

COMMERCIAL NATIONAL FINANCIAL CORP /PA

Form 10-Q

August 12, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 June 30, 2010

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 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)

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[] 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 (section 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 []

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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 definition of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES

NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock.

| CLASS | OUTSTANDING AT August 1, 2010 |
|-----------------------------|-------------------------------|
| Common Stock, \$2 Par Value | 2,860,953 Shares |

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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COMMERCIAL NATIONAL FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share amounts)

| | June 30, 2010 (unaudited) | December 31, 2009 |
|--|---------------------------------|-------------------------|
| ASSETS | | |
| Cash and due from banks | \$6,106 | \$6,610 |
| Interest bearing deposits with banks | 28 | 131 |
| Total cash and cash equivalents | 6,134 | 6,741 |
| Investment securities available for sale | 138,766 | 138,918 |
| Restricted investment in bank stock | 4,567 | 4,567 |
| Loans receivable | 197,998 | 205,092 |
| Allowance for loan losses | (1,694) | (1,722) |
| Net loans | 196,304 | 203,370 |
| Premises and equipment, net | 3,449 | 3,548 |
| Investment in life insurance | 15,164 | 14,921 |
| Other assets | 4,039 | 3,939 |
| Total assets | \$368,423 | \$376,004 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits (all domestic): | | |
| Non-interest bearing | \$74,542 | \$74,260 |
| Interest bearing | 199,837 | 195,470 |
| Total deposits | 274,379 | 269,730 |
| Short-term borrowings | 34,650 | 48,850 |
| Long-term borrowings | 10,000 | 10,000 |
| Other liabilities | 3,918 | 3,932 |
| Total liabilities | 322,947 | 332,512 |
| Shareholders' equity: | | |
| Common stock, par value \$2 per share; 10,000,000 shares authorized; 3,600,000 issued; | | |
| 2,860,953 shares outstanding in 2010 and 2009 | 7,200 | 7,200 |
| Retained earnings | 45,695 | 44,223 |
| Accumulated other comprehensive income | 5,125 | 4,613 |
| Treasury stock, at cost, 739,047 shares in 2010 and 2009 | (12,544) | (12,544) |
| Total shareholders' equity | 45,476 | 43,492 |

| | | |
|---|-----------|-----------|
| Total liabilities and shareholders' equity | \$368,423 | \$376,004 |
|---|-----------|-----------|

The accompanying notes are an integral part of these consolidated financial statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Dollar amounts in thousands, except per share data)

| | Three Months Ended June 30 (unaudited) | | Six Months Ended June 30 (unaudited) | |
|--|--|----------|--|----------|
| | 2010 | 2009 | 2010 | 2009 |
| INTEREST INCOME: | | | | |
| Interest and fees on loans | \$ 2,854 | \$ 3,021 | \$ 5,774 | \$ 6,110 |
| Interest and dividends on investments: | | | | |
| Taxable | 1,165 | 1,798 | 2,488 | 3,721 |
| Exempt from federal income taxes | 590 | 33 | 1,038 | 46 |
| Other | 1 | 1 | 2 | 2 |
| Total interest income | 4,610 | 4,853 | 9,302 | 9,879 |
| INTEREST EXPENSE: | | | | |
| Interest on deposits | 633 | 805 | 1,283 | 1,674 |
| Interest on short-term borrowings | 36 | 47 | 77 | 105 |
| Interest on long-term borrowings | 59 | 288 | 118 | 573 |
| Total interest expense | 728 | 1,140 | 1,478 | 2,352 |
| NET INTEREST INCOME | 3,882 | 3,713 | 7,824 | 7,527 |
| PROVISION FOR LOAN LOSSES | - | - | - | - |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 3,882 | 3,713 | 7,824 | 7,527 |
| OTHER OPERATING INCOME: | | | | |
| Asset management and trust income | 217 | 242 | 429 | 489 |
| Service charges on deposit accounts | 136 | 144 | 263 | 283 |
| Other service charges and fees | 184 | 176 | 391 | 378 |
| Income from investment in life insurance | 122 | 121 | 243 | 243 |
| Other income | 40 | 44 | 86 | 94 |
| Total other operating income | 699 | 727 | 1,412 | 1,487 |
| OTHER OPERATING EXPENSES: | | | | |
| Salaries and employee benefits | 1,490 | 1,397 | 3,009 | 2,831 |
| Net occupancy | 199 | 201 | 426 | 409 |
| Furniture and equipment expense | 135 | 130 | 277 | 253 |
| Pennsylvania shares tax | 126 | 126 | 252 | 256 |

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| | | | | |
|--------------------------------|-----------|-----------|-----------|-----------|
| Legal and professional | 115 | 121 | 239 | 244 |
| FDIC insurance | 85 | 261 | 167 | 272 |
| Other expenses | 720 | 710 | 1,427 | 1,445 |
| Total other operating expenses | 2,870 | 2,946 | 5,797 | 5,710 |
| INCOME BEFORE INCOME TAXES | | | | |
| TAXES | 1,711 | 1,494 | 3,439 | 3,304 |
| Income tax expense | 330 | 433 | 708 | 974 |
| NET INCOME | \$ 1,381 | \$ 1,061 | 2,731 | \$ 2,330 |
| Average Shares Outstanding | 2,860,953 | 2,867,349 | 2,860,953 | 2,871,745 |
| EARNINGS PER SHARE, BASIC | | | | |
| | \$ 0.48 | \$ 0.37 | \$ 0.95 | \$ 0.81 |
| Dividends Declared Per Share | \$ 0.22 | \$ 0.22 | \$ 0.44 | \$ 0.44 |

