pre-tax earnings of $1.0 million. In addition, our effective tax rate was 22.8% for 2007, compared with 20.0% for 2006.

Comparison of Results for the Years Ended December 31, 2006 and 2005

We reported net income of $2.0 million and $2.6 million for 2006 and 2005, respectively. The $607,000 or 23.6% decrease in net income can be attributed to decreases in net interest income and noninterest income of $13,000 and $383,000, respectively, and increases in the provision for loan losses and noninterest expense of $153,000 and $263,000, respectively. Partially offsetting these unfavorable comparisons, the provision for income taxes decreased $205,000.

Net interest income. The primary source of our revenue is net interest income. Net interest income is the difference between interest income on earning assets such as loans and securities, and interest expense on liabilities, such as deposits and borrowed funds, used to fund the earning assets. Net interest income is impacted by the volume and composition of interest-earning assets and interest-bearing liabilities, and changes in the level of interest rates. Tax equivalent net interest income decreased $16,000 to $9.7 million for 2006. This decrease in net interest income can be attributed to an increase in tax equivalent interest income of $1.4 million and a corresponding increase in interest expense.

Interest income. Tax equivalent interest income increased $1.4 million or 9.0% to $16.7 million for 2006, compared to $15.3 million for 2005. This increase can be attributed to an increase in interest earned on loans, interest-earning deposits and federal bank stocks of $1.5 million, $48,000 and $36,000, respectively, partially offset by a $232,000 decrease in interest earned on securities.

Tax equivalent interest earned on loans receivable increased $1.5 million or 12.2% to $14.0 million for 2006, compared to $12.5 million for 2005. During that time, average loans increased $19.1 million or 10.2%, accounting for $1.3 million in additional loan interest income. Additionally, the interest rate earned on loans increased as market interest rates for lending were more favorable in 2006 compared to 2005 and the yield on loans increased 13 basis points to 6.75% for 2006, versus 6.62% for 2005 contributing $240,000 in additional interest income. The increase in average loans outstanding can be attributed to the aforementioned commercial and home equity loan growth experienced during 2006 as well as the positive impact in 2006 of loan growth in 2005.

Tax equivalent interest earned on securities decreased $232,000 or 8.5% to $2.5 million for 2006, compared to $2.7 million for 2005. The average volume of these assets decreased $9.3 million or 14.9% primarily as a result of the utilization of these funds for loan growth. The average yield on securities increased by 33 basis points, as a result of certain lower yielding securities maturing, partially offsetting the decline in interest income associated with the volume decline.

Interest earned on interest-earning deposit accounts increased $48,000 to $129,000 for 2006, compared to $81,000 for 2005, as a result of a higher yield realized partially offset by lower average balances maintained. Interest earned on federal bank stocks increased $36,000 to $94,000 for 2006, compared to $58,000 for 2005 as a result of a higher volume and higher yield.

Interest expense. Interest expense increased $1.4 million or 25.0% to $7.0 million for 2006, compared to $5.6 million for 2005. This increase in interest expense can be attributed to an increase in interest incurred on deposits and borrowed funds of $1.1 million and $322,000, respectively.

Deposit interest expense increased $1.1 million or 21.9% to $6.0 million for 2006, compared to $4.9 million for 2005. This increase in deposit interest expense was principally rate driven as the cost of interest-bearing deposits increased 51 basis points to 3.09% for 2007 versus 2.58% for 2005 contributing $988,000 in additional expense. The average volume of deposits increased modestly by $3.2 million or 1.7% contributing to an additional $85,000 in interest expense. The increase in the interest rate on deposits can be attributed to the increase in short term market interest rates during 2006 and 2005 as well as to the Company offering certain higher priced certificate products during 2006.

Interest expense on borrowed funds increased $322,000 to $1.0 million for 2006, compared to $679,000 for 2005 due to $15.0 million of FHLB long term borrowings placed in the second and third quarters of 2006.

Provision for loan losses. We record 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 we originate loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio.

The provision for loan losses increased $153,000 to $358,000 for 2006, compared to $205,000 for 2005. Our allowance for loan losses amounted to $2.0 million or 0.94% of our total loan portfolio at December 31, 2006, compared to $1.9 million or 0.96% at December 31, 2005. The allowance for loan losses as a percentage of non-performing loans at December 31, 2006 and 2005 was 110.5% and 128.7%, respectively. The increase in the provision for loan losses from 2005 to 2006 was primarily due to the aforementioned growth in the loan portfolio.

Noninterest income. Noninterest income includes items that are not related to interest rates, but rather to services rendered and activities conducted in the financial services industry, including fees on depository accounts, general transaction and service fees, commissions on financial services, security and loan gains and losses, and earnings on BOLI. Noninterest income decreased $383,000 or 11.6% to $2.9 million for 2006, compared to $3.3 million for 2005. This decrease can be primarily attributed to a decrease in gains on the sale of securities of $457,000. This decrease resulted primarily from the 2005 gains realized of $628,000 as management elected to divest a community bank stock investment. In 2006, we realized $372,000 in gains from the sale of this particular investment. Also contributing to the decrease was a 2005 involuntary transaction that resulted from the sale of a community bank which contributed $198,000 to gains on the sale of securities. Partially offsetting the decrease in noninterest income were increases in fee and service income of $64,000 and gains on the sale of loans of $53,000 as management sold $4.0 million of 30-year fixed rate conforming mortgage loans.

