EMCLAIRE FINANCIAL CORP
Form 10-Q
August 10, 2006

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

FORM 10-Q

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

For the quarterly period ended June 30, 2006

or

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

For the transition period from _____________ to _____________

Commission File Number: 000-18464

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

Pennsylvania	25-1606091
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

612 Main Street, Emlenton, Pennsylvania	16373
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer,

an accelerated filer, or a non-accelerated filer.

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

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

The number of shares outstanding of the Registrant's common stock was 1,267,835 at August 10, 2006.

EMCLAIRE FINANCIAL CORP.

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PART I - FINANCIAL INFORMATION

Item 1. Interim Financial Statements

Emclaire Financial Corp. and Subsidiary
Consolidated Balance Sheets
As of June 30, 2006 (Unaudited) and December 31, 2005
(Dollar amounts in thousands, except per share data)

	June 30, 2006	December 2005
Assets		
Cash and due from banks	$5,321	$9,
Interest-earning deposits with banks	443	
Cash and cash equivalents	5,764	10,
Securities available for sale, at fair value	51,618	56,
Securities held to maturity; fair value of $14 and $14	14	
Loans receivable, net of allowance for loan losses of $1,890 and $1,869	209,943	192,
Federal bank stocks, at cost	2,104	1,
Bank-owned life insurance	4,702	4,
Accrued interest receivable	1,211	1,
Premises and equipment, net	6,727	6,
Goodwill	1,422	1,
Deferred tax asset	694	
Prepaid expenses and other assets	752	
Total Assets	$284,951	$275,
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$45,165	$44,
Interest-bearing	193,318	186,
Total deposits	238,483	230,
Short-term borrowed funds	1,200	4,
Long-term borrowed funds	20,000	15,
Accrued interest payable	673	
Accrued expenses and other liabilities	1,115	1,
Total Liabilities	261,471	251,

Stockholders' Equity:		
Preferred stock, $1.00 par value, 3,000,000 shares authorized; none issued	-	
Common stock, $1.25 par value, 12,000,000 shares authorized; 1,395,852 shares issued; 1,267,835 shares outstanding	1,745	1,
Additional paid-in capital	10,871	10,
Treasury stock, at cost; 128,017 shares	(2,653)	(2,
Retained earnings	14,181	13,
Accumulated other comprehensive loss	(664)	
Total Stockholders' Equity	23,480	23,
Total Liabilities and Stockholders' Equity	$284,951	$275,

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Income
For the three and six months ended June 30, 2006 and 2005 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For the three months ended June 30,		For the six m June
	2006	2005	2006
Interest and dividend income:			
Loans receivable, including fees	$3,344	$3,131	$6,496
Securities:			
Taxable	367	439	750
Exempt from federal income tax	174	174	348
Federal bank stocks	23	17	40
Deposits with banks	23	21	41
Total interest and dividend income	3,931	3,782	7,675
Interest expense:			
Deposits	1,448	1,186	2,763
Borrowed funds	166	156	334
Total interest expense	1,614	1,342	3,097
Net interest income	2,317	2,440	4,578
Provision for loan losses	47	45	78
Net interest income after provision for loan losses	2,270	2,395	4,500
Noninterest income:			

Fees and service charges	377	366	734
Commissions on financial services	114	161	215
Gains on securities	126	86	242
Gain on the sale of loans	-	-	-
Earnings on bank-owned life insurance (BOLI)	41	50	91
Other	111	94	215
Total noninterest income	769	757	1,497
Noninterest expense:			
Compensation and employee benefits	1,290	1,278	2,597
Premises and equipment	372	354	753
Intangible amortization expense	3	10	5
Other	588	688	1,113
Total noninterest expense	2,253	2,330	4,468
Income before provision for income taxes	786	822	1,529
Provision for income taxes	184	168	342
Net income	$602	$654	$1,187
Basic earnings per share	$0.47	$0.52	$0.94
Average common shares outstanding	1,267,835	1,267,835	1,267,835

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Condensed Consolidated Statements of Cash Flows
For the six months ended June 30, 2006 and 2005 (Unaudited)
(Dollar amounts in thousands)

	For the six months ended June 30,	
	2006	2005
Operating Activities:		
Net income	$1,187	$1,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	370	404
Provision for loan losses	78	105
Amortization of premiums and accretion of discounts, net	20	69
Gain on sale of loans	-	(3)
Loans originated for sale	-	(156)
Proceeds from sales of loans held for sale	-	342
Gains on sale of securities available for sale	(242)	(219)
Earnings on bank-owned life insurance, net	(79)	(92)
(Increase) decrease in accrued interest receivable	60	(6)

Decrease in prepaid expenses and other assets	1	50
Increase in accrued interest payable	66	-
Increase (decrease) in accrued expenses and other liabilities	(177)	113
Net cash provided by operating activities	1,284	1,828
Investing Activities:		
Loan originations and principal collections, net	(17,518)	(8,043)
Available-for-sale securities:		
Sales	413	742
Maturities, repayments and calls	4,054	3,921
Purchases	(528)	(3,396)
Held-to-maturity securities:		
Maturities, repayments and calls	1	1
(Purchase) redemption of Federal bank stocks	(331)	108
Purchases of premises and equipment	(974)	(409)
Net cash used in investing activities	(14,883)	(7,076)
Financing Activities:		
Net increase (decrease) in deposits	7,981	(90)
Increase in borrowed funds	1,700	500
Dividends paid on common stock	(685)	(634)
Net cash provided by (used in) financing activities	8,996	(224)
Net decrease in cash and cash equivalents	(4,603)	(5,472)
Cash and cash equivalents at beginning of period	10,367	14,624
Cash and cash equivalents at end of period	$5,764	$9,152
Supplemental information:		
Interest paid	$3,031	$2,696
Income taxes paid	390	167
Supplemental noncash disclosures:		
Transfers from loans to foreclosed real estate	$-	$86