The accompanying notes are an integral part of these consolidated financial statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in thousands, except per share data)

| (unaudited) | Common Stock | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|--|-----------------|----------------------|-------------------|---|----------------------------------|
| Balance at December 31, 2009 | \$7,200 | \$44,223 | \$(12,544) | \$4,613 | \$43,492 |
| Comprehensive Income | | | | | |
| Net income | - | 2,731 | - | - | 2,731 |
| Other comprehensive gain, net of tax and reclassification adjustment: | | | | | |
| Unrealized net gains on- securities | | - | - | 512 | 512 |
| Total Comprehensive income | | | | | 3,243 |
| Cash dividends declared | | | | | |
| \$0.44 per share | - | (1,259) | - | - | (1,259) |
| Balance at June 30, 2010 | \$7,200 | \$45,695 | \$(12,544) | \$ 5,125 | \$45,476 |
| Balance at December 31, 2008 | \$7,200 | \$41,616 | \$(12,238) | \$2,490 | \$39,068 |
| Comprehensive Income | | | | | |
| Net income | - | 2,330 | - | - | 2,330 |
| Other comprehensive gain, net of tax: | | | | | |
| Unrealized net gains on- securities | | - | - | 844 | 844 |
| Total Comprehensive income | | | | | 3,174 |
| Cash dividends declared | | | | | |
| \$0.44 per share | - | (1,262) | - | - | (1,262) |
| Treasury shares purchased | - | - | (291) | - | (291) |
| Balance at June 30, 2009 | \$7,200 | \$42,684 | \$(12,529) | \$ 3,334 | \$40,689 |

The accompanying notes are an integral part of these consolidated financial statements.

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COMMERCIAL NATIONAL FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(unaudited)

For Six Months
Ended June 30
2010 2009

| OPERATING ACTIVITIES | | |
|---|-----------|-----------|
| Net income | \$2,731 | \$2,330 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 209 | 200 |
| Loss on sale of securities | 5 | - |
| Amortization of intangibles | 49 | 49 |
| Net accretion of loans and securities | (86) | (196) |
| Income from investment in life insurance | (243) | (243) |
| (Increase) in other assets | (71) | (198) |
| (Decrease) in other liabilities | (278) | (170) |
| Net cash provided by operating activities | 2,316 | 1,772 |
| INVESTING ACTIVITIES | | |
| Purchase of securities | (21,754) | (34,154) |
| Maturities and calls of securities | 22,766 | 20,455 |
| Purchase of restricted investments in bank stock | - | (600) |
| Net decrease in loans | 6,982 | 9,522 |
| Proceeds from sale of foreclosed real estate | 2 | 3 |
| Purchase of premises and equipment | (109) | (166) |
| Net cash provided by (used in) investing activities | 7,887 | (4,940) |
| FINANCING ACTIVITIES | | |
| Net increase in deposits | 4,649 | 7,107 |
| (Decrease) increase in other short-term borrowings | (14,200) | 450 |
| Dividends paid | (1,259) | (1,262) |
| Purchase of treasury stock | - | (291) |
| Net cash provided by (used in) financing activities | (10,810) | 6,004 |
| (Decrease) increase in cash and cash equivalents | (607) | 2,836 |
| Cash and cash equivalents at beginning of year | 6,741 | 7,132 |
| Cash and cash equivalents at end of quarter | \$6,134 | \$9,968 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$1,533 | \$2,446 |
| Income Taxes | \$800 | \$1,160 |

The accompanying notes are an integral part of these consolidated financial statements.

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COMMERCIAL NATIONAL FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

Note 1 Basis of Presentation

The accompanying consolidated financial statements include the accounts of Commercial National Financial Corporation (the Corporation) and its wholly owned subsidiaries, Commercial Bank & Trust of PA (the "Bank") and Ridge Properties, Inc. All material intercompany transactions have been eliminated.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. However, they do not include all information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the annual financial statements of the Corporation for the year ended December 31, 2009, including the notes thereto. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of financial position as of June 30, 2010 and the results of operations for the three and six-month period ended June 30, 2010 and 2009. The results of operations for the three and six- months ended June 30, 2010 are not necessarily indicative of the results to be expected for the entire year.

Reclassifications

Certain comparative amounts for the prior year have been reclassified to conform to current year classifications. Such classifications had no effect on consolidated net income or changes in shareholders' equity.

Note 2 Allowance for Loan Losses

The provision for loan losses is the amount added to the allowance against which actual loan losses are charged. The amount of the provision is determined by management through an evaluation of the size and quality of the loan portfolio, economic conditions, concentrations of credit, recent loan loss trends, delinquencies and other risks inherent within the loan portfolio.

The corporation did not record a provision for the six-month period ended June 30, 2010 and 2009.

Description of changes:

| | (dollars in thousands) | |
|--|------------------------|---------|
| | 2010 | 2009 |
| Allowance balance January 1 | \$1,722 | \$1,821 |
| Provision charged to operating expenses | 0 | 0 |
| Recoveries on previously charged off loans | 2 | 0 |
| Loans charged off | (30) | (23) |
| Allowance balance June 30 | \$1,694 | \$1,798 |

The following table presents a comparison of loan quality as of June 30, 2010 with that as of December 31, 2009. Cash payments received on non-accrual loans are recognized as interest income as long as the remaining balance of the loan is deemed to be fully collectible. When doubt exists as to the collectibility of a loan in non-accrual status, any payments received are applied to principal to the extent the doubt is eliminated. Once a loan is placed on non-accrual

status, any unpaid interest is charged against income.

| | At or For the Six-months ended June 30, 2010 | At or For the Year ended December 31, 2009 |
|-----------------------------|---|--|
| (dollars in thousands) | | |
| Non-performing loans: | | |
| Loans on non-accrual basis | \$143 | \$261 |
| Past due loans > 90 days | - | - |
| Renegotiated loans | 958 | 979 |
| Total non-performing loans | 1,101 | 1,240 |
| Foreclosed real estate | 717 | 639 |
| Total non-performing assets | \$1,818 | \$1,879 |

