

EMCLAIRE FINANCIAL CORP
Form 10-Q
May 15, 2018

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2018

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: 001-34527

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)
(844) 767-2311
(Registrant's telephone number)

N/A
(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 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, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated

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filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the Registrant's common stock was 2,271,139 at May 14, 2018.

EMCLAIRE FINANCIAL CORP

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PART I - FINANCIAL INFORMATION

Item 1. Interim Financial Statements

Emclaire Financial Corp
Consolidated Balance Sheets (Unaudited)
As of March 31, 2018 and December 31, 2017
(Dollar amounts in thousands, except share and per share data)

	March 31, 2018	December 31, 2017
Assets		
Cash and due from banks	\$2,529	\$ 3,072
Interest earning deposits with banks	14,648	11,302
Cash and cash equivalents	17,177	14,374
Securities - available for sale	96,216	99,350
Securities - equity investments	659	1,817
Loans held for sale	239	504
Loans receivable, net of allowance for loan losses of \$5,935 and \$6,127	584,242	577,234
Federal bank stocks, at cost	4,329	4,662
Bank-owned life insurance	11,808	11,724
Accrued interest receivable	2,236	2,217
Premises and equipment, net	17,911	18,010
Goodwill	10,288	10,288
Core deposit intangible, net	413	481
Prepaid expenses and other assets	10,290	9,423
Total Assets	\$755,808	\$ 750,084
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$129,159	\$ 126,263
Interest bearing	537,576	528,380
Total deposits	666,735	654,643
Short-term borrowed funds	2,050	2,500
Long-term borrowed funds	18,250	23,500
Accrued interest payable	367	413
Accrued expenses and other liabilities	9,529	9,937
Total Liabilities	696,931	690,993
Commitments and Contingent Liabilities	—	—
Stockholders' Equity:		
	2,966	2,966

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Common stock, \$1.25 par value, 12,000,000 shares authorized; 2,373,156 and 2,373,156 shares issued; 2,271,139 and 2,271,139 shares outstanding, respectively		
Additional paid-in capital	31,106	31,031
Treasury stock, at cost; 102,017 shares	(2,114)	(2,114)
Retained earnings	33,639	32,726
Accumulated other comprehensive loss	(6,720)	(5,518)
Total Stockholders' Equity	58,877	59,091
Total Liabilities and Stockholders' Equity	\$755,808	\$ 750,084

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp	
Consolidated Statements of Net Income (Unaudited)	
For the three months ended March 31, 2018 and 2017	
(Dollar amounts in thousands, except share and per share data)	
	For the three months ended March 31, 2018 2017
Interest and dividend income:	
Loans receivable, including fees	\$6,337 \$ 5,565
Securities:	
Taxable	408 395
Exempt from federal income tax	152 143
Federal bank stocks	64 53
Interest earning deposits with banks	33 16
Total interest and dividend income	6,994 6,172
Interest expense:	
Deposits	991 703
Borrowed funds	158 313
Total interest expense	1,149 1,016
Net interest income	5,845 5,156
Provision for loan losses	380 162
Net interest income after provision for loan losses	5,465 4,994
Noninterest income:	
Fees and service charges	437 408
Net realized loss on sales of securities	(29) —
Net gain on sales of loans	22 6
Earnings on bank-owned life insurance	104 101
Other	365 341
Total noninterest income	899 856
Noninterest expense:	
Compensation and employee benefits	2,453 2,323
Premises and equipment	770 758
Intangible asset amortization	69 60
Professional fees	216 202
Federal deposit insurance	137 108
Other	1,091 1,170
Total noninterest expense	4,736 4,621
Income before provision for income taxes	1,628 1,229
Provision for income taxes	266 273

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Net income	\$1,362	\$ 956
Basic earnings per common share	\$0.60	\$ 0.44
Diluted earnings per common share	0.60	0.44
Average common shares outstanding - basic	2,271,132	2,152,358
Average common shares outstanding - diluted	2,285,312	2,168,014

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp
 Consolidated Statements of Comprehensive Income (Unaudited)
 For the three months ended March 31, 2018 and 2017
 (Dollar amounts in thousands)