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the three and six months ended June 30, 2006 and 2005 (Unaudited)
(Dollar amounts in thousands, except per share data)

For the three months ended June 30,		For the six months ended June
2006	2005	2006

Balance at beginning of period	$23,679	$23,166	$23,615
Net income	602	654	1,187
Change in net unrealized gains (losses) on available for sale securities, net of taxes	(376)	437	(477)
Less reclassification adjustment for gains included in net income, net of taxes	(83)	(57)	(160)
Other comprehensive income (loss)	(459)	380	(637)
Total comprehensive income	143	1,034	550
Dividends declared	(342)	(318)	(685)
Balance at end of period	$23,480	$23,882	$23,480
Common cash dividend per share	$0.27	$0.25	$0.54

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Notes to Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation.

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

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

The accompanying unaudited consolidated financial statements for the interim periods include all adjustments, consisting of normal recurring accruals, which are necessary, in the opinion of management, to fairly reflect the Corporation's consolidated financial position and results of operations. Additionally, these consolidated financial statements for the interim periods have been prepared in accordance with instructions for the Securities and Exchange Commission's Form 10-Q and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2005, as contained in the Corporation's 2005 Annual Report to Stockholders.

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires

management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses. The results of operations for interim quarterly or year to date periods are not necessarily indicative of the results that may be expected for the entire year or any other period. Certain amounts previously reported may have been reclassified to conform to the current year's financial statement presentation.

2. Basic Earnings per Common Share.

The Corporation maintains a simple capital structure with no common stock equivalents. Basic earnings per common share is calculated using net income divided by the weighted average number of common shares outstanding during the period.

3. Employee Benefit Plans.

Defined Contribution Plan.

The Corporation maintains a defined contribution 401(k) Plan. Employees are eligible to participate by providing tax-deferred contributions up to 20% of qualified compensation. Employee contributions are vested at all times. The Corporation makes matching contributions as approved by the Board of Directors. Matching contributions for the three months ended June 30, 2006 and 2005 amounted to $21,000 and $19,000, respectively. Matching contributions for the six months ended June 30, 2006 and 2005 amounted to $42,000 and $37,000, respectively.

3. Employee Benefit Plans (continued).

Defined Benefit Plan.

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

The Corporation uses a December 31 measurement date for its plans.

The components of the periodic pension cost are as follows:

	For the three months ended June 30,		For the six months ended June 30,		Y De
(Dollar amounts in thousands)	2006	2005	2006	2005	
Service cost	$52	$42	$104	$84	
Interest cost	58	51	116	102	
Expected return on plan assets	(66)	(61)	(132)	(122)	

Transition asset	(2)	(2)	(4)	(4)
Prior service costs	(8)	(8)	(16)	(16)
Recognized net actuarial (gain) loss	15	9	24	18
Net periodic pension cost	$49	$31	$92	$62

The expected rate of return on plan assets is 8.50% for the periods ended June 30, 2006 and 2005. The Corporation previously disclosed in its financial statements for the year ended December 31, 2005 that it expected to contribute $135,000 to its pension plan in 2006. The Corporation presently expects to contribute $202,000 to fund its pension plan in 2006.

4. Securities.

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

(Dollar amounts in thousands)	Amortized cost	Unrealized gains	Unrealized losses	F va
Available for sale:				
June 30, 2006:				
U.S. Government agencies and related entities	$32,352	$-	$(1,098)	$
Mortgage-backed securities	2,734	-	(176)	
Municipal securities	14,686	346	(3)	
Corporate securities	500	-	-	
Equity securities	2,352	173	(248)	
	$52,624	$519	$(1,525)	$
December 31, 2005:				
U.S. Government agencies and related entities	$34,353	$-	$(818)	$
Mortgage-backed securities	3,046	-	(124)	
Municipal securities	14,685	664	-	
Corporate securities	2,249	4	(4)	
Equity securities	1,995	383	(144)	
	$56,328	$1,051	$(1,090)	$
Held to maturity:				
June 30, 2006:				
Mortgage-backed securities	$14	$-	$-	
	$14	$-	$-	
December 31, 2005:				
Mortgage-backed securities	$15	$-	$(1)	
	$15	$-	$(1)	

5. Loans Receivable.

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

(Dollar amounts in thousands)	June 30, 2006	December 31, 2005
Mortgage loans on real estate:		
Residential first mortgages	$68,588	$66,011
Home equity loans and lines of credit	43,825	39,933
Commercial real estate	57,818	52,990
	170,231	158,934
Other loans:		
Commercial business	33,606	27,732
Consumer	7,996	7,729
	41,602	35,461
Total loans, gross	211,833	194,395
Less allowance for loan losses	1,890	1,869
Total loans, net	$209,943	$192,526

6. Deposits.

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

(Dollar amounts in thousands)				
Type of accounts	Amount	%	Amount	%
Noninterest-bearing deposits	$45,165	19.0%	$44,044	19.1%
Interest-bearing demand deposits	73,527	30.8%	74,067	32.1%
Time deposits	119,791	50.2%	112,392	48.8%
	$238,483	100.0%	$230,503	100.0%

7. Guarantees.

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Of these letters of credit at June 30, 2006, $258,000 automatically renews within the next twelve months and $76,000 will expire within the next twelve months. The Corporation, generally, holds collateral and/or personal guarantees supporting these commitments. Management believes that the

proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The current amount of the liability as of June 30, 2006 for guarantees under standby letters of credit issued is not material.