Note 3 - Securities

The amortized cost and fair values of securities available for sale are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| | (In Thousands) | | | |
| June 30, 2010: | | | | |
| Obligations of states and political subdivisions | \$ 61,201 | \$1,573 | \$ (140) | \$ 62,634 |
| Mortgage-backed securities | 69,800 | 6,332 | - | 76,132 |
| | \$ 131,001 | \$7,905 | \$ (140) | \$138,766 |
| December 31, 2009: | | | | |
| Obligations of states and political subdivisions | \$ 41,629 | \$ 975 | \$ (241) | \$ 42,363 |
| Mortgage-backed securities | 90,300 | 6,255 | - | 96,555 |
| | \$131,929 | \$ 7,230 | \$ (241) | \$ 138,918 |

The amortized cost and fair value of securities at June 30, 2010 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Fair Value |
|--|-------------------|---------------|
| | (In Thousands) | |
| Due within one year | \$ - | \$ - |
| Due after one year through five years | - | - |
| Due after five years through ten years | - | - |
| Due after ten years | 61,201 | 62,634 |
| Mortgage Backed Securities | 69,800 | 76,132 |
| | \$131,001 | \$138,766 |

The Corporation reviews its position quarterly to determine if there is Other-Than-Temporary Impairment (OTTI) on any of its securities. All of the Corporation's securities are debt securities and the Corporation assesses whether OTTI is present when the fair value of a security is less than its amortized cost basis. The Corporation monitors the credit ratings of all securities for downgrades as well as any other indication of OTTI condition. As of June 30, 2010 there were eleven (11) municipal bonds in an unrealized loss position. These unrealized losses are considered to be temporary impairments. The decline in the value of these debt securities is due only to interest rate fluctuations and not due to deterioration in credit quality. As a result, the Corporation currently expects full payment of contractual

cash flows, including principal from these securities.

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The following tables show the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

| June 30, 2010 | | | | | |
|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| Less than 12 Months | | 12 Months or More | | Total | |
| Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| (In Thousands) | | | | | |

| | | | | | | |
|--|----------|----------|------|------|----------|----------|
| Obligations of states and political subdivisions | \$11,706 | \$ (140) | \$ - | \$ - | \$11,706 | \$ (140) |
|--|----------|----------|------|------|----------|----------|

| December 31, 2009 | | | | | |
|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| Less than 12 Months | | 12 Months or More | | Total | |
| Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| (In Thousands) | | | | | |

| | | | | | | |
|--|----------|----------|------|------|----------|----------|
| Obligations of states and political subdivisions | \$12,900 | \$ (241) | \$ - | \$ - | \$12,900 | \$ (241) |
|--|----------|----------|------|------|----------|----------|

Note 4 Comprehensive Income

The components of other comprehensive income (loss) and related tax effects for the three and six-month periods ended June 30, 2010 and 2009 are as follows: (dollars in thousands)

| | For three-months ended June 30 | | For six-months ended June 30 | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Unrealized gains (losses) on securities available for sale | \$ 354 | \$ (625) | \$ 771 | \$ 1,279 |
| Reclassification adjustment for loss realized in income | 5 | - | 5 | - |
| Net Unrealized Gains | 359 | (625) | 776 | 1,279 |
| Tax effect | (122) | 212 | (264) | (435) |
| Net of Tax Amount | \$ 237 | \$ (413) | \$ 512 | \$ 844 |

Note 5 Legal Proceedings

Other than proceedings which occur in the normal course of business, there are no legal proceedings to which either the Corporation or its subsidiaries is a party, which, in the opinion of management, will have any material effect on the financial position or results of operations of the Corporation and its subsidiaries.

Note 6 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 written are conditional commitments issued by the Bank to secure the performance of a customer to a third party. Of these letters of credit, \$393,000 automatically renews within the next twelve months and \$2,152,000 will expire within thirteen to one hundred and ten months. The Bank, generally, holds collateral and/or personal guarantees supporting these commitments. 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, 2010 for guarantees under standby letters of credit issued is not material.

Note 7 Earnings per share

The Corporation has a simple capital structure. Basic earnings per share equals net income divided by the weighted average common shares outstanding during each period presented. The weighted average common shares outstanding for the six- months ended June 30, 2010 and 2009 was 2,860,953 and 2,871,745 respectively.

Note 8 New Accounting Standards

ASU 2010-20

ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, will help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures. This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure.

The amendments in this Update apply to all public and nonpublic entities with financing receivables. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments. The effective date of ASU 2010-20 differs for public and nonpublic companies. For public companies, the amendments that require disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. For nonpublic companies, the amendments are effective for annual reporting periods ending on or after December 15, 2011. The Corporation anticipates this amendment will have no material impact on our financial statements, but may require additional disclosures pertaining to the allowance for loan loss.

Note 9 Restricted Investment in Bank Stock

Federal law requires the Bank, a member institution of the Federal Home Loan Bank (FHLB) system, to hold stock of its district Federal Home Loan Bank according to a predetermined formula. This restricted stock is carried at cost and as of June 30, 2010, consists of the common stock of FHLB of Pittsburgh. In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock.

The Corporation evaluates impairment in FHLB stock when certain conditions warrant further consideration. In December 2008, the FHLB voluntarily suspended dividend payments on its stock as well as the repurchase of excess stock from members. The FHLB stated that this was due to a reduction in core earnings and concern over the FHLB's capital position. After evaluating such factors as the capital adequacy of the FHLB, its overall operating performance and the FHLB's liquidity and funding position, the Corporation concluded that the par value was ultimately recoverable and no impairment charge was recognized at June 30, 2010.

