EMCLAIRE FINANCIAL CORP
Form 10-Q
November 12, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from _____________ to _____________

Commission File Number: 000-18464

EMCLAIRE FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

Pennsylvania	25-1606091
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
612 Main Street, Emlenton, Pennsylvania	16373
(Address of principal executive offices)	(Zip Code)

(724) 867-2311
(Registrant's telephone number)

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

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

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

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

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

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

The number of shares outstanding of the Registrant's common stock was 1,457,404 at November 12, 2010.

EMCLAIRE FINANCIAL CORP.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

	PART I – FINANCIAL INFORMATION	
Item 1.	Interim Financial Statements (Unaudited)	
	Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009	1
	Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009	2
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009	3
	Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2010 and 2009	4
	Notes to Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	28
	PART II – OTHER INFORMATION	
Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3.	Defaults Upon Senior Securities	29
Item 4.	(Removed and Reserved)	29
Item 5.	Other Information	29
Item 6.	Exhibits	29
Signatures		30

PART I - FINANCIAL INFORMATION

Item 1. Interim Financial Statements

Emclaire Financial Corp.
Consolidated Balance Sheets
As of September 30, 2010 (Unaudited) and December 31, 2009
(Dollar amounts in thousands, except per share data)

	September 30, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 2,919	$ 2,822
Interest earning deposits with banks	17,479	36,130
Cash and cash equivalents	20,398	38,952
Securities available for sale, at fair value	129,564	105,243
Loans receivable, net of allowance for loan losses of $3,457 and $3,202	297,854	292,615
Federal bank stocks, at cost	4,275	4,125
Bank-owned life insurance	5,543	5,388
Accrued interest receivable	1,589	1,574
Premises and equipment, net	8,859	9,170
Goodwill	3,664	3,657
Core deposit intangible	2,140	2,585
Prepaid expenses and other assets	3,687	4,217
Total Assets	$ 477,573	$ 467,526
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 74,971	$ 67,033
Interest bearing	328,684	318,292
Total deposits	403,655	385,325
Short-term borrowed funds	5,000	5,000
Long-term borrowed funds	25,000	35,000
Accrued interest payable	680	711
Accrued expenses and other liabilities	2,667	4,456
Total Liabilities	437,002	430,492
Commitments and Contingent Liabilities	-	-
Stockholders' Equity:		
Cumulative preferred stock, $1.00 par value, $7,500 liquidation value, 3,000,000 shares authorized; 7,500 issued and outstanding	7,443	7,430
Warrants	88	88

Common stock, $1.25 par value, 12,000,000 shares authorized; 1,559,421 shares issued; 1,457,404 and 1,431,404 shares outstanding		1,949		1,949
Additional paid-in capital		14,788		14,685
Treasury stock, at cost; 102,017 and 128,017 shares		(2,114)		(2,653)
Retained earnings		17,425		15,967
Accumulated other comprehensive income (loss)		992		(432)
Total Stockholders' Equity		40,571		37,034
Total Liabilities and Stockholders' Equity	$	477,573	$	467,526

See accompanying notes to consolidated financial statements.

1

Emclaire Financial Corp.
Consolidated Statements of Operations (Unaudited)
For the three and nine months ended September 30, 2010 and 2009
(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Interest and dividend income:				
Loans receivable, including fees	$ 4,505	$ 4,279	$ 13,342	$ 12,641
Securities:				
Taxable	642	468	1,982	1,379
Exempt from federal income tax	299	254	845	596
Federal bank stocks	10	10	32	19
Interest earning deposits with banks	63	101	214	277
Total interest and dividend income	5,519	5,112	16,415	14,912
Interest expense:				
Deposits	1,328	1,427	4,161	4,388
Borrowed funds	415	433	1,316	1,232
Total interest expense	1,743	1,860	5,477	5,620
Net interest income	3,776	3,252	10,938	9,292
Provision for loan losses	113	240	465	1,077
Net interest income after provision for loan losses	3,663	3,012	10,473	8,215
Noninterest income:				
Fees and service charges	340	382	1,026	1,104
Commissions on financial services	212	75	542	327
Title premiums	36	18	78	31
Net gain (loss) on sale of available for sale securities	629	(691)	1,029	(451)
Net gain on sale of loans	-	-	-	4
Earnings on bank-owned life insurance	60	57	178	171
Other	196	171	560	466
Total noninterest income	1,473	12	3,413	1,652
Noninterest expense:				
Compensation and employee benefits	1,755	1,549	5,361	4,424
Premises and equipment	526	472	1,605	1,396
Intangible amortization expense	141	51	445	51
Professional fees	134	299	413	733
FDIC expense	158	104	447	377
Other	1,190	780	2,488	1,792
Total noninterest expense	3,904	3,255	10,759	8,773
Income (loss) before income taxes	1,232	(231)	3,127	1,094
Provision for (benefit from) income taxes	271	(221)	641	27

Net income (loss)		961		(10)		2,486		1,067
Preferred stock dividends and discount accretion		98		98		294		294
Net income (loss) available to common stockholders	$	863	$	(108)	$	2,192	$	773
Basic and diluted earnings (loss) per common share	$	0.59	$	(0.08)	$	1.52	$	0.54
Average common shares outstanding		1,457,404		1,431,404		1,440,452		1,431,404

See accompanying notes to consolidated financial statements.

2

Emclaire Financial Corp.
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the nine months ended September 30, 2010 and 2009
(Dollar amounts in thousands)

	For the nine months ended September 30,	
	2010	2009
Cash flows from operating activities		
Net income	$ 2,486	$ 1,067
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	682	633
Provision for loan losses	465	1,077
Net amortization	146	127
Amortization of intangible assets and mortgage servicing rights	460	64
Realized (gains) losses on sales of available for sale securities, net	(1,029)	451
Net gains on sales of loans	-	(4)
Net losses on foreclosed real estate	25	-
Gain on sale of premises and equipment	-	(16)
Originations of loans sold	-	(159)
Proceeds from the sale of loans	-	163
Restricted stock and stock option compensation	103	87
Increase in bank-owned life insurance, net	(155)	(150)
Increase in accrued interest receivable	(15)	(70)
Increase in prepaid expenses and other assets	(145)	(846)
Decrease in accrued interest payable	(31)	(12)
Decrease in accrued expenses and other liabilities	(1,791)	(992)
Net cash provided by operating activities	1,201	1,420
Cash flows from investing activities		
Loan originations and principal collections, net	(6,084)	(2,825)
Available for sale securities:		
Sales	37,808	12,943
Maturities, repayments and calls	98,612	32,187
Purchases	(157,488)	(55,735)
Purchase of federal bank stocks	(150)	(328)
Proceeds from the sale of bank premises and equipment	-	203
Proceeds from the sale of foreclosed real estate	64	96
Net cash received in branch acquisition	-	54,923
Purchases of premises and equipment	(371)	(1,432)
Net cash provided by (used in) investing activities	(27,609)	40,032
Cash flows from financing activities		
Net increase (decrease) in deposits	18,330	(1,156)
Proceeds from advance on line of credit	-	5,000
Repayments on Federal Home Loan Bank advances	(10,000)	(13,188)
Dividends paid	(886)	(1,101)
Proceeds from the reissuance of treasury stock	410	-

Net cash provided by (used in) financing activities		7,854		(10,445)
Increase (decrease) in cash and cash equivalents		(18,554)		31,007
Cash and cash equivalents at beginning of period		38,952		16,571
Cash and cash equivalents at end of period	$	20,398	$	47,578
Supplemental information:				
Interest paid	$	5,507	$	5,632
Income taxes paid		550		183
Supplemental noncash disclosure:				
Transfers from loans to foreclosed real estate		155		200
Summary of branch acquisition:				
Fair value of deposits assumed		-		92,596
Less: Fair value of tangible assets acquired		-		32,673
Cash received in acquisition		-		54,923
Goodwill and other intangibles recorded	$	-	$	5,000

See accompanying notes to consolidated financial statements.

