

COMMERCIAL NATIONAL FINANCIAL CORP /PA

Form 10-K

March 19, 2008

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

FORM 10-K

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

For the fiscal year ended December 31, 2007

Commission file number 0-18676

COMMERCIAL NATIONAL FINANCIAL CORPORATION  
(Exact name of registrant as specified in its charter)

PENNSYLVANIA  
(State or other jurisdiction of incorporation or  
organization)

25-1623213  
(I.R.S. Employer Identification No.)

900 LIGONIER STREET, LATROBE, PA  
(Address of principal executive offices)

15650  
(Zip Code)

Registrant's telephone number, including area code:  
539-3501

(724)

Securities registered pursuant to Section 12(b) of the  
Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$2 Par Value  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [ X ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act. Yes [ ] No [ X ]

Indicate by checkmark 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 checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. [ ]

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” 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 aggregate market value of registrant’s outstanding voting common stock held by non-affiliates on June 30, 2007, the last business day of the registrant’s most recently completed second fiscal quarter, was \$43,103,276.

Number of shares of common stock outstanding at March 1, 2008 3,044,813

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s proxy statement relating to its 2008 annual meeting of shareholders to be held May 20, 2008 are incorporated by reference into Part III of this Form 10-K. In addition, portions of the registrant’s Annual Report to Shareholders for the fiscal year ended December 31, 2007 are incorporated by reference into Part II of this Form 10-K.

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Commercial National Financial Corporation

Form 10-K

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## PART I

### Item 1. BUSINESS

The Commercial National Financial Corporation (the "Corporation") is a Pennsylvania corporation and is registered as a bank holding company under the Bank Holding Company Act of 1956 as amended. Through its subsidiary the Corporation is engaged in banking and trust operations.

The Corporation is owner of 100% of the outstanding shares of common stock of Commercial Bank & Trust of PA (the "Bank") formerly known as Commercial Bank of Pennsylvania. The Bank has been providing banking services since 1934. At the present time, two (2) banking offices are in operation in Latrobe, Pennsylvania, two (2) in Unity Township, Pennsylvania and one (1) each in Ligonier, West Newton, Greensburg, North Huntington and Hempfield Township, Pennsylvania. All of these offices are within the boundaries of Westmoreland County, Pennsylvania. In addition, the building that houses the Bank's downtown Latrobe banking office is the location of the Corporation's and the Bank's executive and administrative offices. The institution's operations center is located at the Latrobe Plaza in downtown Latrobe. This operations center also houses an in-house data processing system.

Each of the banking offices is equipped with a 24 hour a day automatic teller machine (ATM). Bank ATM units are also located on the campus of Saint Vincent College in Unity Township, the terminal of the Arnold Palmer Regional Airport, at the Latrobe Area Hospital, an in-store machine in the Norvelt Open Pantry and Latrobe 30 Shop-N- Save. A separate freestanding drive-up teller staffed banking facility is attached to the Lincoln Road office in downtown Latrobe. This facility also provides ATM service.

The Bank offers the full range of banking services normally associated with a general commercial banking business. Services include extending credit, providing deposit services, marketing non-deposit investments and offering financial counseling. The ATM system described above is a part of the Cirrus, Honor, Plus and Star networks, which provides the Bank's customers access to an extensive regional and national network. The Bank also has implemented a comprehensive electronic Online Banking system. By using a personal computer with internet access, customers can access their Commercial Bank accounts, perform common banking tasks and pay bills 24 hours a day, seven days a week, 365 days a year.

The Corporation currently has one inactive subsidiary, Commercial National Insurance Services. There are no current plans for this subsidiary.

### Competition

All aspects of the Corporation's business are highly competitive. The Corporation competes for deposits, loans and banking services with major financial institutions, several national and state banks, thrift institutions, credit unions, mortgage brokers, finance companies, insurance companies, investment companies and mutual funds.

Customers are generally influenced by convenience of location, quality of service, price of services and availability of products. The Corporation believes that it effectively competes with other financial service providers within its market area.