	For the three months ended March 31,	
	2018	2017
Net income	\$1,362	\$956
Other comprehensive income		
Unrealized gains/(losses) on securities available for sale:		
Unrealized holding gain (loss) arising during the period	(1,314)	391
Reclassification adjustment for losses included in net income	29	—
	(1,285)	391
Tax effect	270	(133)
Net of tax	(1,015)	258
Comprehensive income	\$347	\$1,214

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the three months ended March 31, 2018 and 2017
(Dollar amounts in thousands)

	For the three months ended March 31,	
	2018	2017
Cash flows from operating activities		
Net income	\$1,362	\$956
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	294	292
Provision for loan losses	380	162
Amortization of premiums, net	120	158
Amortization of intangible assets and mortgage servicing rights	81	77
Realized losses on sales of securities, net	29	—
Net gains on sales of loans	(22)	(6)
Net loss on foreclosed real estate	41	—
Gain on sale of premises and equipment	(25)	—
Loans originated for sale	(1,237)	(1,791)
Proceeds from the sale of loans originated for sale	1,524	1,865
Stock compensation expense	75	55
Increase in bank-owned life insurance, net	(84)	(83)
Increase in accrued interest receivable	(19)	(120)
(Increase) decrease in prepaid expenses and other assets	(215)	168
Increase in accrued interest payable	(46)	14
Decrease in accrued expenses and other liabilities	(407)	(435)
Net cash provided by operating activities	1,851	1,312
Cash flows from investing activities		
Loan originations and principal collections, net	(7,992)	(20,102)
Securities:		
Sales	6,531	—
Maturities, repayments and calls	1,902	3,821
Purchases	(5,667)	(983)
Redemption of federal bank stocks	333	235
Proceeds from the sale of bank premises and equipment	155	—
Proceeds from the sale of foreclosed real estate	129	100
Purchases of premises and equipment	(195)	(86)
Net cash used in investing activities	(4,804)	(17,015)
Cash flows from financing activities		
Net increase in deposits	12,092	21,166
Repayments on long-term debt	(5,250)	—
Net change in short-term borrowings	(450)	(7,250)
Dividends paid	(636)	(581)
Net cash provided by financing activities	5,756	13,335

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Increase (decrease) in cash and cash equivalents	2,803	(2,368)
Cash and cash equivalents at beginning of period	14,374	17,568
Cash and cash equivalents at end of period	\$17,177	\$15,200
Supplemental information:		
Interest paid	\$1,195	\$1,002
Supplemental noncash disclosure:		
Transfers from loans to foreclosed real estate	498	29

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

For the three months ended March 31, 2018 and 2017

(Dollar amounts in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at January 1, 2017	\$ 2,818	\$ 27,900	\$(2,114)	\$29,960	\$ (4,491)	\$ 54,073
Net income				956		956
Other comprehensive income					258	258
Stock compensation expense		55				55
Cash dividends declared on common stock (\$0.27 per share)				(581)		(581)
Balance at March 31, 2017	\$ 2,818	\$ 27,955	\$(2,114)	\$30,335	\$ (4,233)	\$ 54,761
Balance at January 1, 2018, as previously presented	\$ 2,966	\$ 31,031	\$(2,114)	\$32,726	\$ (5,518)	\$ 59,091
Cumulative effect of change in accounting principle for marketable equity securities, net of tax				187	(187)	—
Balance at January 1, 2018, as adjusted	2,966	31,031	(2,114)	32,913	(5,705)	59,091
Net income				1,362		1,362
Other comprehensive loss					(1,015)	(1,015)
Stock compensation expense		75				75
Cash dividends declared on common stock (\$0.28 per share)				(636)		(636)
Balance at March 31, 2018	\$ 2,966	\$ 31,106	\$(2,114)	\$33,639	\$ (6,720)	\$ 58,877

See accompanying notes to consolidated financial statements.

Emclair Financial Corp
Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Basis of Presentation

Emclair Financial Corp (the Corporation) is a Pennsylvania corporation and the holding company of The Farmers National Bank of Emlenton (the Bank) and Emclair Settlement Services, LLC (the Title Company). The Corporation provides a variety of financial services to individuals and businesses through its offices in western Pennsylvania and northern West Virginia. Its primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential and commercial mortgages, commercial business loans 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, 2017, as contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC.

The balance sheet at December 31, 2017 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. 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 stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS includes the dilutive effect of additional potential common shares for assumed issuance of restricted stock and shares issued under stock options.