3

Emclaire Financial Corp.
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the three and nine months ended September 30, 2010 and 2009
(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	$ 39,483	$ 35,672	$ 37,034	$ 36,123
Net income (loss)	961	(10)	2,486	1,067
Other comprehensive income:				
Change in net unrealized gains on available for sale securities, net of taxes	818	1,638	2,103	1,021
Less: reclassification adjustment for gains (losses) included in net income, net of taxes	415	(457)	679	(298)
Other comprehensive income	403	2,095	1,424	1,319
Total comprehensive income	1,364	2,085	3,910	2,386
Stock compensation expense	22	32	103	87
Dividends declared on preferred stock	(94)	(94)	(281)	(242)
Dividends declared on common stock	(204)	(200)	(605)	(859)
Reissuance of treasury stock (26,000 shares)	-	-	410	-
Balance at end of period	$ 40,571	$ 37,495	$ 40,571	$ 37,495
Common cash dividend per share	$ 0.14	$ 0.14	$ 0.42	$ 0.60

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp.
Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Basis of Presentation.

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

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

The accompanying unaudited consolidated financial statements for the interim periods include all adjustments, consisting of normal recurring accruals, which are necessary, in the opinion of management, to fairly reflect the Corporation's consolidated financial position and results of operations. Additionally, these consolidated financial statements for the interim periods have been prepared in accordance with instructions for the Securities and Exchange Commission's (SEC's) Form 10-Q and Article 10 of Regulation S-X and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP). For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2009, as contained in the Corporation's 2009 Annual Report on Form 10-K filed with the SEC.

The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements.

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

2. Earnings per Common Share.

Basic earnings per common share (EPS) excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Corporation.

2. Earnings per Common Share (continued).

(Dollar amounts in thousands, except for per share amounts)	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Earnings per share - basic				
Net income (loss)	$ 961	$ (10)	$ 2,486	$ 1,067
Preferred stock dividends and discount accretion	98	98	294	294
Net income (loss) available to common stockholders	$ 863	$ (108)	$ 2,192	$ 773
Average common shares outstanding	1,457,404	1,431,404	1,440,452	1,431,404
Basic earnings (loss) per common share	$ 0.59	$ (0.08)	$ 1.52	$ 0.54
Earnings per share - diluted				
Net income (loss) available to common stockholders	$ 863	$ (108)	$ 2,192	$ 773
Average common shares outstanding	1,457,404	1,431,404	1,440,452	1,431,404
Add: Dilutive effects of assumed exercises of stock options	2,331	-	1,722	-
Average shares and dilutive potential common shares	1,459,735	1,431,404	1,442,174	1,431,404
Diluted earnings (loss) per common share	$ 0.59	$ (0.08)	$ 1.52	$ 0.54
Stock options, restricted stock awards and warrants not considered in computing diluted earnings per share because they were antidilutive	145,111	157,611	145,111	157,611

3. Securities.

The following table summarizes the Corporation's securities as of September 30, 2010 and December 31, 2009:

(Dollar amounts in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale:				
September 30, 2010:				
U.S. Treasury and federal agency	$ 1,977	$ 29	$ -	$ 2,006
U.S. government sponsored entities and agencies	72,202	327	(2)	72,527
Mortgage-backed securities: residential	18,204	806	-	19,010
Collateralized mortgage obligations: residential	1,365	3	-	1,368
State and political subdivisions	30,619	1,566	(9)	32,176
Equity securities	2,588	-	(111)	2,477
	$ 126,955	$ 2,731	$ (122)	$ 129,564
December 31, 2009:				
U.S. Treasury and federal agency	$ 2,976	$ 25	$ -	$ 3,001
U.S. government sponsored entities and agencies	50,953	113	(269)	50,797
Mortgage-backed securities: residential	16,459	109	(38)	16,530
Collateralized mortgage obligations: residential	5,130	4	(4)	5,130
State and political subdivisions	26,271	696	-	26,967
Equity securities	3,003	-	(185)	2,818
	$ 104,792	$ 947	$ (496)	$ 105,243

3. Securities (continued).

The following table summarizes scheduled maturities of the Corporation's securities as of September 30, 2010:

(Dollar amounts in thousands)	Available for sale	
	Amortized cost	Fair value
Due in one year or less	$ -	$ -
Due after one year through five years	54,392	54,616
Due after five through ten years	31,788	32,629
Due after ten years	18,618	19,464
No scheduled maturity	2,588	2,477
Mortgage-backed securities and collateralized mortgage obligations	19,569	20,378
	$ 126,955	$ 129,564

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Information pertaining to securities with gross unrealized losses as of September 30, 2010 and December 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

(Dollar amounts in thousands)	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2010:						
U.S. government sponsored entities and agencies	$ 1,098	$ (2)	$ -	$ -	$ 1,098	$ (2)
Mortgage-backed securities: residential	-	-	-	-	-	-
Collateralized mortgage obligations: residential	$ -	$ -	$ -	$ -	$ -	$ -
State and political subdivisions	1,511	(9)	-	-	1,511	(9)
Equity securities	-	-	650	(111)	650	(111)
	$ 2,609	$ (11)	$ 650	$ (111)	$ 3,259	$ (122)
December 31, 2009:						
U.S. government sponsored entities and agencies	$ 32,716	$ (269)	$ -	$ -	$ 32,716	$ (269)
Mortgage-backed securities: residential	1,961	(38)	-	-	1,961	(38)
Collateralized mortgage obligations: residential	1,275	(2)	910	(2)	2,185	(4)
Equity securities	1,341	(110)	686	(75)	2,027	(185)
	$ 37,293	$ (419)	$ 1,596	$ (77)	$ 38,889	$ (496)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic, market or other concerns warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the Corporation has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery.

3. Securities (continued).

There were four equity and five debt securities in an unrealized loss position as of September 30, 2010. Equity securities owned by the Corporation consist of common stock of various financial service providers. These investment securities are in an unrealized loss position as a result of recent market volatility and depressed pricing of the financial services sector. The Corporation does not invest in these securities with the intent to sell them for a profit in the near term and believes these securities have potential to appreciate in value over the long-term as the financial services sector recovers, while providing for a reasonable dividend yield. For investments in equity securities, in addition to the general factors mentioned above for determining whether the decline in market value is other-than-temporary, the analysis of whether an equity security is other-than-temporarily impaired includes a review of the profitability and capital adequacy and all other information available to determine the financial position and near term prospects of each issuer. The results of analyzing the aforementioned metrics and financial fundamentals suggest recovery of amortized cost as the sector improves. Based on that evaluation, and given that the Corporation's current intention is not to sell any impaired securities and it is more likely than not it will not be required to sell these securities before the recovery of its amortized cost basis, the Corporation does not consider the equity securities with unrealized losses as of September 30, 2010 to be other-than-temporarily impaired.

For debt securities, an additional and critical component of the evaluation for other-than-temporary impairment is the identification of credit-related impairment of securities where it is likely that the Corporation will not receive cash flows sufficient to recover the entire amortized cost basis of the security. Based on that evaluation and other general considerations, and given that the Corporation's current intention is not to sell any impaired securities and it is more likely than not it will not be required to sell these securities before the recovery of its amortized cost basis, the Corporation does not consider the debt securities with unrealized losses as of September 30, 2010 to be other-than-temporarily impaired.