### Supervision and Regulation

### Introduction

The Corporation and the Bank are subject to extensive regulation by federal and state agencies. The primary focus of these regulations is for the protection of depositors, federal deposit insurance funds and the banking system, not for the protection of security holders. Set forth below is a brief description of certain laws which relate to the regulation of the Corporation and its subsidiaries. The description is not meant to be complete and is qualified by reference to applicable laws and regulations.

**Holding Company.** The Corporation, as a bank holding company is subject to regulation by the Federal Reserve Board (FRB), the Securities and Exchange Commission, and the Federal Deposit Insurance Corporation (FDIC). The nature of the supervision extends to such areas as safety and soundness, truth-in-lending, truth-in-savings, rate restrictions, consumer protection, permissible loan and securities activities, merger and acquisition limitations, reserve requirements, dividend payments and regulations concerning activities by corporate officers and directors. No regulatory restrictions or actions are currently pending against the Corporation.

**Subsidiary Bank** The Bank is subject to regulation and examination primarily by the FDIC and Pennsylvania Department of Banking (the "Department").

### Capital Requirements

Banks are required to be in compliance with the FRB's risk-based capital standards. These standards require that (1) at least 50% of total capital must be "Tier 1 capital". This consists primarily of common and certain other "core" equity capital; (2) assets and off-balance sheet items must be weighted according to risk; (3) the total capital to risk-weighted asset ratio must be at least 8%; and (4) a minimum 4% leverage ratio of Tier 1 capital to average assets must be maintained. The Department requires state chartered banks to maintain a 6% leverage capital and 10% risk based capital, defined substantially the same as the federal regulations. The Bank is subject to almost identical capital requirements adopted by the FDIC.

### Effects of Governmental Policies

In addition to regulatory requirements, the Corporation and its subsidiary Bank are affected by the national economy and the influence on that economy exerted by governmental bodies through monetary and fiscal policies and their efforts to implement such policies. In particular, the impact of the open market operations on interest rates, the establishment of reserve requirements and the setting of the discount rate will continue to affect business volumes and earnings. The exact nature or the full extent of this impact is almost impossible to predict; however, management continues to monitor these activities on a regular basis and seeks to modify its policies and procedures accordingly.

### Employees

As of December 31, 2007, the Corporation employed 107 people in full- and part-time positions. Approximately 53 employees are represented by the United Auto Workers, Local 1799. In 2004, the Corporation and bargaining unit employees entered into a five-year labor agreement that will expire in February 2009.

Executive Officers of the Corporation

The following table shows the names and ages of the current executive officers and the present and previous positions held by them for at least the past five years.

Name	Age	Present and Previous Positions
Gregg E. Hunter	49	Vice chairman, president and chief executive officer (February 2004 - present), Vice chairman and chief financial officer (December 1995 to January 2004)
Thomas D. Watters, CPA	46	Senior vice president and chief financial officer (July 2005-present), Chief Auditor (January 1998-July 2005)
Wendy S. Schmucker	39	Secretary/treasurer and senior vice president, division manager corporate administration (February 2004 – present) Secretary/treasurer and vice president, manager corporate administration (November 1997 to January 2004)
Susan R. Skoloda	33	Vice president, corporate controls and community relations officer (March 2004 to present); assistant vice president (April 2001 to February 2004); assistant secretary/treasurer (April 1998 to present)

Item 1A. RISK FACTORS

Not Applicable

Item 1B. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES



All of the Corporation's facilities are owned with the exception of the Lincoln Road banking office and adjacent drive-up facility and the Norwin Hills banking office. All of the properties are used in their entirety for banking purposes. In each case, the properties have been maintained in good repair, are well suited for their present use and appear to be adequate for the immediate needs of the Corporation and its subsidiary. The locations of the Corporation's real properties can be found in the Annual Report to Shareholders.

### Item 3. LEGAL PROCEEDINGS

The Corporation, in the normal course of business, is subject to various legal proceedings. Management does not expect the outcome of these proceedings to have a material adverse impact on the Corporation's financial condition or results of operations.

### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Corporation's security holders during the last quarter of its fiscal year ended December 31, 2007.