Management believes no impairment charge is necessary related to the FHLB stock as of June 30, 2010. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

Note 10 Fair Value Disclosures

The Corporation adopted FASB ASC 820 “Fair Value Measurements” effective January 1, 2008 for financial assets and liabilities that are measured and reported at fair value. FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

For assets measured at fair value on a recurring basis, the fair value measurement by level within the fair value hierarchy used at June 30, 2010 are as follows (in thousands):

| (Level 1) | (Level 2) | (Level 3) |
|-------------------------------|-------------|----------------------|
| Quoted Prices | Significant | Other |
| Markets | Observable | In Active |
| For Identical Assets | Inputs | Markets |
| | | For Identical Assets |
| Securities available for sale | | ----- |
| \$ 138,766 | - | |

For assets measured at fair value on a recurring basis, the fair value measurement by level within the fair value hierarchy used at December 31, 2009 are as follows (in thousands):

| (Level 1) | (Level 2) | (Level 3) |
|-------------------------------|-------------------|----------------------|
| Quoted Prices | Significant Other | Significant |
| Markets | Observable | In Active |
| For Identical Assets | Inputs | Markets |
| | | For Identical Assets |
| Securities available for sale | | \$138,918 |
| - | ----- | |

The following valuation techniques were used to measure fair value for available for sale securities as of June 30, 2010 and December 31, 2009.

Securities Available for Sale: The Corporation utilizes a third party in determining the fair values for securities held as available for sale. For the Corporation's agency mortgage backed securities, the third party utilizes market data and pricing models that vary based on asset class and that include available trade, bid and other market information. The methodology includes broker quotes, proprietary models and vast descriptive terms and conditions. The third party uses their own proprietary valuation Matrices in determining fair values for municipal bonds. These matrices utilize comprehensive municipal bond interest rate tables daily to determine market price, movement and yield relationships.

We may be required to measure certain other financial assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The Level 3 disclosures shown below represent the carrying value of loans for which adjustments are primarily based on the appraised value of collateral or the present value of expected future cash flows, which often results in significant management assumptions and input with respect to the determination of fair value. There were no realized or unrealized gains or losses relating to Level 3 financial assets and liabilities measured on a nonrecurring basis for the quarter ended June 30, 2010 and December 31, 2009.

For assets measured at fair value on a nonrecurring basis, the fair value measurement by level within the fair value hierarchy used at June 30, 2010 are as follows (in thousands).

| | (Level 1) Quoted Prices Observable For Identical Assets | (Level 2) Significant Other Unobservable Inputs In Active Markets | (Level 3) Significant Inputs |
|----------------|--|---|------------------------------------|
| Impaired Loans | | - | - |
| \$842 | | | |

Impaired loans at June 30, 2010, which are measured using the fair value of the collateral less estimated costs to sell for collateral-dependent loans, had a carrying amount of \$958,000 with a valuation allowance of \$116,000.

For assets measured at fair value on a nonrecurring basis, the fair value measurement by level within the fair value hierarchy used at December 31, 2009 are as follows (in thousands).

| (Level 1) Quoted Prices Observable For Identical Assets | (Level 2) Significant Other In Active Markets Unobservable Inputs | (Level 3) Significant Inputs |
|--|---|------------------------------------|
| - | \$860 | - |

Impaired loans at December 31, 2009, which are measured using the fair value of the collateral less estimated costs to sell for collateral dependent loans, had a carrying amount of \$979,000 with a valuation allowance of \$119,000.

ASC 825-10-65, Transition Related to FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," require disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are as discussed above. The methodologies for other financial assets and financial liabilities are discussed below.

The carrying amounts and fair values of the Corporation's financial instruments as of June 30, 2010 and December 31, 2009 are presented in the following table:

| | June 30, 2010 | | December 31, 2009 | |
|--|--------------------|---------------|--------------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| (In Thousands) | | | | |
| Financial assets: | | | | |
| Cash and equivalents | \$ 6,134 | \$ 6,134 | \$ 6,741 | \$ 6,741 |
| Securities available for sale | 138,766 | 138,766 | 138,918 | 138,918 |
| Restricted investment in bank stock | 4,567 | 4,567 | 4,567 | 4,567 |
| Net loans receivable | 196,304 | 199,246 | 203,370 | 203,553 |
| Accrued interest receivable | 1,585 | 1,585 | 1,456 | 1,456 |
| Financial liabilities: | | | | |
| Deposits | \$274,379 | \$270,583 | \$269,730 | \$264,300 |
| Short-term borrowings | 34,650 | 34,650 | 48,850 | 48,850 |
| Long-term borrowings | 10,000 | 10,220 | 10,000 | 10,139 |
| Accrued interest payable | 396 | 396 | 451 | 451 |
| Off-balance sheet financial instruments | - | - | - | - |

The following methods and assumptions were used by the Corporation in estimating the fair value disclosures for financial instruments:

Cash and Short-Term Investments

The carrying amounts for cash and short-term investments approximate the estimated fair values of such assets.

Securities

The Corporation utilizes a third party in determining the fair values for securities held as available for sale. For the Corporation's agency mortgage backed securities, the third party utilizes market data and pricing models that vary based on asset class and that include available trade, bid and other market information. The methodology includes broker quotes, proprietary models and vast descriptive terms and conditions. The third party uses their own proprietary valuation Matrices in determining fair values for municipal bonds. These matrices utilize comprehensive municipal bond interest rate tables daily to determine market price, movement and yield relationships.

Restricted Investment in Bank Stock

The carrying amounts of restricted investments in bank stock approximate the estimated fair value of such assets.

Loans Receivable

Fair values of variable rate loans subject to frequent repricing and which entail no significant credit risk are based on the carrying values. The estimated fair values of other loans are estimated by discounting the future cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

Deposits

For deposits which are payable on demand at the reporting date, representing all deposits other than time deposits, management estimated that the carrying value of such deposits is a reasonable estimate of fair value. Fair values of time deposits are estimated by discounting the future cash flows using interest rates currently being offered and a schedule of aggregate expected maturities.

Short-Term Borrowings

The carrying amounts for short-term borrowings approximate the estimated fair value of such liabilities.