4. Loans Receivable.

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

(Dollar amounts in thousands)	September 30, 2010	December 31, 2009
Mortgage loans on real estate:		
Residential first mortgages	$ 80,389	$ 74,099
Home equity loans and lines of credit	75,688	77,284
Commercial real estate	92,021	89,952
	248,098	241,335
Other loans:		
Commercial business	39,699	41,588
Consumer	13,514	12,894
	53,213	54,482
Total loans, gross	301,311	295,817
Less allowance for loan losses	3,457	3,202
Total loans, net	$ 297,854	$ 292,615
Nonaccrual loans	$ 3,093	$ 2,359
Loans 90 days or more past due and still accruing	118	59
Total nonperforming loans	$ 3,211	$ 2,418

4. Loans Receivable (continued).

Activity in the allowance for loan losses for the three and nine months ended September 30, 2010 and 2009 was as follows:

(Dollar amounts in thousands)	At or for the three months ended September 30,		At or for the nine months ended September 30,	
	2010	2009	2010	2009
Balance at the beginning of the period	$ 3,298	$ 2,935	$ 3,202	$ 2,651
Provision for loan losses	113	240	465	1,077
Charge-offs	(104)	(18)	(381)	(590)
Recoveries	150	1	171	20
Balance at the end of the period	$ 3,457	$ 3,158	$ 3,457	$ 3,158

Loans individually considered impaired were as follows:

(Dollar amounts in thousands)	September 30, 2010	December 31, 2009
Loans considered impaired:		
With no allocated allowance for loan losses	$ 572	$ 150
With an allocated allowance for loan losses	1,564	590
	$ 2,136	$ 740
Amount of the allowance for loan losses allocated	$ 449	$ 128

5. Goodwill and Intangible Assets.

The following table summarizes the Corporation's acquired goodwill and intangible assets as of September 30, 2010 and December 31, 2009:

(Dollar amounts in thousands)	September 30, 2010		December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	$ 3,664	$ -	$ 3,657	$ -
Core deposit intangibles	4,027	1,888	4,027	1,443
Total	$ 7,691	$ 1,888	$ 7,684	$ 1,443

During the third quarter of 2009, the Corporation recorded goodwill and a core deposit intangible of $2.2 million and $2.8 million, respectively, associated with a branch purchase transaction. Goodwill is not amortized but is evaluated for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value may not be recoverable. No goodwill impairment charges were recorded during 2009 or in the first nine months of 2010. The core deposit intangible asset is amortized using the double declining balance method over a weighted average estimated life of nine years and is not estimated to have a significant residual value. During the three and nine month periods ending September 30, 2010, the Corporation recorded intangible amortization expense totaling $141,000 and $445,000, respectively.

9

6. Employee Benefit Plans.

The Corporation maintains a defined contribution 401(k) Plan. Eligible employees participate by providing tax-deferred contributions up to 20% of qualified compensation. Employee contributions are vested at all times. The Corporation provides a matching contribution of up to 4% of the participant's salary. Matching contributions for the nine months ended September 30, 2010 and 2009 amounted to $133,000 and $111,000, respectively.

The Corporation provides pension benefits for eligible employees through a defined benefit pension plan. Substantially all full-time employees participate in the retirement plan on a non-contributing basis and are fully vested after three years of service. Effective January 1, 2009, the plan was closed to new participants.

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

The components of the periodic pension cost are as follows:

(Dollar amounts in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Service cost	$ 73	$ 76	$ 219	$ 200
Interest cost	79	61	237	211
Expected return on plan assets	(79)	(61)	(238)	(193)
Prior service costs	(8)	(7)	(23)	(23)
Recognized net actuarial loss	2	2	57	56
Net periodic pension cost	$ 67	$ 71	$ 252	$ 251

The Corporation previously disclosed in its financial statements for the year ended December 31, 2009 that it expected to contribute $425,000 to its pension plan in 2010. As of September 30, 2010, $425,000 has been contributed.

7. Stock Compensation Plans.

The Corporation's 2007 Stock Incentive Plan and Trust (the Plan), which is shareholder-approved, permits the grant of restricted stock awards and options to its directors, officers and employees for up to 177,496 shares of common stock. Incentive stock options, non-incentive or compensatory stock options and share awards may be granted under the Plan. The exercise price of each option shall at least equal the market price of a share of common stock on the date of grant and have a contractual term of ten years. Options shall vest and become exercisable at the rate, to the extent and subject to such limitations as may be specified by the Corporation. Compensation cost related to share-based payment transactions must be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued.

A summary of option activity under the Plan as of September 30, 2010, and changes during the period then ended is presented below:

	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Term (in years)
Outstanding as of January 1, 2010	96,250	$ 24.79	$ -	7.8

Granted	-		-		-	-
Exercised	-		-		-	-
Forfeited	-		-		-	-
Outstanding as of September 30, 2010	96,250	$	24.79	$	-	7.1
Exercisable as of September 30, 2010	74,000	$	26.00	$	-	6.7

7. Stock Compensation Plans (continued).

During the nine month period ended September 30, 2010, the Corporation granted 1,250 and 1,000 restricted stock awards with a face value of $17,000 and $16,050, respectively, based on the grant date stock prices of $13.60 and $16.05, respectively. In addition, the Corporation granted 4,500 shares of restricted stock awards in 2008 and 6,750 shares of restricted stock awards in 2009 with face values of $101,000 and $91,000, respectively based on the grant date stock prices of $22.50 and $13.50, respectively. Restricted stock awards are 100% vested on the third anniversary date of the grant.

For the nine month period ended September 30, 2010 and 2009, the Corporation recognized $103,000 and $87,000, respectively, in stock compensation expense. As of September 30, 2010, there was $148,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over the next three years.

8. Fair Values of Financial Instruments.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value.

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level is based on the lowest level of input that is significant to the fair value measurement.

The following valuation techniques were used to measure fair value of assets in the tables below:

Available for sale securities – Fair value on available for sale securities is based upon quoted market prices when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

Impaired loans – Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Most of the Corporation's loans are collateral dependent and, accordingly, fair value is measured based on the estimated fair market value of the collateral less the estimate costs to sell. Fair value of the loan's collateral is typically determined by appraisals or independent valuation (Level 3). Upon management's ongoing review, adjustments may be made to an appraised value to reflect various factors such as the age of the appraisal, known changes in the market or the collateral and management's estimation of the costs to sell. As of September 30, 2010 and December 31, 2009, the fair value consisted of loan balances of $1.6 million and $590,000, respectively, net of a valuation allowance of $449,000 and $128,000, respectively. These impaired loans consisted primarily of commercial real estate. Additional provision for loan losses of $413,000 was recorded during the nine months ended September

30, 2010. Additional provision for loan losses of $128,000 was recorded during the year ended December 31, 2009.

8. Fair Values of Financial Instruments (continued).

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy are as follows:

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
September 30, 2010:				
U.S. Treasury and federal agency	$ 2,006	$ -	$ 2,006	$ -
U.S. government sponsored entities and agencies	72,527	-	72,527	-
Mortgage-backed securities: residential	19,010	-	19,010	-
Collateralized mortgage obligations	1,368	-	1,368	-
State and political subdivision	32,176	-	32,176	-
Equity securities	2,477	1,752	725	-
	$ 129,564	$ 1,752	$ 127,813	$ -
December 31, 2009:				
U.S. government sponsored entities and agencies	$ 3,001	$ -	$ 3,001	$ -
Mortgage-backed securities: residential	50,797	-	50,797	-
Collateralized mortgage obligations	16,530	-	16,530	-
State and political subdivision	5,130	-	5,130	-
Corporate securities	26,967	-	26,967	-
Equity securities	2,818	2,093	725	-
	$ 105,243	$ 2,093	$ 103,150	$ -

For assets measured at fair value on a non-recurring basis, the fair value measurements by level within the fair value hierarchy are as follows:

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
September 30, 2010:				
Impaired loans	$ 1,115	$ -	$ -	$ 1,115
	$ 1,115	$ -	$ -	$ 1,115
December 31, 2009:				
Impaired loans	$ 462	$ -	$ -	$ 462
	$ 462	$ -	$ -	$ 462

12

8. Fair Values of Financial Instruments (continued).

The following table sets forth the carrying amount and fair value of the Corporation's financial instruments included in the consolidated balance sheet as of September 30, 2010:

(Dollar amounts in thousands)	September 30, 2010		December 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	$ 20,398	$ 20,398	$ 38,952	$ 38,952
Securities	129,564	129,564	105,243	105,243
Loans receivable, net	297,854	304,788	292,615	298,197
Federal bank stocks	4,275	N/A	4,125	N/A
Accrued interest receivable	1,589	1,589	1,574	1,574
Financial liabilities:				
Deposits	403,655	411,392	385,325	389,443
Borrowed funds	30,000	33,883	40,000	43,258
Accrued interest payable	680	680	711	711
Off-balance sheet commitments	-	-	-	-

Management uses its best judgment in estimating the fair value of the Corporation's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of the dates shown and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates.