## PART II

### Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Information appearing in the Annual Report to Shareholders for the fiscal year ended December 31, 2007 (the Annual Report) in the section titled "Common Stock Information" is incorporated herein by reference in response to this item. As of March 5 2008 there were 442 shareholders of record of the Corporation's common stock. The number of beneficial shareholders is approximately 852.

We have historically paid quarterly dividends on our common stock and currently intend to continue to do so in the foreseeable future. Our ability to pay dividends depends on a number of factors, however, including restrictions on the ability of the Corporation to pay dividends under federal laws and regulations, and as a result there can be no assurance that dividends will be paid in the future.

In 2000, the Board of Directors authorized the repurchase of up to 360,000 shares of the Corporation's common stock from time to time when warranted by market conditions. There have been 209,074 shares purchased under this authorization through December 31, 2007.

The Corporation did not purchase any treasury stock during the quarter ended December 31, 2007

### Item 6. SELECTED FINANCIAL DATA

Not Applicable

### Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information appearing in the Annual Report in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

### Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information appearing in the Annual Report in the section titled "Interest Sensitivity and Market Risk" is incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Corporation's consolidated financial statements, the notes thereto and the report of the independent registered public accounting firm of the Annual Report are incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Corporation maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed by the Corporation in this Form 10-K, and in other reports required to be filed under the Securities Exchange Act of 1934 (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms for such filings. Management of the Corporation, under the direction of the Corporation's Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rules 13a-15a(e) and 15d-15(e) under the Exchange Act) as of December 31, 2007. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with other key management of the Corporation, have determined that the disclosure controls and procedures were and are effective as designed to ensure that material information relating to the Corporation and its consolidated subsidiaries required to be disclosed by the Corporation by the Exchange Act, was recorded, processed, summarized and reported within the applicable time periods.

Changes in Internal Controls

There have been no significant changes in our internal controls or in other factors that could significantly affect our internal controls during the quarter ended December 31, 2007.

Management's Report on internal Control over Financial Reporting.

Our Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including the principal executive officer and principal financial officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control-Integrated Framework, we have concluded that the internal control over financial reporting was effective as of December 31, 2007.

Because of its inherent limitations, internal control over the financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Item 9B. OTHER INFORMATION

None

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE

Information concerning (i) directors, appearing under the captions "Election of Directors" and "Director's Meetings and Committees" in the Corporation's Proxy Statement, related to the Annual Meeting of Shareholders to be held May 20, 2008 (the "Proxy Statement") (ii) information concerning executive officers, appearing under the caption "Executive Officers of the Registrant" in Part I of this Form 10-K, and (iii) information contained under the section "Section 16(a) Beneficial Ownership Reporting Compliance", in the Proxy Statement, are incorporated herein by reference to this Item 10.

The Corporation has adopted a Code of Ethics for Senior Financial Officers which is applicable to the Corporation's principal executive officer and principal financial and accounting officer. A copy of such Code of Ethics has been filed as an exhibit to this Form 10-K.

Item 11. EXECUTIVE COMPENSATION

The information contained in the Corporation's Proxy Statement under the following sections is hereby incorporated into this Item 11: (i) "Summary Compensation Table," (ii) "Components of Compensation" (iii) "Compensation of Directors," and "Director Compensation Table."

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained in the sections titled "Beneficial Ownership of Common Stock" and "Beneficial Ownership by Officers, Directors and Nominees" in the Proxy Statement is incorporated herein by reference to this Item 12.

Equity Compensation Plan Information

None

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information contained in the section titled "Related Party Transactions" as part of the "Components of Compensation" in the Proxy Statement is incorporated herein by reference to this Item 13.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information contained in the section titled “Auditor and Audit Fees” in the Proxy Statement is incorporated by reference to this Item 14.

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## PART IV

## Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) The consolidated financial statements and exhibits listed below are filed as part of this report. Financial statement schedules are omitted as they are not applicable.

(1)The Corporation's consolidated financial statements, the notes thereto and the report of the independent registered public accounting firm of the Annual Report and are incorporated herein by reference.