Noninterest expense. Noninterest expense increased $263,000 or 2.9% to $9.4 million for 2006, compared to $9.1 million for 2005. This increase in noninterest expense is comprised of increases in compensation and employee benefits and premises and equipment of $525,000 and $26,000, respectively, partially offset by reductions in intangible amortization expense and other expenses of $24,000 and $264,000, respectively.

The largest component of noninterest expense is compensation and employee benefits. This expense increased $525,000 or 10.2%. This increase was primarily the result of Company realizing charges relating to the aforementioned reorganization. These charges included $375,000 in pension expense for employees who took part in an early retirement program as well as $184,000 for severance, other benefits and legal costs associated with the reorganization.

Premises and equipment expense increased $26,000 or 1.6% as a result of increased occupancy costs related to a new drive-thru facility as well as a new branch location. Also contributing to the increase was the write-off of an asset determined to be obsolete.

Other expense decreased $264,000 or 11.0% primarily due to a decrease in telephone expenses of $155,000 as we received credit from our telephone vendor for billing errors. Also contributing to this decrease was a $203,000 write-off of amounts related to a correspondent bank reconciliation in 2005, which resulted from inefficiencies related to consolidation of their offices as well as variances resulting from the Bank's technology conversions late in 2004.

The provision for income taxes decreased $205,000 or 29.4% to $492,000 for 2006, compared to $697,000 for 2005, primarily due to the decrease in the our pre-tax earnings of $812,000.

Market Risk Management

The primary objective of our asset liability management function is to maximize our net interest income while simultaneously maintaining an acceptable level of interest rate risk given our operating environment, capital and liquidity requirements, balance sheet mix, performance objectives and overall business focus. One of the primary measures of the exposure of our earnings to interest rate risk is the timing difference between the repricing or maturity of interest-earning assets and the repricing or maturity of its interest-bearing liabilities.

Our board of directors has established a finance committee, consisting of four outside directors, the President and Chief Executive Officer and the Chief Financial Officer, to monitor market risk, including primarily interest rate risk. This committee, which meets at least quarterly, generally establishes and monitors the investment, interest rate risk and asset liability management policies established by the Company.

In order to minimize the potential for adverse affects of material and prolonged changes in interest rates on our results of operations, management has implemented and continues to monitor asset liability management policies to better match the maturities and repricing terms of our interest-earning assets and interest-bearing liabilities. Such policies have consisted primarily of (i) originating adjustable-rate mortgage loans; (ii) originating short-term secured commercial loans with the rate on the loan tied to the prime rate or reset features in which the rate changes at determined intervals; (iii) emphasizing investment in shorter-term (15 years or less) investment securities; (iv) selling longer-term (30-year) fixed-rate residential mortgage loans in the secondary market; (v) maintaining a high level of liquid assets (including securities classified as available for sale) that can be readily reinvested in higher yielding investments should interest rates rise; (vi) emphasizing the retention of lower-costing savings accounts and other core deposits; and (vii) lengthening liabilities and locking in lower borrowing rates with longer terms whenever possible.

Interest Rate Sensitivity Gap Analysis

The implementation of asset and liability initiatives and strategies and compliance with related policies, combined with other external factors such as demand for our products and economic and interest rate environments in general, has resulted in the Company maintaining a one-year cumulative interest rate sensitivity gap ranging between a positive and negative 20% of total assets. The one-year interest rate sensitivity gap is identified as the difference between our interest-earning assets that are scheduled to mature or reprice within one year and its interest-bearing liabilities that are scheduled to mature or reprice within one year.

The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. 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, or more neutral, 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 our assets and liabilities to interest rate changes, at

March 31, 2008, our interest-earning assets maturing or repricing within one year totaled $97.4 million while our interest-bearing liabilities maturing or repricing within one-year totaled $94.5 million, providing an excess of interest-earning assets over interest-bearing liabilities of $2.9 million or 0.9% of total assets. At March 31, 2008, the percentage of our assets to liabilities maturing or repricing within one year was 103.1%.

The following table presents the amounts of interest-earning assets and interest-bearing liabilities outstanding as of March 31, 2008, which are expected to mature, prepay or reprice in each of the future time periods presented:

(Dollar amounts in thousands)	Due in six months or less	Due within six months to one year	Due within one to three years	Due within three to five years	Due in over five years	Total
Total interest-earning assets	$ 71,972	$ 25,411	$ 69,526	$ 41,783	$ 85,289	$ 293,981
Total interest-bearing liabilities	62,310	32,210	61,324	35,697	103,752	295,293
Maturity or repricing gap during the period	$ 9,662	$ (6,799)	$ 8,202	$ 6,086	$ (18,463)	$ (1,312)
Cumulative gap	$ 9.662	$ 2,863	$ 11,065	$ 17,151	$ (1,312)	
Ratio of gap during the period to total assets	3.00%	(2.11)%	2.54%	1.89%	(5.72)%	
Ratio of cumulative gap to total assets	3.00%	0.89				