8. Effect of Recently Issued Accounting Standards.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets - An Amendment of FASB Statement No. 140" ("SFAS 156"). SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. SFAS 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006, which for the Corporation will be as of the beginning of fiscal 2007. The Corporation does not believe that the adoption of SFAS 156 will have a significant effect on its consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Specifically, the pronouncement prescribes a recognition threshold and a measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Corporation is evaluating the impact of this new pronouncement on its consolidated financial statements.

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

This section discusses the consolidated financial condition and results of operations of Emclaire Financial Corp. (the "Corporation") and its wholly owned subsidiary bank, the Farmers National Bank of Emlenton (the "Bank"), for the three and six month periods ended June 30, 2006 and should be read in conjunction with the Corporation's Annual Report of Form 10-K filed with the Securities and Exchange Commission and with the accompanying consolidated financial statements and notes presented on pages 1 through 8 of this Form 10-Q.

The Private Securities Litigation Reform Act of 1995 contains safe harbor provisions regarding forward-looking statements. When used in this discussion, the words "believes," "anticipates," "contemplates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Those risks and uncertainties include changes in interest rates, the ability to control costs and expenses and general economic conditions. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect

occurrences or unanticipated events or circumstances after the date of such statements.

CHANGES IN FINANCIAL CONDITION

Total assets increased $9.4 million or 3.4% to $285.0 million at June 30, 2006 from $275.5 million at December 31, 2005. This increase was primarily due to increases in loans receivable, federal bank stocks and premises and equipment of $17.4 million, $331,000 and $604,000, respectively. Partially offsetting this increase were decreases in cash and cash equivalents and securities of $4.6 million and $4.7 million, respectively.

Loans receivable increased $17.4 million or 9.1% to $209.9 million at June 30, 2006 from $192.5 million at December 31, 2005. Loan production gained momentum during the first six months of 2006 as home equity loans increased $3.9 million or 9.8% as a result of a home equity advertising campaign set forth in April. Also contributing to this increase was an increase in commercial loans of $10.7 million or 13.3% due to the continued focus by management on commercial lending.

Federal bank stocks increased $331,000 or 18.7% to $2.1 million at June 30, 2006 from $1.8 million at December 31, 2005 due to an increase in Federal Home Loan Bank capital stock requirements resulting from borrowing an additional $5.0 million term advance.

Premises and equipment increased $604,000 or 9.9% to $6.7 million at June 30, 2006 from $6.1 million at December 31, 2005. This increase was primarily due to constructing a new drive-thru facility in Brookville and beginning construction of a new branch facility proposed to open in October 2006.

Cash and cash equivalents decreased $4.6 million or 44.4% to $5.8 million at June 30, 2006 from $10.4 million at December 31, 2005. The decrease in cash and cash equivalents was primarily due to funding loan originations.

Securities decreased $4.7 million or 8.3% to $51.6 million at June 30, 2006 from $56.3 million at December 31, 2005 as a result of security maturities, sales and repayments of $4.5 million and an increase in unrealized losses on available for sale securities of $967,000. The decrease in securities was primarily due to funding loan originations.

Long-term borrowed funds, consisting of Federal Home Loan Bank term advances, increased $5.0 million or 33.3% to $20.0 million at June 30, 2006 from $15.0 million at December 31, 2005. During June 2006, the Corporation entered into an agreement with the Federal Home Loan Bank to borrow a $5.0 million 10 year term advance at an initial interest rate of 4.98%. The interest rate is fixed for the first two years of the term after which the rate may adjust at the option of the Federal Home Loan Bank to the then three month LIBOR rate plus 24 basis points. If the advance converts to an adjustable rate borrowing, the Corporation has the opportunity to repay the advance without penalty at the conversion date.

Short-term borrowed funds, consisting of overnight Federal Home Loan Bank borrowings, decreased $3.3 million or 73.3% to $1.2 million at June 30, 2006 from $4.5 million at December 31, 2005. The repayment of these overnight borrowings was funded by an additional term advance, maturities of securities and growth in deposits.

Deposits increased $8.0 million or 3.5% to $238.5 million at June 30, 2006 from $230.5 million at December 31, 2005 primarily as a result of an increase in time deposits due to marketing campaigns set forth in the first six months of 2006.

Stockholders' equity decreased $135,000 to $23.5 million at June 30, 2006 from $23.6 million at December 31, 2005. This decrease was the result of net income of $1.2 million offset by dividends declared of $685,000 and an increase in accumulated other comprehensive loss of $637,000, net of taxes. The increase in accumulated other comprehensive loss was the result of a decrease in the market value of available for sale securities.