Long-Term Borrowings

Fair values of long-term borrowings are estimated by discounting the future cash flows using interest rates currently available for borrowings with similar terms and maturity.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and payable is considered a reasonable estimate of fair value.

Off-Balance Sheet Instruments

The fair value of commitments to extend credit and for outstanding letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms and present credit worthiness of the counterparties.

Note 11 Subsequent Events

Commercial National Corporation has evaluated subsequent events through the date these consolidated financial statements were filed with the Securities and Exchange Commission. We have incorporated into these consolidated financial statements the effect of all material known events determined by ASC Topic 855, "Subsequent Events," to be recognizable events.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SAFE HARBOR STATEMENT

Forward-looking statements (statements which are not historical facts) in this Quarterly Report on Form 10-Q are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as “may,” “will,” “to,” “expect,” “believe,” “anticipate,” “intend,” “could,” “would,” “estimate,” or “continue” or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. These statements are based on information currently available to the Corporation, and the Corporation assumes no obligation to update these statements as circumstances change. Investors are cautioned that all forward-looking statements involve risk and uncertainties, including changes in general economic and financial market conditions, unforeseen credit problems, and the Corporation’s ability to execute its business plans. The actual results of future events could differ materially from those stated in any forward-looking statements herein.

CRITICAL ACCOUNTING ESTIMATES

Disclosure of the Corporation's significant accounting policies is included in Note 1 to the Corporation's Consolidated Financial Statements contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 Annual Report). Some of these policies are particularly sensitive, requiring that significant judgments, estimates and assumptions be made by management. Additional information is contained in the Management's Discussion and Analysis section of the 2009 Annual Report for the most sensitive of these issues, including the provision and allowance for loan losses.

Significant estimates are made by management in determining the allowance for loan losses. Management considers a variety of factors in establishing these estimates, including current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, financial and managerial strengths of borrowers, adequacy of collateral (if collateral dependent) and other relevant factors. Estimates related to the value of collateral also have a significant impact on whether or not the Corporation continues to accrue income on delinquent loans and on the amounts at which foreclosed real estate is recorded in the Consolidated Statements of Financial Condition. Management discussed the development and selection of critical accounting estimates and related Management and Discussion and Analysis disclosure with the Corporation's Audit Committee. There were no material changes made to the critical accounting estimates during the periods presented within.

OVERVIEW

The Corporation had net income of \$2.7 million or \$0.95 per share, for the six months ended June 30, 2010 compared to \$2.3 million or \$0.81 per share for the six months ended June 30, 2009. The Corporation's return on average assets for the first half of 2010 and 2009 was 1.47% and 1.26%, respectively. Return on average equity for the same two periods was 12.33% and 11.52%, respectively.

The Corporation's largest segment of operating results is dependent upon net interest income. Net interest income is interest earned on interest-earning assets less interest paid on interest-bearing liabilities. For the six months ended June 30, 2010 and 2009, net interest income was \$7.8 million and \$7.5 million, respectively.

FINANCIAL CONDITION

The Corporation's total assets decreased by \$7.6 million, or 2.02%, from December 31, 2009 to June 30, 2010. Total cash and cash equivalents decreased by \$607,000 and investment securities available for sale decreased by \$152,000. The decrease in investments was mainly due to the purchase of \$21.7 million in municipal bonds, \$20.6 million in principal pay-downs on mortgage-backed securities, \$2.2 million in calls on municipal bonds and a \$776,000 increase in fair value of securities. Net loans outstanding decreased by \$7.1 million. The Corporation experienced loan declines for both consumer and commercial loans. The Corporation attributes the loan declines to consumer and commercial customers being cautious in the first half of 2010.

The Corporation's total deposits increased \$4.6 million from December 31, 2009 to June 30, 2010. The non-interest bearing deposits increased by \$282,000 and the interest bearing deposits increased by \$4.4 million. The increase in non-interest bearing deposits is considered a normal fluctuation in our customer's checking accounts. The increase in the interest bearing deposits was due to increases in checking with interest accounts, money market accounts and savings accounts offset by decreases in certificate of deposits.

The decrease in the certificates of deposits was due to the Corporation maintaining a conservative position when pricing certificate of deposits. The Corporation attributes the increase in the other interest bearing liability accounts to customers placing their funds in liquid, FDIC insured accounts that provide flexibility and safety.

Shareholders' equity was \$45.5 million on June 30, 2010 compared to \$43.5 million on December 31, 2009. Total shareholders' equity increased due to the following; the \$2.7 million in net income, a \$512,000 increase in other comprehensive income, due to increases in the fair value of securities available for sale and a \$1.3 million decrease from cash dividends paid to shareholders. Book value per common share increased from \$15.20 at December 31, 2009 to \$15.90 at June 30, 2010.

RESULTS OF OPERATIONS

First Six Months of 2010 as compared to the First Six Months of 2009

Net income for the first six months of 2010 was \$2.7 million compared to \$2.3 million for the same period of 2009, representing a 17.21% increase. The increase is due to higher net interest income in 2010 compared with 2009.

Interest income for the six months ended June 30, 2010 was \$9.3 million, compared with \$9.9 million in 2009. Loan income for the six months ended June 30, 2010 was \$5.8 million compared to \$6.1 million in 2009. The decrease in loan income was due to lower average loan balances and lower yields in 2010 compared to 2009. Loan outstanding averages in 2010 were \$9.8 million lower than 2009, loan yields for the first six months of 2010 decreased five (5) basis points to 5.74%. This decrease in the loan yield is due to lower market rates for new loans and existing loans tied to the prime rate. The security portfolio of the Corporation is significantly different in composition for the first six months of 2010 compared with 2009. The Corporation's average balance for tax-free municipal bonds was \$48.2 million in 2010 compared with \$2.0 million in 2009. These bonds provided a significant benefit of decreasing the corporation's overall tax rate in 2010. Investment income from securities decreased \$241,000 or 6.40% for the six months ended June 30, 2010 compared with the same period in 2009. The average securities balances increased 7.74% in 2010 compared to 2009. The yield on total average earning assets for the first six months of 2010 and 2009 was 5.52% and 5.85%, respectively.

