COMMERCIAL NATIONAL FINANCIAL CORP /PA
Form 10-Q
May 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2007

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	25-1623213
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
900 LIGONIER STREET LATROBE, PA	15650
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (724) 539-3501

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 check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of " accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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 [x] No

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

CLASS	OUTSTANDING AT May 11, 2007
Common Stock, $2 Par Value	3,044,813 Shares

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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PART II - OTHER INFORMATION

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

		March 31, 2007 (unaudited)		December 31, 2006
ASSETS				
Cash and due from banks	$	9,954	$	10,134
Interest bearing deposits with banks		248		22
Total cash and cash equivalents		10,202		10,156
Federal funds sold		5,475		-
Investment securities available for sale		76,623		78,996
Restricted investments in bank stock		1,261		1,180
Loans receivable		225,043		229,528
Allowance for loan losses		(1,880)		(1,806)
Net loans		223,163		227,722
Premises and equipment, net		3,847		3,886
Investment in life insurance		13,566		13,452
Other assets		3,146		2,804
Total assets	$	337,283	$	338,196
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits (all domestic):				
Non-interest bearing	$	67,998	$	65,699
Interest bearing		230,145		228,221
Total deposits		298,143		293,920
Short-term borrowings		-		5,000
Other liabilities		1,791		2,047
Total liabilities		299,934		300,968
Shareholders' equity:				
Common stock, par value $2 per share; 10,000,000 shares authorized; 3,600,000 issued; 3,044,813 shares outstanding		7,200		7,200
Retained earnings		40,000		39,869
Accumulated other comprehensive income		555		566
Treasury stock, at cost, 555,187 shares		(10,406)		(10,406)
Total shareholders' equity		37,349		37,229

Total liabilities and shareholders' equity	$	337,283	$	338,196

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

COMMERCIAL NATIONAL FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

	Three Months Ended **March 31** **2007** (unaudited)	Three Months Ended **March 31** **2006** (unaudited)
INTEREST INCOME:		
Interest and fees on loans	$ 3,421	$ 3,003
Interest and dividends on investments:		
Taxable	1,094	881
Exempt from federal income tax	60	33
Other	22	171
Total interest income	4,597	4,088
INTEREST EXPENSE		
Interest on deposits	1,588	1,199
Interest on short-term borrowings	64	-
Total interest expense	1,652	1,199
NET INTEREST INCOME	2,945	2,889
PROVISION FOR LOAN LOSSES	90	30
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,855	2,859
OTHER INCOME		
Asset management and trust income	274	209
Service charges on deposit accounts	151	164
Other service charges and fees	192	201
Income from investment in life insurance	135	129
Other income	46	43
Total other income	798	746
OTHER EXPENSES		
Salaries and employee benefits	1,353	1,311
Net occupancy expense	194	196
Furniture and equipment expense	113	166
Pennsylvania shares tax	140	140
Legal and professional	120	301
Other expense	747	758
Total other expenses	2,667	2,872
INCOME BEFORE INCOME TAXES	986	733
Income tax expense	246	195
NET INCOME	$ 740	$ 538
Average shares outstanding	3,044,813	3,381,238

EARNINGS PER SHARE, BASIC	$	0.24	$	0 .16
Dividend declared per share	$	0 .20	$	0.20

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)

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
(unaudited)					
Balance at December 31, 2006	$ 7,200	$ 39,869	$ (10,406)	$ 566	$ 37,229
Comprehensive Income					
Net income	-	740	-	-	740
Other comprehensive loss, net of tax:					
Unrealized net losses on securities	-	-	-	(11)	(11)
Total Comprehensive Income					729
Cash dividends declared $.20 per share	-	(609)		-	(609)
Balance at March 31, 2007	$ 7,200	$ 40,000	$ (10,406)	$ 555	$ 37,349
(unaudited)					
Balance at December 31, 2005	$ 7,200	$ 39,422	$ (3,578)	$ 617	$ 43,661
Comprehensive Income					
Net income	-	538	-	-	538
Other comprehensive loss, net of tax:					
Unrealized net losses on securities	-	-	-	(312)	(312)
Total Comprehensive Income					226
Cash dividends declared $.20 per share	-	(683)		-	(683)
Purchase of treasury stock (362,113 shares)			(6,699)		(6,699)

Balance at March 31, 2006	$	7,200	$	39,277	$	(10,277)	$	305	$	36,505

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

COMMERCIAL NATIONAL FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	For Three Months March 31,	
	2007	2006
OPERATING ACTIVITIES		
Net income	$ 740	$ 538
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	124	137
Amortization of intangibles	24	24
Provision for loan losses	90	30
Net accretion of loans and securities	(12)	(12)
Income from investment in life insurance	(135)	(129)
Loss on sale of foreclosed real estate	7	-
Decrease in other liabilities	(250)	(25)
Increase in other assets	(377)	(243)
Net cash provided by operating activities	211	320
INVESTING ACTIVITIES		
(Increase) decrease in federal funds sold	(5,475)	4,975
Purchase of securities	-	(520)
Maturities and calls of securities	2,389	3,300
Purchase of restricted investments in bank stock	(289)	-
Redemption of restricted investments in bank stock	208	16
Net decrease (increase) in loans	4,455	(6,513)
Proceeds from sale of foreclosed real estate	18	-
Purchase of premises and equipment	(85)	(33)
Net cash provided by investing activities	1,221	1,225
FINANCING ACTIVITIES		
Net increase in deposits	4,223	2,836
Decrease in other short-term borrowings	(5,000)	-
Dividends paid	(609)	(683)
Purchase of treasury stock	-	(6,699)
Net cash used in financing activities	(1,386)	(4,546)
Increase (decrease) in cash and cash equivalents	46	(3,001)
Cash and cash equivalents at beginning of year	10,156	12,881
Cash and cash equivalents at end of quarter	$ 10,202	$ 9,880

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	$	1,800	$	1,168
Income Taxes	$	75	$	140

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

COMMERCIAL NATIONAL FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007

Note 1 Basis of Presentation

The accompanying consolidated financial statements include the accounts of Commercial National Financial Corporation (the Corporation) and its wholly owned subsidiary, Commercial Bank & Trust of PA. 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, 2006, 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 March 31, 2007 and the results of operations for the three-month period ended March 31, 2007 and 2006. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the entire year.