RESULTS OF OPERATIONS

Comparison of Results for the Three Month Periods Ended June 30, 2006 and 2005

General. Net income decreased $52,000 or 8.0% to $602,000 for the three months ended June 30, 2006 from $654,000 for the same period in 2005. This decrease was a result of decreases in net interest income of $123,000 and increases in the provision for loan losses and the provision for income taxes of $2,000 and $16,000, respectively, offset by an increase in noninterest income of $12,000 and a decrease in noninterest expense of $77,000.

Net interest income. Net interest income on a tax equivalent basis decreased $115,000 or 4.5% to $2.4 million for the three months ended June 30, 2006 from $2.5 million for the same period in 2005. This net increase can be attributed to an increase in interest income of $157,000 offset by an increase in interest expense of $272,000.

Interest income. Interest income on a tax equivalent basis increased $157,000 or 4.0% to $4.0 million for the three months ended June 30, 2006, compared to $3.9 million for the same period in the prior year. This increase can be attributed to increases in interest earned on loans, interest-earning deposits with banks and federal bank stocks of $215,000, $2,000 and $6,000, respectively, offset by a decrease in interest earned on securities of $66,000.

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The average balance of loans receivable increased $14.8 million or 8.0% to $201.2 million for the three months ended June 30, 2006, compared to $186.3 million for the same period in the prior year primarily due to increases in commercial mortgage loans, business loans and home equity loans as loan production increased throughout 2005 and the first six months of 2006. The increase in volume contributed an additional $249,000 in interest income. Offsetting this increase in volume was a decrease in the yield on average loans receivable of 8 basis points to 6.73% during the three months ended June 30, 2006, compared to 6.81% for the same period in the prior year. This decrease was the result of the Corporation realizing a one time recovery of interest income related to the work out of a nonperforming credit associated with an individual commercial customer during the quarter ended June 30, 2005. The decrease in the average yield resulted in a $34,000 reduction in interest income.

The average balance of interest-earning cash equivalents decreased $1.3 million or 26.1% to $3.6 million for the three months ended June 30, 2006, compared to $4.9 million for the same period in the prior year. The decrease in the average balance was primarily due to funding requirements for loan originations and resulted in a $10,000 reduction in interest income. Offsetting this decrease in volume was the increase in the yield on average interest-earning cash equivalents of 200 basis points to 5.12% during the three months ended June 30, 2006, compared to 3.12% for the same period in the prior year. The increase in yield, which was primarily due to increases in market rates, contributed an additional $18,000 to interest income.

The average balance of securities decreased $11.0 million or 17.1% to $53.2

million for the three months ended June 30, 2006, compared to $64.2 million for the same period in the prior year. The decrease in volume resulted in a $124,000 reduction in interest income. The decrease in the average balance of securities was primarily due to funding requirements for loan originations. Offsetting this decrease in volume was the increase in the yield on average securities of 39 basis points to 4.67% during the three months ended June 30, 2006, compared to 4.28% for the same period in the prior year. The increase in yield contributed an additional $58,000 to interest income.

Interest expense. Interest expense increased $272,000 or 20.3% to $1.6 million for the three months ended June 30, 2006, compared to $1.3 million for the same period in the prior year. This increase in interest expense can be attributed to increases in interest incurred on deposits and borrowed funds of $262,000 and $10,000, respectively.

Interest expense incurred on deposits increased $262,000 or 22.1% to $1.4 million for the three months ended June 30, 2006, compared to $1.2 million for the same period in the prior year. The average balance of interest-bearing deposits increased $848,000 to $192.4 million for the three months ended June 30, 2006, compared to $191.5 million for the same period in the prior year. The average rate of interest-bearing deposits increased 54 basis points to 3.02% at June 30, 2006 from 2.48% for the same period in the prior year. The increases in volume and yield resulted in additional interest expense of $5,000 and $257,000, respectively.

Interest expense incurred on borrowed funds increased $10,000 or 6.4% to $166,000 for the three months ended June 30, 2006, compared to $156,000 for the same period in the prior year. This increase in interest expense can be attributed to the increase in the average balance of long-term and short-term borrowed funds of $278,000 and $1.1 million, respectively, to $15.3 million and $1.1 million, respectively, for the three months ended June 30, 2006, compared to $15.0 million and $38,000, respectively, for the same period in the prior year which resulted in an additional $14,000 in interest expense. The average rate on the average balance of borrowed funds decreased 10 basis points to 4.06% for the three months ended June 30, 2006 from 4.16% for the same period in the prior year and resulted in a reduction in interest expense of $4,000.

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 costs. Interest and yields on tax-exempt loans and securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis. The information is based on average daily balances during the periods presented.