Total interest expense of \$1.5 million for the first six months of 2010 decreased \$874,000 or 37.16% compared with the first six months of 2009. The average interest bearing liabilities in 2010 were \$250.5 million, a decrease of 2.59% over 2009 averages. The cost of interest bearing liabilities decreased from 1.83% in 2009 to 1.18% in 2010. This decrease in interest cost is due to lower cost for Federal Home Loan Bank (FHLB) borrowings and lower market rates for money markets and certificates of deposit in 2010 compared with 2009.

As a result of the foregoing, net interest income for the first six months of 2010 was \$7.8 million compared to \$7.5 million for the first six months of 2009.

The Corporation did not record a loan loss provision expense for the six months ended June 30, 2010 or June 30, 2009.

Non-interest income for the first six months of 2010 was \$1.4 million, a decrease of \$75,000 from non-interest income for the first six months of 2009. The \$75,000 decrease is the result of the following: asset management and trust income declined by \$60,000 and service charges on deposit accounts decreased by \$20,000, other service charges and fees increased \$13,000 and other income decreased by \$8,000. Asset management and trust income declined in 2010 mainly due to the following: the fees on sweep accounts decreased by \$37,000 due to the current low yield on these products, estate settlement fees declined by \$40,000 in 2010 compared to 2009 and mutual fund commissions declined by \$16,000 in 2010 compared to 2009. These decreases were offset by an increase in managed asset revenue of \$34,000.

Non-interest expense for the first six months of 2010 was \$5.8 million, an increase of \$87,000 compared to 2009 non-interest expense. This increase was mainly due to the following, salaries and employee benefits increased by \$178,000 due to increases in salaries of \$98,000 and a significant increase in health care insurance of \$84,000. Net occupancy increased by \$17,000 and furniture and equipment increased by \$24,000. The increases noted above were offset by a decrease of \$105,000 in FDIC insurance and a slight decrease of \$18,000 in other expenses. The FDIC insurance expense was higher in 2009 due to the special assessment of \$165,000 that was paid in the second quarter of 2009.

Federal income tax for the first six months of 2010 was \$708,000 compared to \$974,000 for the same period in 2009. The effective tax rates for the first six months of 2010 and 2009 were 20.59% and 29.48%, respectively. The effective tax rates are lower than the federal statutory rate of 34% due principally to income from tax-exempt securities, loans, and bank owned life insurance. The significant decrease in the effective tax rate is due to a major shift in the investment portfolio. In 2010, the average tax-free municipal bonds for the first six months were \$48.2 million compared with an average of \$2.0 million for the first six months of 2009.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2010 as Compared to the Three Months Ended June 30, 2009

The Corporation's net income for the three months ended June 30, 2010 was \$1.4 million compared to \$1.1 million for the same period of 2009, representing a 30.16% increase. Net income was higher mainly due to higher net interest income in 2010 compared to 2009.

Interest income for the three months ended June 30, 2010 was \$4.6 million, compared with \$4.9 million for the three months ending June 30, 2009. Loan income decreased in 2010 due to average loan balances decreasing 4.50% in 2010 compared with 2009 and yields moved lower, from 5.79% in 2009 to 5.73% in 2010. The security portfolio of the Corporation is significantly different in composition for the three months ending June 30, 2010 compared with the same period in 2009. The Corporation increased its municipal bond holdings in 2010 compared with 2009. These bonds provided a significant benefit of decreasing the Corporations overall tax rate in 2010. The security income for

the three months ended June 30, 2010 was lower by \$76,000 compared with the same period 2009. The average securities balances increased 9.61% in 2010 compared to 2009. The yield on total average earning assets for the second quarter of 2010 decreased thirty-four (34) basis points to 5.48% compared to the same period 2009.

Total interest expense of \$728,000 for second quarter of 2010 decreased by \$412,000 or 36.14% from the second quarter of 2009. In the second quarter of 2010, the average interest-bearing liabilities balances decreased 1.86% compared with 2009 and the cost of these liabilities decreased to 1.18% in 2010 from 1.81% in 2009. The cost of interest-bearing liabilities declined in 2010 due to lower market rates for deposit accounts and Corporation's FHLB borrowing costs declined due the maturity of an advance that was replaced at a significantly lower short-term rate.

As a result of the foregoing, net interest income for the three months ending June 30, 2010 was \$3.9 million compared to \$3.7 million for the three month ending June 30, 2009.

The Corporation recorded no provision for loan losses for the second quarter of 2010 and 2009, respectively.

Non-interest income decreased by \$28,000 or 3.85%, to \$699,000 during the second quarter of 2010 compared with 2009. Asset management and trust income decreased by \$25,000, service charges on deposit accounts decreased \$8,000, and other service charges and fees increased \$8,000. The \$25,000 decline in asset management and trust income in 2010 was mainly due to the following: the fees on sweep accounts decreased by \$15,000 due to the current low yield on these products and estate settlement fees declined by \$19,000 in 2010 compared to 2009. These decreases were offset by an increase in managed asset revenue of \$17,000.

Non-interest expense for the second quarter of 2010 decreased by \$76,000 or 2.58% compared with same period in 2009. The largest change in non-interest expense was a \$176,000 reduction in FDIC assessments cost in 2010 compared with 2009. In 2009, the FDIC charged a one-time assessment to all banks, and the Corporation's one time assessment was \$165,000 paid June 2009. Other changes in non-interest expense were: Personnel costs increased \$93,000 mainly due to a \$38,000 increase in employee wages and a \$57,000 increase in health insurance premiums. Net occupancy decreased slightly \$2,000; furniture and equipment expense increased \$5,000. Other expenses increased by \$10,000.