The factors used in the Corporation's earnings per common share computation follow:

(Dollar amounts in thousands, except for per share amounts)	For the three months ended	
	March 31, 2018	2017
Earnings per common share - basic		
Net income	\$ 1,362	\$ 956
Average common shares outstanding	2,271,139	2,152,358
Basic earnings per common share	\$ 0.60	\$ 0.44
Earnings per common share - diluted		
Net income	\$ 1,362	\$ 956
Average common shares outstanding	2,271,139	2,152,358
Add: Dilutive effects of assumed issuance of restricted stock and exercise of stock options	14,176	15,656
Average shares and dilutive potential common shares	2,285,315	2,168,014
Diluted earnings per common share	\$ 0.60	\$ 0.44
Stock options not considered in computing earnings per share because they were antidilutive	—	—

3. Securities

Equity Securities

The Corporation held equity securities with fair values of \$659,000 and \$1.8 million at March 31, 2018 and December 31, 2017, respectively. Beginning January 1, 2018, with the adoption of ASU 2016-01, changes in the fair value are included in other income on the consolidated statements of net income as opposed in accumulated other comprehensive loss on the consolidated balance sheets. During the three months ended March 31, 2018, the Corporation recognized a loss of \$5,000 on the equity securities held at March 31, 2018. The Corporation sold \$961,000 of equity securities with a realized net loss of \$23,000 in the three month period ending March 31, 2018.

Debt Securities - Available for Sale

The following table summarizes the Corporation's debt securities as of March 31, 2018 and December 31, 2017:

(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018:				
U.S. Treasury and federal agency	\$ 4,538	\$ —	\$ (111)	\$ 4,427
U.S. government sponsored entities and agencies	14,126	—	(387)	13,739
U.S. agency mortgage-backed securities: residential	23,957	4	(495)	23,466
U.S. agency collateralized mortgage obligations: residential	22,204	33	(904)	21,333
State and political subdivisions	25,265	10	(480)	24,795
Corporate debt securities	8,508	15	(67)	8,456
	\$ 98,598	\$ 62	\$ (2,444)	\$ 96,216
December 31, 2017:				
U.S. Treasury and federal agency	4,541	—	(69)	4,472
U.S. government sponsored entities and agencies	14,136	2	(212)	13,926
U.S. agency mortgage-backed securities: residential	20,904	7	(153)	20,758
U.S. agency collateralized mortgage obligations: residential	22,607	25	(708)	21,924
State and political subdivisions	29,249	87	(96)	29,240
Corporate debt securities	9,009	38	(17)	9,030
	\$ 100,446	\$ 159	\$ (1,255)	\$ 99,350

The following table summarizes scheduled maturities of the Corporation's debt securities as of March 31, 2018. 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. Mortgage-backed securities and collateralized mortgage obligations are not due at a single maturity and are shown separately.

(Dollar amounts in thousands)	Available for sale	
	Amortized Cost	Fair Value
Due in one year or less	\$3,350	\$3,336
Due after one year through five years	26,768	26,231
Due after five through ten years	18,825	18,454
Due after ten years	3,494	3,396
Mortgage-backed securities: residential	23,957	23,466

Collateralized mortgage obligations: residential	22,204	21,333
	\$98,598	\$96,216

3. Securities (continued)

Information pertaining to debt securities with gross unrealized losses at March 31, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position are included in the table below:

(Dollar amounts in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description of Securities						
March 31, 2018:						
U.S. Treasury and federal agency	\$—	\$ —	\$4,427	\$(111)	\$4,427	\$(111)
U.S. government sponsored entities and agencies	4,866	(125)	8,873	(262)	13,739	(387)
U.S. agency mortgage-backed securities: residential	13,565	(289)	6,256	(206)	19,821	(495)
U.S. agency collateralized mortgage obligations: residential	1,935	(7)	17,567	(897)	19,502	(904)
State and political subdivisions	18,824	(412)	2,387	(68)	21,211	(480)
Corporate debt securities	2,942	(65)	500	(2)	3,442	(67)
	\$42,132	\$(898)	\$40,010	\$(1,546)	\$82,142	\$(2,444)
December 31, 2017:						
U.S. Treasury and federal agency	\$—	\$ —	\$4,472			