	Three months ended June 30,	
	2006	20

(Dollar amounts in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	In
Interest-earning assets:					
Loans, taxable	$194,339	$3,267	6.74%	$179,271	
Loans, tax exempt	6,851	111	6.47%	7,073	
Total loans receivable	201,190	3,378	6.73%	186,344	
Securities, taxable	38,004	367	3.87%	48,776	
Securities, tax exempt	15,209	252	6.65%	15,403	
Total securities	53,213	619	4.67%	64,179	
Interest-earning deposits with banks	1,900	23	4.86%	3,344	
Federal bank stocks	1,707	23	5.40%	1,540	
Total interest-earning cash equivalents	3,607	46	5.12%	4,884	
Total interest-earning assets	258,010	4,043	6.29%	255,407	
Cash and due from banks	6,889			7,781	
Other noninterest-earning assets	13,330			12,378	
Total Assets	$278,229			$275,566	
Interest-bearing liabilities:					
Interest-bearing demand deposits	$72,554	$175	0.97%	$80,328	
Time deposits	119,814	1,273	4.26%	111,192	
Total interest-bearing deposits	192,368	1,448	3.02%	191,520	
Borrowed funds, short-term	1,126	15	5.34%	38	
Borrowed funds, long-term	15,278	151	3.96%	15,000	
Total borrowed funds	16,404	166	4.06%	15,038	
Total interest-bearing liabilities	208,772	1,614	3.10%	206,558	
Noninterest-bearing demand deposits	43,779	-	-	42,292	
Funding and cost of funds	252,551	1,614	2.56%	248,850	
Other noninterest-bearing liabilities	2,116			2,703	
Total Liabilities	254,667			251,553	
Stockholders' Equity	23,562			24,013	
Total Liabilities and Stockholders' Equity	$278,229			$275,566	
Net interest income		$2,429			
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.18%		
Net interest margin (net interest income as a percentage of average interest-earning assets)			3.78%		

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

	Three months ended June 30, 2006 versus 2005 Increase (Decrease) due to		
(Dollar amounts in thousands)	Volume	Rate	Total
Interest income:			
Loans	$249	$(34)	$215
Securities	(124)	58	(66)
Interest-earning deposits with banks	(12)	14	2
Federal bank stocks	2	4	6
Total interest-earning assets	115	42	157
Interest expense:			
Deposits	5	257	262
Borrowed funds	14	(4)	10
Total interest-bearing liabilities	19	253	272
Net interest income	$96	$(211)	$(115)

Provision for loan losses. The Corporation records provisions for loan losses to bring the total allowance for loan losses to a level deemed adequate to cover probable losses inherent in the loan portfolio. In determining the appropriate level of the allowance for loan losses, management considers historical loss experience, the present and prospective financial condition of borrowers, current conditions (particularly as they relate to markets where the Corporation originates loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio.

Information pertaining to the allowance for loan losses and non-performing assets for the quarters ended June 30, 2006 and 2005 is as follows:

(Dollar amounts in thousands)	At or for the three months ended June 30, 2006	2005
Balance at the beginning of the period	$1,893	$1,850
Provision for loan losses	47	45
Charge-offs	(61)	(29)
Recoveries	11	9
Balance at the end of the period	$1,890	$1,875
Non-performing loans	$1,546	$1,723
Non-performing assets	1,632	1,811
Non-performing loans to total loans	0.73%	0.91%
Non-performing assets to total assets	0.57%	0.66%
Allowance for loan losses to total loans	0.89%	0.99%
Allowance for loan losses to non-performing loans	122.25%	108.82%

The provision for loan losses increased $2,000 or 4.4% to $47,000 for the three month period ended June 30, 2006 from $45,000 for the same period in the prior year. Management's evaluation of the loan portfolio, including economic trends, regulatory considerations and other factors contributed to the recognition of $47,000 in the provision for loan losses during the three months ended June 30, 2006.

Noninterest income. Noninterest income increased $12,000 or 1.6% to $769,000 during the three months ended June 30, 2006, compared to $757,000 during the same period in the prior year. This increase can be attributed to increases in customer fees and service charges, gains on the sale of securities and other noninterest income of $11,000, $40,000 and $17,000, respectively. Offsetting this increase in noninterest income were decreases in commissions earned on financial services and earnings on bank-owned life insurance of $47,000 and $9,000, respectively.

Noninterest expense. Noninterest expense decreased $77,000 or 3.3% to $2.25 million during the three months ended June 30, 2006, compared to $2.33 million during the same period in the prior year. This decrease in noninterest expense can be attributed to decreases in intangible amortization and other noninterest expenses of $7,000 and $100,000, respectively. Offsetting this decrease in noninterest expense were increases in compensation and employee benefits and premises and equipment expenses of $12,000 and $18,000, respectively.

Other noninterest expense decreased $100,000 or 14.5% to $588,000 during the three months ended June 30, 2006, compared to $688,000 for the same period in the prior year. This decrease can be attributed primarily to decreases in professional fees, telephone and communication, travel and entertainment and other expenses. Partially offsetting these decreases were increases in printing and office supplies, postage, marketing and Pennsylvania shares tax expense between the two periods.

Premises and equipment expense increased $18,000 or 5.1% to $372,000 during the three months ended June 30, 2006, compared to $354,000 for the same period in

the prior year. The increase was primarily due to increased occupancy costs related to our new drive-thru facility in Brookville, as well as land purchased for a new branch location.

Provision for income taxes. The provision for income taxes increased $16,000 or 9.5% to $184,000 for the three months ended June 30, 2006, compared to $168,000 for the same period in the prior year due primarily to the increase in the effective tax rate to 23.4% in 2006 from 18.8% in 2005 as a result of the expiration of tax credits generated in previous years. The difference between the statutory rate of 34% and the Corporation's effective tax rate is due to tax-exempt income earned on loans, securities and bank-owned life insurance.