Federal income tax for the three months ending June 30, 2010 was \$330,000 compared to \$433,000 for the same period in 2009. The effective tax rates during the second quarters of 2010 and 2009 were 19.29% and 28.98%, respectively. The reduction in the effective tax rate for the first quarter of 2010 is the result of a higher percentage of municipal bonds in the investment portfolio.

LIQUIDITY

Liquidity measurements evaluate the Corporation's ability to meet the cash flow requirements of its depositors and borrowers. The most desirable source of liquidity is deposit growth. Additional liquidity is provided by the maturity of investments in loans and securities and the principal and interest received from those earning assets. Another source of liquidity is represented by the Corporation's ability to sell both loans and securities. The Bank is a member of the Federal Home Loan Bank (FHLB) system. The FHLB provides an additional source for liquidity for long- and short-term funding. Additional sources of funding from financial institutions have been established for short-term funding needs.

The statement of cash flows for the first six months of 2010 indicates cash provided by the decrease in loan balances and the increase in deposits, along with cash provided by operations was used to reduce short-term borrowings.

As of June 30, 2010, the Corporation had available funding of approximately \$80.9 million at the FHLB, with an additional \$20 million of short-term funding available through other lines of credit. The Corporation's maximum borrowing capacity with the Federal Home Loan Bank (FHLB) is currently as \$120.1 million, with \$39.2 million borrowed resulting in the \$80.9 million as available.

OFF BALANCE SHEET ARRANGEMENTS

The Corporation's financial statements do not reflect off balance sheet arrangements that consist of commitments to purchase securities or commitments to extend credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have

fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral, if any, which the Corporation obtains from the customer upon extension of credit, is based on management's credit evaluation of the customer or other obligor. The types of collateral obtained by the Corporation may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit, financial standby letters of credit and commercial letters of credit written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The following table identifies the Corporation's commitments to extend credit, obligations under letters of credit and commitments to purchase securities as of June 30, 2010 (dollars in thousands):

| | TOTAL AMOUNT COMMITTED |
|--|------------------------------|
| Financial instruments whose contractual amounts represent credit risk: | |
| Commitments to extend credit | \$35,621 |
| Standby letters of credit | 393 |
| Financial standby letters of credit | 2,152 |
| Commitments to purchase securities | |
| Commitments to purchase municipal bond securities | 0 |

CREDIT QUALITY RISK

The following table presents a comparison of loan quality as of June 30, 2010 with that as of December 31, 2009. Cash payments received on non-accrual loans are recognized as interest income as long as the remaining balance of the loan is deemed to be fully collectible. When doubt exists as to the collectibility of a loan in non-accrual status, any payments received are applied to principal to the extent the doubt is eliminated. Once a loan is placed on non-accrual status, any unpaid interest is charged against income.

| | At or For the Six-months ended June 30, 2010 (dollars in thousands) | At or For the Year ended December 31, 2009 | | |
|---|---|--|---------|---|
| Non-performing loans: | | | | |
| Loans on non-accrual basis | \$143 | \$261 | | |
| Past due loans > 90 days | - | - | | |
| Renegotiated loans | 958 | 979 | | |
| Total non-performing loans | 1,101 | 1,240 | | |
| Foreclosed real estate | 717 | 639 | | |
| Total non-performing assets | \$1,818 | \$1,879 | | |
| Loans outstanding at end of period | \$197,998 | \$205,092 | | |
| Average loans outstanding (year-to-date) | \$201,080 | \$207,972 | | |
| Non-performing loans as a percent of total loans | 0.56 | % | 0.60 | % |
| Provision for loan losses | \$0 | | \$0 | |
| Net charge-offs | \$28 | | \$99 | |
| Net charge-offs as a percent of average loans | 0.01 | % | 0.05 | % |
| Provision for loan losses as a percent of net charge-offs | 0.00 | % | 0.00 | % |
| Allowance for loan losses | \$1,694 | | \$1,722 | |
| Allowance for loan losses as a percent of average loans outstanding | 0.84 | % | 0.83 | % |

As of June 30, 2010, \$106,000 of non-accrual loans were paying principal or principal and interest with payments recognized on a cash basis. The renegotiated loan total comprises two loan relationships, one involved in the retail segment and one in public protection. At present, the Corporation has no knowledge of other outstanding loans that present a serious doubt in in regard to the borrower's ability to comply with current loan repayment terms.

In 2010, the gross amount of interest that would have been recorded on non-accrual loans would have been \$4,000. The actual interest reflected in income on these loans was \$3,000.

CAPITAL RESOURCES

The Federal Reserve Board's risk-based capital guidelines are designed principally as a measure of credit risk. These guidelines require that: (1) at least 50% of a banking organization's total capital be common and certain other "core" equity capital ("Tier I Capital"); (2) assets and off-balance sheet items be weighted according to risk; and (3) the total capital to risk-weighted assets ratio be at least 8.00%; and (4) a minimum 4.00% leverage ratio of Tier I capital to average total assets be maintained for financial institutions that meet certain specified criteria, including asset quality, high liquidity, low interest-rate exposure and the highest regulatory rating. As of June 30, 2010, Commercial Bank & Trust of PA, under these guidelines, had Tier I and total equity capital to risk weighted assets ratios of 18.97% and 19.77% respectively. The leverage ratio was 11.02%.