This information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate fair values of the Corporation's financial instruments at September 30, 2010 and December 31, 2009:

Carrying amount is the estimated fair value for cash and cash equivalents, securities, accrued interest receivable and payable, demand deposits, short-term borrowed funds, and variable rate loans or deposits that reprice frequently and fully. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of federal bank stocks due to restrictions placed on the stocks transferability.

Estimates of the fair value of off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties. Also, unfunded loan commitments relate principally to variable rate commercial loans. Therefore, the fair value of these instruments is not material.

9. Adoption of New Accounting Standards.

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance increasing fair value disclosure and to clarify some existing disclosure requirements about fair value measurement. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. These new disclosure requirements were adopted by the Corporation during the current period, with the exception of the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. With respect to the portions of this amendment that were adopted during the current period, the adoption of this standard did not have a significant impact on the Corporation's consolidated financial statements. The Corporation believes that the adoption of the remaining portion of this amendment will not have a significant impact on the consolidated financial statements.

In April 2010, the FASB issued guidance on the accounting for loan modifications when the loan is part of a pool of loans accounted for as a single asset such as acquired loans that have evidence of credit deterioration upon acquisition. This guidance addresses diversity in practice on whether a loan that is part of a pool of loans accounted for as a single asset should be removed from that pool upon a modification that would constitute a troubled debt restructuring or remain in the pool after modification. The guidance also clarifies that modifications of loans that are accounted for within a pool do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if the expected cash flows for the pool change. The amendments in this update do not require any additional disclosures and are effective for modifications of loans accounted for within pools occurring in the first interim or annual period ending on or after July 15, 2010. This guidance is not expected to have a significant impact on the consolidated financial statements.

In July 2010, the FASB issued a statement which expands disclosures about credit quality of financing receivables and allowance for credit losses. The standard will require the Corporation to expand disclosures about the credit quality of loans and the related reserves against them. The additional disclosures will include details on past due loans, credit quality indicators and modifications of loans. The statement is effective for interim and annual reporting periods after December 15, 2010. The Corporation will include these disclosures beginning with its December 31, 2010 consolidated financial statements.

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

This section discusses the consolidated financial condition and results of operations of Emclaire Financial Corp. and its wholly owned subsidiaries, the Bank and the Title Company, for the three and nine months ended September 30, 2010, compared to the same periods in 2009 and should be read in conjunction with the Corporation's December 31, 2009 Annual Report on Form 10-K filed with the SEC and with the accompanying consolidated financial statements and notes presented on pages 1 through 14 of this Form 10-Q.

This Form 10-Q, including the financial statements and related notes, contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as "may," "could," "should," "will," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" or words or phras meaning. We caution that the forward looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performances or achievements could differ materially from those contemplated, expressed or implied by the forward looking statements. Therefore, we caution you not to place undue reliance on our forward looking information and statements. Except as required by applicable law or regulation, we will not update the forward looking statements to reflect actual results or changes in factors affecting the forward looking statements.

CHANGES IN FINANCIAL CONDITION

Total assets increased $10.0 million or 2.2% to $477.6 million at September 30, 2010 from $467.5 million at December 31, 2009. This increase resulted primarily from an increase in securities and loans of $24.3 million and $5.2 million, respectively, partially offset by a decrease in cash and cash equivalents of $18.6 million. The net increase in the Corporation's assets was primarily funded by increases in customer deposits.

Total liabilities increased $6.5 million or 1.5% to $437.0 million at September 30, 2010 from $430.5 million at December 31, 2009, while total stockholders' equity increased $3.5 million or 9.6% to $40.6 million at September 30, 2010 from $37.0 million at December 31, 2009. The increase in total liabilities resulted primarily from a $18.3 million or 4.8% increase in customer deposits, partially offset by a decrease in borrowed funds of $10.0 million. The increase in customer deposits consisted of a $7.9 million or 11.8% increase in noninterest bearing deposits and a $10.4 million or 3.3% increase in interest bearing deposits.

At September 30, 2010, the Bank was considered well capitalized under the regulatory framework for prompt corrective action with a Tier 1 leverage ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio of 7.79%, 13.38% and 14.64%, respectively, compared to 7.48%, 12.38% and 13.54%, respectively, at December 31, 2009.

RESULTS OF OPERATIONS

Comparison of Results for the Three Month Period Ended September 30, 2010 and 2009

General. Net income increased $971,000 to $961,000 for the three months ended September 30, 2010 from a net loss of $10,000 for the same period in 2009. This $971,000 increase was the result of increases in net interest income and noninterest income of $524,000 and $1.5 million, respectively, and a decrease in the provision for loan losses of

$127,000. Partially offsetting these favorable items, noninterest expense and the provision for income taxes increased $649,000 and $492,000, respectively.

Net interest income. Net interest income on a tax equivalent basis increased $524,000 or 15.4% to $3.9 million for the three months ended September 30, 2010 from $3.4 million for the same period in 2009. This net increase can be attributed to an increase in tax equivalent interest income of $407,000 and a decrease in interest expense of $117,000.

Interest income. Interest income on a tax equivalent basis increased $407,000 or 7.7% to $5.7 million for the three months ended September 30, 2010, compared to $5.3 million for the same period in the prior year. This increase can be attributed to increases in interest on loans and securities of $207,000 and $238,000, respectively, partially offset by a decrease in interest-earning deposits with banks of $38,000.

Tax equivalent interest earned on loans receivable increased $207,000 or 4.8% to $4.5 million for the three months ended September 30, 2010, compared to $4.3 million for the same period in 2009. This increase resulted primarily from average loans increasing $15.4 million or 5.5%, accounting for $235,000 in additional loan interest income. This increase can be attributed to growth in the Corporation's existing loan portfolio and loans acquired through the third quarter 2009 purchase of the Titusville banking office from PNC (formerly National City Bank). Offsetting this favorable volume increase, the average yield on loans receivable decreased 4 basis points to 6.03% for the three months ended September 30, 2010, versus 6.07% for the same period in 2009. This unfavorable yield variance accounted for a $28,000 decrease in interest income.

Tax equivalent interest earned on securities increased $238,000 or 28.5% to $1.1 million for the three months ended September 30, 2010, compared to $834,000 for the same period in 2009. The average balance of securities increased $50.8 million, primarily as a result of the deployment of net cash received in the 2009 branch purchase, accounting for a $452,000 increase in interest income. Offsetting this favorable volume increase, the average yield on securities decreased 93 basis points to 3.29% for the three months ended September 30, 2010, versus 4.22% for the same period in 2009, due primarily to the deployment of cash received from the 2009 branch purchase and U.S. government agency calls into shorter-termed investment securities at market yields lower than the overall average of the existing portfolio. This unfavorable yield variance accounted for a $214,000 decrease in interest income.

Interest earned on interest-earning deposit accounts decreased $38,000 or 37.6% to $63,000 for the three months ended September 30, 2010 from $101,000 for the same period in 2009. The average balance of these assets decreased $15.8 million primarily due to the deployment of cash into higher yielding assets, decreasing interest income by $36,000. In addition to this volume decrease, the average yield on interest-earning deposit accounts decreased 2 basis points to 0.91% for the three months ended September 30, 2010, compared to 0.93% for the same period in the prior year, accounting for a $2,000 decrease in interest income.