Comparison of Results for the Six Month Periods Ended June 30, 2006 and 2005

General. Net income decreased $34,000 or 2.8% to $1.19 million for the six months ended June 30, 2006 from $1.22 million for the same period in 2005. This decrease was a result of a decrease in net interest income of $52,000 and increases in noninterest expenses and the provision for income taxes of $51,000 and $42,000, respectively, offset by a decrease in the provision for loan losses of $27,000 and an increase in noninterest income of $84,000.

Net interest income. Net interest income on a tax equivalent basis decreased $37,000 or 1.0% to $4.80 million for the six months ended June 30, 2006 from $4.84 million for the same period in 2005. This net decrease can be attributed to an increase in interest income of $364,000 offset by an increase in interest expense of $401,000.

Interest income. Interest income on a tax equivalent basis increased $364,000 or 4.8% to $7.9 million for the six months ended June 30, 2006, compared to $7.5 million for the same period in the prior year. This increase can be attributed to increases in interest earned on loans and federal bank stocks of $484,000 and $10,000, respectively, offset by decreases in interest earned on securities and interest-earning deposits with banks of $122,000 and $8,000, respectively.

The average balance of loans receivable increased $12.9 million or 7.0% to $197.4 million for the six months ended June 30, 2006, compared to $184.5 million for the same period in the prior year primarily due to increases in commercial mortgage loans, business loans and home equity loans as loan production increased throughout 2005 and the first six months of 2006. The yield on average loans receivable increased 5 basis points to 6.70% during the six months ended June 30, 2006, compared to 6.65% for the same period in the prior year. The increase in the average yield was primarily due to the origination of loans with higher yields relative to portfolio loans as a result of the recent increase in interest rates. The increase in volume and yield contributed an additional $430,000 and $54,000, respectively, to interest income.

The average balance of interest-earning cash equivalents decreased $2.8 million or 44.2% to $3.5 million for the six months ended June 30, 2006, compared to $6.3 million for the same period in the prior year. The decrease in the average balance was primarily due to funding requirements for loan originations and resulted in a $40,000 reduction in interest income. Offsetting this decrease in volume was the increase in the yield on average interest-earning cash equivalents of 213 basis points to 4.67% during the six months ended June 30, 2006, compared to 2.54% for the same period in the prior year. The increase in yield, which was primarily due to increases in market rates, contributed an additional $42,000 to interest income.

The average balance of securities decreased $10.2 million or 15.7% to $54.5 million for the six months ended June 30, 2006, compared to $64.6 million for the same period in the prior year. The decrease in volume resulted in a $228,000 reduction in interest income. The decrease in the average balance of securities was primarily due to funding requirements for loan originations. Offsetting this decrease in volume was the increase in the yield on average securities of 34 basis points to 4.64% during the six months ended June 30, 2006, compared to 4.30% for the same period in the prior year. The increase in yield contributed an additional $106,000 to interest income.

Interest expense. Interest expense increased $401,000 or 14.9% to $3.1 million for the six months ended June 30, 2006, compared to $2.7 million for the same period in the prior year. This increase in interest expense can be attributed to increases in interest incurred on deposits and borrowed funds of $379,000 and $22,000, respectively.

Interest expense incurred on deposits increased $379,000 or 15.9% to $2.8 million for the six months ended June 30, 2006, compared to $2.4 million for the same period in the prior year. This increase in interest expense can be attributed to the increase in the average rate of interest-bearing deposits of 42 basis points to 2.93% at June 30, 2006 from 2.51% for the same period in the prior year. This increase in yield resulted in an additional $399,000 of interest expense between the six month period ended June 30, 2006 and 2005. Offsetting the increase in yield was the decrease in the average balance of interest-bearing deposits of $1.6 million or 1.0% to $190.3 million at June 30, 2006, compared to $191.9 million for the same period in the prior year resulting in a $20,000 reduction in interest expense. The decrease in interest-bearing deposits can be attributed to the movement of customer deposits into mutual funds as well as investing in the stock market as they attempt to obtain higher yields on their monies.

Interest expense incurred on borrowed funds increased $22,000 or 7.1% to $334,000 for the six months ended June 30, 2006, compared to $312,000 for the same period in the prior year. This increase in interest expense can be attributed to the increase in the average balance of borrowed funds of $1.2 million or 7.7% to $16.2 million for the six months ended June 30, 2006, compared to $15.0 million for the same period in the prior year which resulted in an additional $24,000 in interest expense. The average rate on the average balance of borrowed funds decreased 2 basis points to 4.17% for the six months ended June 30, 2006 from 4.19% for the same period in the prior year and resulted in a reduction in interest expense of $2,000.

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 costs. Interest and yields on tax-exempt loans and securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis. The information is based on average daily balances during the periods presented.