Exhibit Number	Description	Page Number or Incorporated by Reference to
3.1	Articles of Incorporation	Exhibit C to Form S-4 Registration Statement Filed April 9, 1990
3.2	By-laws of Registrant	Exhibit D to Form S-4 Registration Statement Filed April 9, 1990
3.3	Amended Articles of Incorporation	Exhibit 3.6 to Form 10-Q Filed for the quarter ended September 30, 2004
3.4	Amended Bylaws of Registrant	Exhibit 3.8 to Form 10-Q Filed for the quarter ended September 30, 2004
10.1	Employment agreement between Gregg E. Hunter and Commercial Bank of Pennsylvania	Exhibit 10.1 to Form 10-Q for the Quarter ended September 30, 2003
10.3	Mutual Release and Non-Disparagement Agreement between Commercial Bank of Pennsylvania and Louis T. Steiner	Exhibit 10-3 to Form 10-K for the period ended December 31, 2003.
13	Portions of the Annual Report to Shareholders for the Fiscal year Ended December 31, 2007	Filed herewith
14	Code of Ethics for Senior Financial Officers	Filed herewith
21	Subsidiaries of the Registrant	Filed herewith

- 31.1 Rule 13a-14(a)/15d-14(a) Certification Filed herewith  
of Chief Executive Officer
  - 31.2 Rule 13a-14(a)/15d-14(a) Certification Filed herewith  
of Chief Financial Officer
  - 32.1 Section 1350 Certification of Chief      Filed herewith  
Executive Officer
  - 32.2 Section 1350 Certification of Chief      Filed herewith  
Financial Officer
-

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

COMMERCIAL NATIONAL FINANCIAL CORPORATION  
(Registrant)

By:/s/ Gregg E. Hunter  
Gregg E. Hunter, Vice Chairman, President  
and Chief Executive Officer

March 18, 2008

By:/s/ Thomas D. Watters  
Thomas D. Watters, Senior Vice President  
and Chief Financial Officer

March 18, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE AND CAPACITY	DATE
/s/ George V. Welty George V. Welty, Chairman of the Board and Director	March 18, 2008
/s/ Gregg E. Hunter Gregg E. Hunter, Vice Chairman of the Board, Director, Chief Executive Officer (principal executive officer)	March 18, 2008
/s/ Thomas D. Watters Thomas D. Watters, Senior Vice President and Chief Financial Officer (principal financial and accounting officer)	March 18, 2008
/s/ Wendy S. Schmucker	March 18, 2008

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Wendy S. Schmucker, Secretary/Treasurer	
/s/ John T. Babilya	March 18, 2008
John T. Babilya, Director	
/s/ George A. Conti, Jr.	March 18, 2008
George A. Conti Jr., Director	
/s/ Richmond H. Ferguson	March 18, 2008
Richmond H. Ferguson, Director	
/s/ Dorothy S. Hunter	March 18, 2008
Dorothy S. Hunter, Director	
/s/ Frank E. Jobe	March 18, 2008
Frank E. Jobe, Director	
/s/ Steven H. Landers	March 18, 2008
Steven H. Landers, Director	
/s/ Joseph A. Mosso	March 18, 2008
Joseph A. Mosso, Director	
/s/ Bruce A. Robinson	March 18, 2008
Bruce A. Robinson, Director	
/s/ Debra L. Spatola	March 18, 2008
Debra L. Spatola, Director	
/s/ C. Edward Wible	March 18, 2008
C. Edward Wible, Director	

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EXHIBIT TABLE OF CONTENTS

Exhibit Number	Description
13	Portions of the Annual Report to Shareholders for the Fiscal Year Ended December 31, 2007
14	Code of Ethics for Senior Financial Officers
21	Subsidiaries of the Registrant
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer

Exhibit 21 - Subsidiaries of Commercial National Financial Corporation

Subsidiary	State or Jurisdiction of Incorporation
Commercial Bank & Trust of PA	Pennsylvania
Commercial National Investment Corp.	Pennsylvania