Interest expense. Interest expense decreased $117,000 or 6.3% to $1.7 million for the three months ended September 30, 2010 from $1.9 million for the same period in 2009. This decrease in interest expense can be attributed to a decrease in interest incurred on deposits and borrowed funds of $99,000 and $18,000, respectively.

Interest expense incurred on deposits decreased $99,000 or 6.9% to $1.3 million for the three months ended September 30, 2010 compared to $1.4 million for the same period in 2009. The average cost of interest-bearing deposits decreased 54 basis points to 1.61% for the three months ended September 30, 2010, compared to 2.15% for the same period in 2009 causing a $408,000 decrease in interest expense. This decrease was primarily due to deposits repricing during 2010 in the overall low interest-rate environment. Partially offsetting this favorable rate variance, the average balance of interest-bearing deposits increased $65.2 million or 24.8% to $328.2 million for the three months ended September 30, 2010, compared to $263.0 million for the same period in 2009 causing a $309,000 increase in interest expense. This increase was primarily due to deposits assumed through the aforementioned 2009 branch purchase.

Interest expense incurred on borrowed funds decreased $18,000 or 4.2% to $415,000 for the three months ended September 30, 2010, compared to $433,000 for the same period in the prior year. The average balance of borrowed funds decreased $29.4 million or 45.0%, accounting for a $249,000 decrease in interest expense. Partially offsetting this favorable volume variance, the average cost of borrowed funds increased 195 basis points to 4.58% for the three months ended September 30, 2010, compared to 2.63% for the same period in 2009, causing a $231,000 increase in

interest expense. Both the decrease in volume and increase in rate were primarily related to the Bank obtaining short-term borrowed funds in the second and third quarters of 2009 from the Federal Reserve's Term Auction Facility (TAF) and subsequently repaying such funds by the end of the third quarter in 2009.

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

(Dollar amounts in thousands)	Three months ended September 30,					
	2010			2009		
	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Interest-earning assets:						
Loans, taxable	$ 292,578	$ 4,446	6.03%	$ 267,848	$ 4,169	6.18%
Loans, tax exempt	5,588	85	6.03%	14,870	155	4.14%
Total loans receivable	298,166	4,531	6.03%	282,718	4,324	6.07%
Securities, taxable	98,925	642	2.57%	53,813	468	3.45%
Securities, tax exempt	30,307	430	5.63%	24,623	366	5.90%
Total securities	129,232	1,072	3.29%	78,436	834	4.22%
Interest-earning deposits with banks	27,458	63	0.91%	43,277	101	0.93%
Federal bank stocks	4,275	10	0.93%	4,125	10	0.99%
Total interest-earning cash equivalents	31,733	73	0.91%	47,402	111	0.93%
Total interest-earning assets	459,131	5,676	4.90%	408,556	5,269	5.12%
Cash and due from banks	2,553			2,189		
Other noninterest-earning assets	22,194			19,093		
Total Assets	$ 483,878			$ 429,838		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 174,670	$ 192	0.44%	$ 127,857	$ 245	0.76%
Time deposits	153,512	1,136	2.94%	135,129	1,182	3.47%
Total interest-bearing deposits	328,182	1,328	1.61%	262,986	1,427	2.15%
Borrowed funds, short-term	5,000	61	4.84%	30,297	36	0.47%
Borrowed funds, long-term	30,914	354	4.54%	35,000	397	4.50%
Total borrowed funds	35,914	415	4.58%	65,297	433	2.63%
Total interest-bearing liabilities	364,096	1,743	1.90%	328,283	1,860	2.25%
Noninterest-bearing demand deposits	76,124	-	-	61,490	-	-
Funding and cost of funds	440,220	1,743	1.57%	389,773	1,860	1.89%

Other noninterest-bearing liabilities	3,607			3,905		
Total Liabilities	443,827			393,678		
Stockholders' Equity	40,051			36,160		
Total Liabilities and Stockholders' Equity	$ 483,878			$ 429,838		
Net interest income		$ 3,933			$ 3,409	
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.00%			2.87%
Net interest margin (net interest income as a percentage of average interest-earning assets)			3.40%			3.31%

17

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 volume (changes in volume multiplied by prior year rate), rate (change in rate multiplied by prior year volume) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

(Dollar amounts in thousands)	Three months ended September 30, 2010 versus 2009 Increase (Decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$ 235	$ (28)	$ 207
Securities	452	(214)	238
Interest-earning deposits with banks	(36)	(2)	(38)
Federal bank stocks	0	0	0
Total interest-earning assets	651	(244)	407
Interest expense:			
Interest-bearing deposits	309	(408)	(99)
Borrowed funds	(249)	231	(18)
Total interest-bearing liabilities	60	(177)	(117)
Net interest income	$ 591	$ (67)	$ 524

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

Information pertaining to the allowance for loan losses and non-performing assets for the quarter ended September 30, 2010 and 2009 is as follows:

(Dollar amounts in thousands)	At or for the three months ended September 30,	
	2010	2009
Balance at the beginning of the period	$ 3,298	$ 2,935
Provision for loan losses	113	240
Charge-offs	(104)	(18)
Recoveries	150	1
Balance at the end of the period	$ 3,457	$ 3,158
Non-performing loans	$ 3,211	$ 2,528

Non-performing assets	3,450	2,956
Non-performing loans to total loans	1.07%	0.84%
Non-performing assets to total assets	0.72%	0.64%
Allowance for loan losses to total loans	1.15%	1.05%
Allowance for loan losses to non-performing loans	107.66%	124.91%

The provision for loan losses decreased $127,000 or 52.9% to $113,000 for the three month period ended September 30, 2010 from $240,000 for the same period in the prior year. The decrease in the provision was primarily the result of a substantial recovery of a commercial credit charged-off in 2009. The recovery led to an improvement in the Corporation's historical loss experience which resulted in a decrease in the amount of allowance allocated to loans that are not considered classified assets. This was offset by an increase in specific allocations for impaired loans totaling $309,000 for the three month period ended September 30, 2010.

Nonperforming loans increased $683,000 to $3.2 million at September 30, 2010 from $2.5 million at September 30, 2009. The increase in nonperforming loans was primarily due to the addition of an $811,000 credit relationship placed on nonaccrual status due to delinquency. The Corporation has determined the loan is impaired and has allocated $256,000 in specific reserves at September 30, 2010. The decrease in the allowance for loan losses to nonperforming loans from 124.91% at September 30, 2009 to 107.66% at September 30, 2010 was a result of the aforementioned increase in nonperforming loans primarily related to this one credit relationship offset by the improvement in historical loss experience which resulted in a decrease in the overall allowance for loan losses. During the three months ended September 30, 2010, nonperforming loans were stable, decreasing by $107,000 to $3.2 million from $3.3 million at June 30, 2010.

Noninterest income. Noninterest income increased $1.5 million to $1.5 million during the three months ended September 30, 2010, compared to $12,000 during the same period in the prior year. This increase was primarily due to increases in gains on the sale of securities and commissions on financial services of $1.3 million and $137,000, respectively. The Corporation recorded gains on the sale of securities totaling $629,000 during the third quarter of 2010 associated with the execution of a deleverage strategy where gains from the sale of securities were used to offset prepayment penalties of $557,000 assessed on the early retirement of $10.0 million of long-term, Federal Home Loan Bank (FHLB) debt. Conversely, during the same period in the prior year, the Corporation recognized losses totaling $691,000 associated with impairment charges recorded on certain marketable equity securities. In addition, commissions on financial services increased $137,000 to $212,000 for the three months ended September 30, 2010, compared to $75,000 during the same period in the prior year, due in part to the addition of two financial representatives in 2010.

Noninterest expense. Noninterest expense increased $649,000 or 19.9% to $3.9 million during the three months ended September 30, 2010 compared to $3.3 million for the same period in 2009. This increase in noninterest expense can be attributed to increases in compensation and employee benefits, premises and equipment, intangible amortization, FDIC expense and other noninterest expenses of $206,000, $54,000, $90,000 $54,000 and $410,000, respectively, partially offset by a decrease in professional fees of $165,000.