	Six months ended June 30,				
	2006			2005	
(Dollar amounts in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	Interes
Interest-earning assets:					
Loans, taxable	$190,559	$6,344	6.71%	$177,325	$5,857
Loans, tax exempt	6,854	220	6.46%	7,153	223
Total loans receivable	197,413	6,564	6.70%	184,478	6,080
Securities, taxable	39,161	750	3.86%	49,158	884
Securities, tax exempt	15,296	504	6.65%	15,465	492
Total securities	54,457	1,254	4.64%	64,623	1,376
Interest-earning deposits with banks	1,828	41	4.52%	4,705	49
Federal bank stocks	1,671	40	4.83%	1,571	30
Total interest-earning cash equivalents	3,499	81	4.67%	6,276	79
Total interest-earning assets	255,369	7,899	6.24%	255,377	7,535
Cash and due from banks	6,997			7,663	
Other noninterest-earning assets	13,073			12,190	
Total assets	$275,439			$275,230	
Interest-bearing liabilities:					
Interest-bearing demand deposits	$72,974	$321	0.89%	$80,601	$281
Time deposits	117,300	2,442	4.20%	111,283	2,103
Total interest-bearing deposits	190,274	2,763	2.93%	191,884	2,384
Borrowed funds, long-term	15,138	310	4.13%	15,000	312
Borrowed funds, short-term	1,033	24	4.69%	19	-
Total borrowed funds	16,171	334	4.17%	15,019	312
Total interest-bearing liabilities	206,445	3,097	3.03%	206,903	2,696
Noninterest-bearing demand deposits	43,050	-	-	41,737	-
Funding and cost of funds	249,495	3,097	2.50%	248,640	2,696
Other noninterest-bearing liabilities	2,357			2,538	
Total liabilities	251,852			251,178	
Stockholders' equity	23,587			24,052	
Total liabilities and stockholders' equity	$275,439			$275,230	
Net interest income		$4,802			$4,839
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.21%		
Net interest margin (net interest			3.79%		

income as a percentage of average interest-earning assets) =======

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

	Six months ended June 30, 2006 versus 2005 Increase (Decrease) due to		
(Dollar amounts in thousands)	Volume	Rate	Total
Interest income:			
Loans	$430	$54	$484
Securities	(228)	106	(122)
Interest-earning deposits with banks	(42)	34	(8)
Federal bank stocks	2	8	10
Total interest-earning assets	162	202	364
Interest expense:			
Deposits	(20)	399	379
Borrowed funds	24	(2)	22
Total interest-bearing liabilities	4	397	401
Net interest income	$158	$(195)	$(37)

Provision for loan losses. The Corporation records provisions for loan losses to bring the total allowance for loan losses to a level deemed adequate to cover probable losses inherent in the loan portfolio. In determining the appropriate level of the allowance for loan losses, management considers historical loss experience, the present and prospective financial condition of borrowers, current conditions (particularly as they relate to markets where the Corporation originates loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio.

Information pertaining to the allowance for loan losses and non-performing assets for the six months ended June 30, 2006 and 2005 is as follows:

(Dollar amounts in thousands)	At or for the six months ended June 30, 2006	2005	At or for t year ended December 3 2005
Balance at the beginning of the period	$1,869	$1,810	1,81
Provision for loan losses	78	105	20
Charge-offs	(74)	(67)	(19
Recoveries	17	27	5
Balance at the end of the period	$1,890	$1,875	$1,86
Non-performing loans	$1,546	$1,723	1,45
Non-performing assets	1,632	1,811	1,55
Non-performing loans to total loans	0.73%	0.91%	0.7
Non-performing assets to total assets	0.57%	0.66%	0.5
Allowance for loan losses to total loans	0.89%	0.99%	0.9
Allowance for loan losses to non-performing loans	122.25%	108.82%	128.7

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The provision for loan losses decreased $27,000 or 25.7% to $78,000 for the six month period ended June 30, 2006 from $105,000 for the same period in the prior year. Management's evaluation of the loan portfolio, including economic trends, regulatory considerations and other factors contributed to the recognition of $78,000 in the provision for loan losses during the six months ended June 30, 2006.

Noninterest income. Noninterest income increased $84,000 or 5.9% to $1.5 million during the six months ended June 30, 2006, compared to $1.4 million during the same period in the prior year. This increase can be attributed to increases in customer fees and service charges, gains on the sale of securities and other noninterest income of $113,000, $23,000 and $5,000, respectively. Offsetting this increase in noninterest income were decreases in commissions earned on financial services, gains on the sale of loans and earnings on bank-owned life insurance of $45,000, $3,000 and $9,000, respectively.

The increase in customer fees and service charges of $113,000 or 18.2% was primarily a result of the new overdraft privilege program, which was implemented in April 2005.

Noninterest expense. Noninterest expense increased $51,000 or 1.2% to $4.5 million during the six months ended June 30, 2006, compared to $4.4 million during the same period in the prior year. This increase in noninterest expense can be attributed to increases in compensation and employee benefits and premises and equipment of $95,000 and $73,000, respectively. Offsetting this increase in noninterest expense were decreases in intangible amortization and other noninterest expenses of $16,000 and $101,000, respectively.

Compensation and employee benefits expense increased $95,000 or 3.8% to $2.6 million during the six months ended June 30, 2006, compared to $2.5 million for

the same period in the prior year. Normal annual salary and wage adjustments, the increase in full-time equivalents, increased employee retirement costs, additional wages paid to temporary employees, higher director's fees and commissions paid to a financial services representative were the major components of this increase.

Premises and equipment expense increased $73,000 or 10.7% to $753,000 during the six months ended June 30, 2006, compared to $680,000 for the same period in the prior year. The increase was primarily due to increased occupancy costs related to our new drive-thru facility in Brookville, as well as land purchased for a new branch location.