The table below represents the Bank's capital position at June 30, 2010:
(Dollar amounts in thousands)

| | Amount | Percent of Adjusted Assets |
|----------------------------------|-----------|----------------------------------|
| Tier I Capital | \$ 40,073 | 18.97% |
| Tier I Capital Requirement | 8,449 | 4.00 |
| Total Equity Capital | \$ 41,767 | 19.77% |
| Total Equity Capital Requirement | 16,901 | 8.00 |
| Leverage Capital | \$ 40,073 | 11.02% |
| Leverage Requirement | 14,546 | 4.00 |

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Corporation's primary market risk is interest rate risk. Interest rate risk arises due to timing differences between interest sensitive assets and liabilities. Interest rate management seeks to maintain a balance between consistent income growth and the risk that is created by variations in the ability to reprice deposit and investment categories. The effort to determine the effect of potential interest rate changes normally involves measuring the "gap" between assets (loans and securities) subject to rate fluctuation and liabilities (interest bearing deposits and long-term borrowings) subject to rate fluctuation as related to earning assets over different time periods and calculating the ratio of interest sensitive assets to interest sensitive liabilities.

Repricing periods for the loans, securities, interest bearing deposits and long-term borrowings are based on contractual maturities, where applicable, as well as the Corporation's historical experience regarding the impact of interest rate fluctuations on the prepayment and withdrawal patterns of certain assets and liabilities. Regular savings, NOW and other similar interest bearing demand deposit accounts are subject to immediate withdrawal without penalty. However, based upon historical performance, management considers a certain portion of the accounts to be stable core deposits and therefore are projected to reprice over a variety of time periods.

The Corporation utilizes a computer simulation analysis that projects the impact of changing interest rates on earnings. Simulation modeling projects a baseline net interest income (assuming no changes in interest rate levels) and estimates changes to that baseline resulting from changes in interest rate levels. The Corporation utilizes the results of this model in evaluating its interest rate risk. This model incorporates a number of additional factors. These factors include: (1) the expected exercise of call features on various assets and liabilities; (2) the expected rates at which

various rate sensitive assets and liabilities will reprice; (3) the expected relative movements in different interest rate indexes that are used as the basis for pricing or repricing various assets and liabilities; (4) expected changes in administered rates on interest-bearing transaction, savings, money market and time deposit accounts and the expected impact of competition on the pricing or repricing of such accounts; and (5) other factors. Inclusion of these factors in the model is intended to estimate the Corporation's changes in net interest income resulting from an immediate and sustained parallel shift in interest rates up 100, 200 and 300 basis points or 100, 200 and 300 basis points down. While the Corporation believes this model provides a useful projection of its interest rate risk, the model includes a number of assumptions and predictions that are subject to continual refinement. These assumptions and predictions include inputs to compute baseline net interest income, growth rates and a variety of other factors that are difficult to accurately predict.

The June 30, 2010 computer simulations analysis projects the following changes in net interest income based on an immediate and sustained parallel shift in interest rates for a twelve month period compared to baseline, with baseline representing no change in interest rates. The model projects net interest income will decrease 2.2% if rates rise 100 bps, will decrease 5.9% if rates rise 200 bps and projects a 10.2% decrease of net interest income if rates rise 300 bps. If rates decrease 100 bps, the model projects a 2.6% increase in net interest income, a 2.5% increase if rates decrease 200 bps and if rates decrease 300 bps, the model projects net interest income will increase 1.6%.

Management regularly monitors the interest sensitivity position and considers this position in its decisions with regard to the Corporation's interest rates and maturities for interest-earning assets and interest-bearing liabilities.

ITEM 4. 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-Q, 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 June 30, 2010. 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 Commercial National Financial Corporation's internal control over financial reporting during the quarter ended June 30, 2010, that has materially affected, or is reasonably likely to materially affect Commercial National Financial Corporation's internal control over financial reporting.

ITEM 4T. CONTROLS AND PROCEDURES

See Item 4. above.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than proceedings that occur in the normal course of business, there are no legal proceedings to which either the Corporation or any of its subsidiaries is a party, which, in management's opinion, will have any material effect on the financial position of the Corporation and its subsidiaries.

ITEM 1A. RISK FACTORS

A smaller reporting company is not required to provide information required of this item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

2 (a) None

2 (b) None

2 (c) 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 245,174 shares purchased under this authorization through June 30, 2010. There were no shares purchased during the second quarter 2010, see table below.

| | | ISSUER PURCHASES OF EQUITY SECURITIES | | | |
|-----------------|-------|---------------------------------------|----------------------------------|--|--|
| Period | | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plans |
| April 1-30 | April | 0 | 0 | 0 | 114,826 |
| May 1 – May 31 | | 0 | 0 | 0 | 114,826 |
| June 1- June 30 | | 0 | 0 | 0 | 114,826 |
| Total | | 0 | 0 | 0 | |

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. (Removed and Reserved)

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

| 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 | Amendment to Articles of Incorporation | Exhibit A to definitive Proxy Statement filed for the special meeting of shareholders held September 18, 1990 |
| 3.4 | Amendment to Articles of Incorporation | Exhibit A to definitive Proxy Statement filed for the meeting of shareholders held on April 15, 1997 |
| 3.6 | Amendment to Articles of Incorporation | Exhibit A to definitive Proxy Statement filed for the meeting of shareholders held September 21, 2004 |
| 3.8 | Amendment to the Bylaws of Registrant | Exhibit 3.8 to Form 10-Q for the quarter ended September 30, 2004 |
| 10.1 | Amended and Restated Employment agreement between Gregg E. Hunter and Commercial Bank & Trust of PA | Exhibit 10.1 to Form 10-K for the year ended December 31, 2008 |
| 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 year ended December 31, 2003 |
| 10.4 | Stock Purchase Agreement between the Corporation and all of the Shareholders of Ridge Properties, Inc. | Exhibit 10.4 to Form 10-Q for the quarter ended June 30, 2008 |
| 10.5 | Change in Certifying Accountant | Exhibit 10.5 to Form 10-K for the year ended December 31, |

2009

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

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.

COMMERCIAL NATIONAL FINANCIAL
CORPORATION
(Registrant)

Dated: August 12, 2010

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

Dated: August 12, 2010

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