Compensation and employee benefits increased $206,000 or 13.3% to $1.8 million for the three months ended September 30, 2010 compared to $1.5 million for the same period in the prior year. This increase can be primarily attributed to normal salary and wage increases, staff added in connection with the 2009 branch purchase and the reinstatement of the previously suspended incentive programs.

Premises and equipment increased $54,000 or 11.4% to $526,000 for the three months ended September 30, 2010, compared to $472,000 for the same period in the prior year. This increase was primarily related to the 2009 branch purchase and increased fixed asset depreciation expenses.

As a result of the third quarter 2009 branch purchase, the Bank recognized $141,000 of core deposit intangible amortization expense during the third quarter of 2010. Further discussion related to goodwill and intangible assets related to the branch office purchase can be found in the "Notes to Consolidated Financial Statements" beginning on page 5.

Professional fees decreased $165,000 or 55.2% to $134,000 for the three months ended September 30, 2010, compared to $299,000 for the same period in the prior year. This decrease was primarily related to a decrease in legal and consulting fees associated with the 2009 branch office purchase.

FDIC expense increased $54,000 to $158,000 for the three months ended September 30, 2010, compared to $104,000 for the same period in the prior year. Regular quarterly FDIC premiums for the third quarter of 2010 increased from the same quarter in the prior year as a result of the Bank's increased deposit base and increased base assessment rates applied to all FDIC insured depository institutions.

Other noninterest expense increased $410,000 or 52.6% to $1.2 million during the three months ended September 30, 2010, compared to $780,000 for the same period in the prior year. This increase can be attributed primarily to prepayment penalties totaling $557,000 assessed in connection with the early retirement of $10.0 million of FHLB long term borrowings in the third quarter of 2010, partially offset by higher printing and other costs in 2009 associated with the third quarter branch office purchase.

Provision for income taxes. The provision for income taxes increased $492,000 to $271,000 for the three months ended September 30, 2010 compared to a tax benefit of $221,000 for the same period in the prior year. This increase was primarily related to an increase in pre-tax income of $1.5 million to $1.2 million for the three months ended September 30, 2010, compared to a net loss of $231,000 for the same period in 2009. The effective tax rate increased for the three months ended September 30, 2010, compared to the same period in 2009 as a result of a decreased portion of pre-tax income having been generated from tax-exempt investment securities and loans. The difference between the statutory rate of 34% and the Corporation's effective tax rate is due to tax-exempt income earned on certain tax-free loans and securities and bank-owned life insurance.

Comparison of Results for the Nine Month Period Ended September 30, 2010 and 2009

General. Net income increased $1.4 million to $2.5 million for the nine months ended September 30, 2010 from $1.1 million for the same period in 2009. This increase was the result of increases in net interest income and noninterest income of $1.6 million and $1.8 million, respectively, and a decrease in the provision for loan losses of $612,000. Partially offsetting these favorable items, noninterest expense and the provision for income taxes increased $2.0 million and $614,000, respectively.

Net interest income. Net interest income on a tax equivalent basis increased $1.7 million or 17.5% to $11.4 million for the nine months ended September 30, 2010 from $9.7 million for the same period in 2009. This net increase can be attributed to an increase in tax equivalent interest income of $1.6 million and a decrease in interest expense of $144,000.

Interest income. Interest income on a tax equivalent basis increased $1.6 million or 10.1% to $16.9 million for the nine months ended September 30, 2010, compared to $15.3 million for the same period in the prior year. This increase can be attributed to increases in interest on loans, securities and federal bank stock dividends of $644,000, $958,000 and $13,000, respectively, partially offset by a decrease in interest-earning deposits with banks of $63,000.

Tax equivalent interest earned on loans receivable increased $645,000 or 5.0% to $13.4 million for the nine months ended September 30, 2010, compared to $12.8 million for the same period in 2009. This increase resulted primarily from average loans increasing $17.4 million or 6.2%, accounting for $789,000 in additional loan interest income. This increase can be attributed to growth in the Corporation's existing loan portfolio and loans acquired through the third quarter 2009 purchase of the Titusville banking office from PNC (formerly National City Bank). Offsetting this favorable volume increase, the average yield on loans receivable decreased 6 basis points to 6.07% for the nine months ended September 30, 2010, versus 6.13% for the same period in 2009, due to declining market interest rates, accounting for a $144,000 decrease in interest income.

Tax equivalent interest earned on securities increased $958,000 or 42.8% to $3.2 million for the nine months ended September 30, 2010, compared to $2.2 million for the same period in 2009. The average balance of securities increased $60.1 million or 92.2%, primarily as a result of the deployment of net cash received in the branch purchase, accounting for a $1.6 million increase in interest income. Offsetting this favorable volume increase, the average yield on securities decreased 119 basis points to 3.41% for the nine months ended September 30, 2010, versus 4.60% for the same period in 2009, due primarily to shorter-termed security purchases made in the third and fourth quarters of 2009 and first and second quarters of 2010 at market yields lower than the overall average of the existing portfolio. This

unfavorable yield variance accounted for a $691,000 decrease in interest income.

Interest earned on interest-earning deposit accounts decreased $63,000 or 22.7% to $214,000 for the nine months ended September 30, 2010 from $277,000 for the same period in 2009. The average balance of these assets decreased $693,000, decreasing interest income by $6,000. Also contributing to this volume decrease, the average yield on interest-earning deposit accounts decreased 25 basis points to 1.00% for the nine months ended September 30, 2010, compared to 1.26% for the same period in the prior year, accounting for a $57,000 decrease in interest income.

Dividends on federal bank stocks increased $13,000 to $32,000 for the nine month period ended September 30, 2010 from $19,000 for the same period in 2009. The average balance of these assets increased $205,000 or 5.1% to $4.2 million for the nine months ended September 30, 2010 from $4.0 million for the same period in 2009, accounting for a $1,000 increase in interest income. The average yield on these assets increased 38 basis points to 1.01% for the nine months ended September 30, 2010, compared to 0.63% for the same period the prior year, accounting for a $12,000 increase in interest income.

Interest expense. Interest expense decreased $143,000 or 2.5% to $5.5 million for the nine months ended September 30, 2010 from $5.6 million for the same period in 2009. This decrease in interest expense can be attributed to a decrease in interest incurred on deposits of $227,000, partially offset by an increase in interest incurred on borrowed funds of $84,000.

Interest expense incurred on deposits decreased $227,000 or 5.2% to $4.2 million for the nine months ended September 30, 2010 compared to $4.4 million for the same period in 2009. The average cost of interest-bearing deposits decreased 66 basis points to 1.71% for the nine months ended September 30, 2010, compared to 2.37% for the same period in 2009 causing a $1.4 million decrease in interest expense. Partially offsetting this favorable rate variance, the average balance of interest-bearing deposits increased $78.0 million or 31.5% to $325.7 million for the nine months ended September 30, 2010, compared to $247.6 million for the same period in 2009 causing a $1.2 million increase in interest expense. This increase was primarily due to deposits assumed through the aforementioned branch purchase.

Interest expense incurred on borrowed funds increased $84,000 or 6.8% to $1.3 million for the nine months ended September 30, 2010, compared to $1.2 million for the same period in the prior year. This increase can be attributed to an increase in the average cost of borrowed funds of 151 basis points to 4.55% for the nine months ended September 30, 2010, compared to 3.04% for the same period in 2009 causing a $502,000 increase in interest expense. This increase in the average cost for the nine months ended September 30, 2010 was due to higher short-term borrowing rates resulting from a $5.0 million advance on a line of credit with a correspondent bank in the third quarter of 2009. The line of credit has a current rate of 4.75%. Partially offsetting this unfavorable cost increase, the average balance of borrowed funds decreased $15.5 million or 28.7% to $38.6 million for the nine months ended September 30, 2010, compared to $54.2 million for the same period in the prior year, causing a $418,000 decrease in interest expense. This volume decrease was related to a decrease in short-term borrowings.