Other noninterest expense decreased $101,000 or 8.3% to $1.1 million during the six months ended June 30, 2006, compared to $1.2 million for the same period in the prior year. This decrease can be attributed primarily to decreases in professional fees, telephone and communication expenses, Pennsylvania shares tax expense and travel and entertainment expenses. Partially offsetting these decreases were increases in printing and office supplies, postage and marketing expenses between the two periods.

Provision for income taxes. The provision for income taxes increased $42,000 or 14.0% to $342,000 for the six months ended June 30, 2006, compared to $300,000 for the same period in the prior year due to an increase in the Corporation's pre-tax earnings base between the first six months of 2006 and 2005. Also contributing to the increase was the increase in the effective tax rate to 22.4% in 2006 from 18.8% in 2005 due to the expiration of tax credits generated in previous years. The difference between the statutory rate of 34% and the Corporation's effective tax rate is due to tax-exempt income earned on loans, securities and bank-owned life insurance.

LIQUIDITY

The Corporation's primary sources of funds generally have been deposits obtained through the offices of the Bank, borrowings from the FHLB and amortization and prepayments of outstanding loans and maturing securities. During the six months ended June 30, 2006, the Corporation used its sources of funds primarily to fund loan originations and for the repayment of short-term borrowed funds. As of such date, the Corporation had outstanding loan commitments, including undisbursed loans and amounts available under credit lines, totaling $26.5 million, and standby letters of credit totaling $447,000.

At June 30, 2006, time deposits amounted to $119.8 million or 50.2% of the Corporation's total consolidated deposits, including approximately $47.0 million of which are scheduled to mature within the next year. Management of the Corporation believes that it has adequate resources to fund all of its commitments, that all of its commitments will be funded as required by related maturity dates and that, based upon past experience and current pricing policies, it can adjust the rates of time deposits to retain a substantial portion of maturing liabilities.

Aside from liquidity available from customer deposits or through sales and maturities of securities, the Corporation has alternative sources of funds such as a term borrowing capacity from the FHLB and, to a limited and rare extent, the sale of loans. At June 30, 2006, the Corporation's borrowing capacity with the FHLB, net of funds borrowed, was $110.6 million.

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

CRITICAL ACCOUNTING POLICIES

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk
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Market risk for the Corporation consists primarily of interest rate risk exposure and liquidity risk. Since virtually all of the interest-earning assets and paying liabilities are at the Bank, virtually all of the interest rate risk and liquidity risk lies at the Bank level. The Bank is not subject to currency exchange risk or commodity price risk, and has no trading portfolio, and therefore, is not subject to any trading risk. In addition, the Bank does not participate in hedging transactions such as interest rate swaps and caps. Changes in interest rates will impact both income and expense recorded and also the market value of long-term interest-earning assets. Interest rate risk and liquidity risk management is performed at the Bank level. Although the Bank has a diversified loan portfolio, loans outstanding to individuals and businesses depend upon the local economic conditions in the immediate trade area.

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

Interest rate sensitivity is the result of differences in the amounts and repricing dates of the Bank's rate sensitive assets and rate sensitive

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

Based on certain assumptions provided by a federal regulatory agency, which management believes most accurately represents the sensitivity of the Corporation's assets and liabilities to interest rate changes, at June 30, 2006, the Corporation's interest-earning assets maturing or repricing within one year totaled $64.4 million while the Corporation's interest-bearing liabilities maturing or repricing within one-year totaled $86.9 million, providing an excess of interest-bearing liabilities over interest-earning assets of $22.5 million or a negative 8.0% of total assets. At June 30, 2006, the percentage of the Corporation's assets to liabilities maturing or repricing within one year was 74.1%.

For more information, see "Market Risk Management" in Exhibit 13 to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

Item 4. Controls and Procedures

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

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

As of the quarter ended June 30, 2006, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on the foregoing, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective. There have been no significant changes in the Corporation's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Corporation completed its evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes from risk factors as previously disclosed in the 2005 Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

(a) The annual meeting of stockholders of the Corporation was held May 17, 2006. Of 1,267,835 common shares eligible to vote, 1,057,890 or 83.3% were voted in person or by proxy.

(b) The following Class B directors were elected for a three year term expiring in 2008:

Name	Shares For	Shares Withheld
Ronald L. Ashbaugh	1,047,830	10,060
George W. Freeman	1,047,516	10,374
Brian C. McCarrier	1,023,217	34,673

In addition to the above listed individuals, the following persons continue to serve as directors: James M. Crooks, Robert L. Hunter, John B. Mason, J. Michael King, Mark A. Freemer and David L. Cox.

(c) The recommendation of the Board of Directors to ratify the appointment of Beard Miller Company LLP as the Corporation's independent auditors, as described in the proxy statement for the annual meeting was approved with 1,056,327 shares in favor, 323 shares against and 1,240 shares abstained.

Item 5. Other Information

(a) Not applicable.

(b) Not applicable.

Item 6. Exhibits

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

Signatures

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

EMCLAIRE FINANCIAL CORP. AND SUBSIDIARY

Date: August 10, 2006	By: /s/ David L. Cox
	David L. Cox Chairman of the Board, President and Chief Executive Officer
Date: August 10, 2006	By: /s/ William C. Marsh
	William C. Marsh Chief Financial Officer