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

(Dollar amounts in thousands)	Nine months ended September 30,					
	2010			2009		
	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Interest-earning assets:						
Loans, taxable	$ 289,555	$ 13,153	6.07%	$ 262,630	$ 12,298	6.26%
Loans, tax exempt	6,391	273	5.71%	15,950	483	4.05%
Total loans receivable	295,946	13,426	6.07%	278,580	12,781	6.13%
Securities, taxable	96,780	1,982	2.74%	46,777	1,379	3.94%
Securities, tax exempt	28,473	1,216	5.71%	18,404	861	6.26%
Total securities	125,253	3,198	3.41%	65,181	2,240	4.60%
Interest-earning deposits with banks	28,680	214	1.00%	29,373	277	1.26%
Federal bank stocks	4,222	32	1.01%	4,017	19	0.63%
Total interest-earning cash equivalents	32,902	246	1.00%	33,390	296	1.19%
Total interest-earning assets	454,101	16,870	4.97%	377,151	15,317	5.43%
Cash and due from banks	2,396			2,178		
Other noninterest-earning assets	22,719			17,392		
Total assets	$ 479,216			$ 396,721		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 168,659	$ 654	0.52%	$ 117,940	$ 817	0.93%
Time deposits	156,996	3,506	2.99%	129,667	3,571	3.68%
Total interest-bearing deposits	325,655	4,161	1.71%	247,607	4,388	2.37%
Borrowed funds, long-term	33,645	1,136	4.51%	35,000	1,169	4.46%
Borrowed funds, short-term	5,000	180	4.81%	19,186	63	0.44%
Total borrowed funds	38,645	1,316	4.55%	54,186	1,232	3.04%
Total interest-bearing liabilities	364,300	5,477	2.01%	301,793	5,620	2.49%
Noninterest-bearing demand deposits	73,013	-	-	54,855	-	-
Funding and cost of funds	437,313	5,477	1.67%	356,648	5,620	2.11%
Other noninterest-bearing liabilities	3,307			3,998		

Total liabilities	440,620		360,646	
Stockholders' equity	38,596		36,075	
Total liabilities and stockholders' equity	$ 479,216		$ 396,721	
Net interest income		$ 11,393		$ 9,697
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)		2.96%		2.94%
Net interest margin (net interest income as a percentage of average interest-earning assets)		3.35%		3.44%

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 volume (changes in volume multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

(Dollar amounts in thousands)	Nine months ended September 30, 2010 versus 2009 Increase (Decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$ 789	$ (144)	$ 645
Securities	1,649	(691)	958
Interest-earning deposits with banks	(6)	(57)	(63)
Federal bank stocks	1	12	13
Total interest-earning assets	2,433	(880)	1,553
Interest expense:			
Deposits	1,178	(1,405)	(227)
Borrowed funds	(418)	502	84
Total interest-bearing liabilities	760	(903)	(143)
Net interest income	$ 1,673	$ 23	$ 1,696

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

Information pertaining to the allowance for loan losses and non-performing assets for the nine months ended September 30, 2010 and 2009 is as follows:

(Dollar amounts in thousands)	At or for the nine months ended September 30,	
	2010	2009
Balance at the beginning of the period	$ 3,202	$ 2,651
Provision for loan losses	465	1,077
Charge-offs	(381)	(590)
Recoveries	171	20
Balance at the end of the period	$ 3,457	$ 3,158
Non-performing loans	$ 3,211	$ 2,528

Non-performing assets	3,450	2,956
Non-performing loans to total loans	1.07%	0.84%
Non-performing assets to total assets	0.72%	0.64%
Allowance for loan losses to total loans	1.15%	1.05%
Allowance for loan losses to non-performing loans	107.66%	124.91%

The provision for loan losses decreased $612,000 or 56.8% to $465,000 for the nine month period ended September 30, 2010 from $1.1 million for the same period in the prior year. Net charge-offs for the nine months ended September 30, 2010 were $210,000, compared to $570,000 for the same period ending September 30, 2009. The decrease in the provision was primarily the result of a decline in overall delinquency in the loan portfolio and a substantial recovery of a commercial credit charged-off in 2009. The recovery led to an improvement in the Corporation's historical loss experience which resulted in a decrease in the amount of allowance allocated to loans that are not considered classified assets. This was offset by an increase in specific allocations for impaired loans totaling $321,000 for the nine month period ended September 30, 2010. At September 30, 2010, loans past due 30 days or more totaled $4.5 million, compared to $7.7 million in delinquent loans at December 31, 2009.

Nonperforming loans increased $683,000 to $3.2 million at September 30, 2010 from $2.5 million at September 30, 2009. During the nine month period ended September 30, 2010, nonperforming loans increased by $800,000 from $2.4 million at December 31, 2009. This increase was due primarily to the addition of an $811,000 credit relationship placed on nonaccrual status due to delinquency. The Corporation has determined the loan is impaired and has allocated $256,000 in specific reserves at September 30, 2010. The decrease in the allowance for loan losses to nonperforming loans from 124.91% at September 30, 2009 to 107.66% at September 30, 2010 was a result of the aforementioned increase in nonperforming loans related primarily to this one credit relationship offset by improvements in the Corporation's historical loss experience which resulted in a decrease in the overall allowance for loan losses.

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 classification 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 the Corporation 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 or improbable. Assets classified as loss are considered uncollectible and of such little value that their continuance as assets is not warranted.

The Corporation's 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 the Corporation classifies a problem asset as a loss, the portion of the asset deemed uncollectible is charged off immediately.

The Corporation regularly reviews the problem loans and other assets in its portfolio to determine whether any require classification in accordance with the Corporation's policy and applicable regulations. As of September 30, 2010, the Corporation's classified and criticized assets amounted to $14.5 million, with $7.5 million classified as substandard, $44,000 classified as doubtful and $6.9 million identified as special mention. As of June 30, 2010 and December 31, 2009, the Corporation's classified and criticized assets amounted to $14.7 million and $16.6 million, respectively. Included in classified and criticized assets at September 30, 2010 are two separate loans exhibiting credit deterioration impacting the ability of the borrowers to comply with their present loan repayment terms.

The first loan, with an outstanding balance of $3.0 million at September 30, 2010, was originated for the construction of a hotel, restaurant and retail plaza secured by such property, the borrower's personal residence, a separate residence and a separate farm. The hotel, restaurant and retail plaza are complete and operational. However, cash flows from operations have not been constant due to the seasonal business of the hotel. In addition, the borrower does not have other liquid sources of cash flow. As a result, the borrower has listed substantial real estate holdings for sale to obtain

cash to support this loan. Pending such sales, the Bank anticipates that the relationship may continue to have cash flow issues which may impact the timely payment of principal and interest to the Bank. At September 30, 2010, the loan was current but identified as special mention. Ultimately, due to the estimated value of the borrower's significant real estate holdings, the Bank does not currently expect to incur a loss on this loan.

The second loan, with an outstanding balance of $2.2 million at September 30, 2010, is a consumer installment loan for the purpose of the consolidating various personal debts. This loan is secured by a lien on the primary residence of the first borrower discussed above, an assigned life insurance policy and the assignment of patent royalty income. Due to business difficulties and decreased royalty income, payments on the loan have not always been timely. At September 30, 2010, the loan was performing but was classified substandard. As a result of the estimated value of the lien on the property owned by the first borrower, the estimated cash flow of royalty income and the borrower's business prospects, the Bank does not currently expect to incur a loss on this loan.

Noninterest income. Noninterest income increased $1.8 million or to $3.4 million during the nine months ended September 30, 2010, compared to $1.7 million during the same period in the prior year. This increase was primarily due to increases in gains on the sale of securities and commissions on financial services. The Corporation recorded gains on the sale of certain securities totaling $1.0 million during the first nine months of 2010 compared to losses totaling $451,000 on the sale of investments during the first nine months of 2009. Commissions on financial services increased $215,000 due in part to the addition of two financial services representatives during 2010. In addition to these favorable variances, title premiums increased $47,000 and other noninterest income increased $94,000 primarily due to an $189,000 increase in ATM point-of-sale interchange fee income, partially offset by gains recorded on the sale of assets in 2009 totaling $90,000.

Noninterest expense. Noninterest expense increased $2.0 million or 22.6% to $10.8 million during the nine months ended September 30, 2010 compared to $8.8 million for the same period in 2009. This increase in noninterest expense can be attributed to increases in compensation and employee benefits, premises and equipment, intangible amortization, FDIC expense and other noninterest expenses of $937,000, $209,000, $394,000, $70,000 and $696,000, respectively, partially offset by a decrease in professional fees of $320,000.

Compensation and employee benefits increased $937,000 or 21.2% to $5.4 million for the nine months ended September 30, 2010 compared to $4.4 million for the same period in the prior year. This increase can be primarily attributed to normal salary and wage increases, staff added in connection with the 2009 branch purchase and the reinstatement of the previously suspended incentive programs.

Premises and equipment increased $209,000 or 15.0% to $1.6 million for the nine months ended September 30, 2010, compared to $1.4 million for the same period in the prior year. This increase was primarily related to the 2009 branch purchase and increased fixed asset depreciation expenses.

Associated with the branch purchase, the Bank recognized $445,000 of core deposit intangible amortization expense during the first nine months of 2010. Further discussion related to goodwill and intangible assets related to the branch office purchase can be found in the "Notes to Consolidated Financial Statements" beginning on page 5.

Professional fees decreased $320,000 or 43.7% to $413,000 for the nine months ended September 30, 2010, compared to $733,000 for the same period in the prior year. This decrease was primarily related to a decrease in legal and consulting fees associated with the 2009 branch office purchase.

FDIC expense increased $70,000 to $447,000 or 18.6% for the nine months ended September 30, 2010, compared to $377,000 for the same period in the prior year. This increase was the result of increases in the Bank's deposit base and increased base assessment rates applied to all FDIC insured depository institutions. During the nine months ended September 30, 2009, in addition to regular quarterly premiums, the Corporation recorded $180,000 in FDIC expense for a special assessment which was imposed on all FDIC insured depository institutions and collected on September 30, 2009.

Other noninterest expense increased $696,000 or 38.8% to $2.5 million during the nine months ended September 30, 2010, compared to $1.8 million for the same period in the prior year. This increase can be attributed primarily to costs associated with operating an additional branch office.

Provision for income taxes. The provision for income taxes increased $614,000 to $641,000 for the nine months ended September 30, 2010 compared to $27,000 for the same period in the prior year. This increase was primarily related to the $2.0 million increase in pre-tax income to $3.1 million for the nine months ended September 30, 2010, compared to $1.1 million for the same period in 2009. The effective tax rate increased to 20.5% for the nine months ended September 30, 2010, compared to 2.5% for the same period in 2009. This higher effective tax rate resulted from a decreased portion of pre-tax income having been generated from tax-exempt investment securities and loans. The difference between the statutory rate of 34% and the Corporation’s effective tax rate is due to tax-exempt income earned on certain tax-free loans and securities and bank-owned life insurance.

LIQUIDITY

The Corporation’s primary sources of funds generally have been deposits obtained through the offices of the Bank, borrowings from the FHLB and Federal Reserve and amortization and prepayments of outstanding loans and maturing securities. During the nine months ended September 30, 2010, the Corporation used its sources of funds primarily to fund loan originations and security purchases. As of September 30, 2010, the Corporation had outstanding loan commitments, including undisbursed loans and amounts available under credit lines, totaling $47.7 million, and standby letters of credit totaling $1.0 million.

At September 30, 2010, time deposits amounted to $152.6 million or 37.8% of the Corporation’s total consolidated deposits, including approximately $50.3 million of which are scheduled to mature within the next year. Management of the Corporation believes it has adequate resources to fund all of its commitments, all of its commitments will be funded as required by related maturity dates and, based upon past experience and current pricing policies, it can adjust the rates of time deposits to retain a substantial portion of maturing liabilities.

Aside from liquidity available from customer deposits or through sales and maturities of securities, the Corporation has alternative sources of funds such as a term borrowing capacity from the FHLB and the Federal Reserve’s discount window. At September 30, 2010, the Corporation’s borrowing capacity with the FHLB, net of funds borrowed, was $142.9 million.

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

CRITICAL ACCOUNTING POLICIES

The Corporation’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices within the industry in which it operates. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily though the use of internal cash flow modeling techniques.

The most significant accounting policies followed by the Corporation are presented in Note 1 to the consolidated financial statements included in the Corporation's Annual Report on Form 10-K. These policies, along with the disclosures presented in the other financial statement notes provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management has identified the following as critical accounting policies.

Allowance for loan losses. The Corporation considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than its other significant accounting policies. The balance in the allowance for loan losses is determined based on management's review and evaluation of the loan portfolio in relation to past loss experience, the size and composition of the portfolio, current economic events and conditions and other pertinent factors, including management's assumptions as to future delinquencies, recoveries and losses. All of these factors may be susceptible to significant change. Among the many factors affecting the allowance for loan losses, some are quantitative while others require qualitative judgment. Although management believes its process for determining the allowance adequately considers all of the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management's estimates, additional provisions for loan losses may be required that would adversely impact the Corporation's financial condition or earnings in future periods.

Other-than-temporary impairment. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic, market or other concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the intent of the Corporation to sell a security, and (4) whether it is more likely than not the Corporation will have to sell the security before recovery of its cost basis.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

Interest rate sensitivity is the result of differences in the amounts and repricing dates of the Bank's rate sensitive assets and rate sensitive liabilities. These differences, or interest rate repricing "gap", provide an indication of the extent that the Corporation's net interest income is affected by future changes in interest rates. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities and is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive

assets. Generally, during a period of rising interest rates, a negative gap would adversely affect net interest income while a positive gap would result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would result in an increase in net interest income and a positive gap would adversely affect net interest income. The closer to zero that gap is maintained, generally, the lesser the impact of market interest rate changes on net interest income.

Assumptions about the timing and variability of cash flows are critical in gap analysis. Particularly important are the assumptions driving mortgage prepayments and the expected attrition of the core deposits portfolios. These assumptions are based on the Corporation's historical experience, industry standards and assumptions provided by a federal regulatory agency, which management believes most accurately represents the sensitivity of the Corporation's assets and liabilities to interest rate changes, at September 30, 2010, the Corporation's interest-earning assets maturing or repricing within one year totaled $158.5 million while the Corporation's interest-bearing liabilities maturing or repricing within one-year totaled $149.8 million, providing an excess of interest-earning assets over interest-bearing liabilities of $8.7 million. At September 30, 2010, the percentage of the Corporation's liabilities to assets maturing or repricing within one year was 94.5%.

For more information, see "Market Risk Management" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2009.

Item 4. Controls and Procedures

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

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

As of September 30, 2010, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's CEO and PAO, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on the foregoing, the Corporation's CEO and PAO concluded that the Corporation's disclosure controls and procedures were effective. There have been no significant changes in the Corporation's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Corporation completed its evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Corporation is involved in various legal proceedings occurring in the ordinary course of business. It is the opinion of management, after consultation with legal counsel, that these matters will not materially affect the Corporation's consolidated financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes from those risk factors previously disclosed in the Corporation's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2009, as filed with the Securities and Exchange Commission. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

(a)	Not applicable.
(b)	Not applicable.

Item 6. Exhibits

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

Signatures

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

EMCLAIRE FINANCIAL CORP. AND SUBSIDIARIES

Date: November 12, 2010	By: /s/ William C. Marsh William C. Marsh Chairman of the Board, President and Chief Executive Officer
Date: November 12, 2010	By: /s/ Amanda L. Engles Amanda L. Engles Principal Accounting Officer