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 recorded a $90,000 provision for the three-month period ended March 31, 2007. By comparison, during the Corporation’s first quarter 2006 the Corporation recorded a $30,000 provision.

Description of changes:

	(dollars in thousands) 2007	2006
Allowance balance January 1	$ 1,806	$ 1,636
Provision charged to operating expenses	90	30
Recoveries on previously charged off loans	4	5
Loans charged off	(20)	(44)
Allowance balance March 31	$ 1,880	$ 1,627

COMMERCIAL NATIONAL FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 Comprehensive Income

The components of other comprehensive income (loss) and related tax effects for the three month periods ended March 31, 2007 and 2006 are as follows: (dollars in thousands)

	For three months ended March 31			
	2007		2006	
Net unrealized (losses) on securities available for sale	$	(16)	$	(472)
Tax effect		(5)		(160)
Net of tax amount	$	(11)	$	(312)

Note 4 Legal Proceedings

Other than proceedings, which 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 the opinion of management, will have any material effect on the financial position or results of operations of the Corporation and its subsidiaries.

Note 5 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, $600,000 automatically renew within the next twelve months, $51,000 will expire within the next twelve months and $3,357,000 will expire within thirteen to one hundred and forty-nine 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 March 31, 2007 for guarantees under standby letters of credit issued is not material.

Note 6 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 three months ended March 31, 2007 and 2006 was 3,044,813 and 3,381,238 respectively.

Note 7 New Accounting Standards

EITF 06-10

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 “Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements” (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Corporation is currently assessing the impact of EITF 06-10 on its consolidated financial position and results of operations.

SFAS 159

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our Company January 1, 2008. The Corporation is evaluating the impact that the adoption of SFAS No. 159 will have on our consolidated financial statements.

FAS 157

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Corporations is currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position, results of operations and cash flows.

SAB 108

On September 13, 2006, the Securities and Exchange Commission “SEC” issued Staff Accounting Bulleting No. 108 (“SAB 108”). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, Companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company’s balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected.

SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Company has analyzed SAB 108 and determined that upon adoption it will have no impact on the reported results of operations or financial condition.

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,” “anti “intend,” “could,” “would,” “estimate,” or “continue” or the negative or other variations thereof or comparable terminolog 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, 2006 (the 2006 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 2006 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 $740,000 or $0.24 per share, for the first quarter ended March 31, 2007 compared to $538,000 or $0.16 per share for the quarter ended March 31, 2006. The Corporation’s return on average assets for the first quarter of 2007 and 2006 was .88% and .68%, respectively. Return on average equity for the same two periods was 7.95% and 4.97%, 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 deposits. For the first quarter ended March 31, 2007 and 2006, net interest income was $2.9 million and $2.9 million, respectively.

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

FINANCIAL CONDITION

The Corporation's total assets decreased by $913,000, or 0.30%, from December 31, 2006 to March 31, 2007. Federal funds sold increased by $5.5 million and investment securities available for sale decreased by $2.4 million. The decrease in investments was a result of principal pay-downs on mortgage-backed securities. Net loans outstanding decreased by $4.6 million. Declines in construction mortgages of $1.8 million, $1.1 million in lines of credits, $2.8 million in commercial loans and $230,000 in consumer loans were slightly offset by a $1.5 million increase in residential mortgages. The Corporation attributes the loan declines to commercial customers being cautious in the first quarter of 2007. Federal funds sold increased due the decrease in investments and net loans.

The Corporation's total deposits increased $4.2 million from December 31, 2006 to March 31, 2007. Non-interest bearing deposits increased by $2.3 million and interest-bearing deposits increased by $1.9 million. The increase in non-interest deposits is considered a normal fluctuation in our customer's checking accounts and the increase in certificates of deposits is due to the corporation matching market rates on shorter duration certificates of deposits. Short term borrowings declined by $5.0 million from December 31, 2006 to March 31, 2007. The increase in deposits eliminated the need for the $5.0 million in short term borrowings.

Shareholders' equity was $37.3 million on March 31, 2007 compared to $37.2 million on December 31, 2006. Total shareholders equity increased due to the $740,000 in net income that was offset by $609,000 paid in dividends to shareholders and the decrease in other comprehensive income of $11,000 due to the decrease in the fair value of securities available for sale. Book value per common share increased from $12.23 at December 31, 2006 to $12.27 at March 31, 2007.

RESULTS OF OPERATIONS

<u>First Three Months of 2007 as compared to the First Three Months of 2006</u>

Net income for the first three months of 2007 was $740,000 compared to $538,000 for the same period of 2006, representing a 38% increase. The main reason for the increase was legal and professional fees in 2007 were $181,000 lower compared with 2006. In the first quarter of 2006, the Corporation purchased 362,116 shares of its own common stock. The legal and professional costs associated with this purchase were $150,000.

Interest income for the three months ended March 31, 2007 was $4.6 million, an increase of 12.45% from interest income of $4.1 million for the three months ended March 31, 2006. Loan income increased in 2007 due to higher average loan balances in 2007 and higher yields. The yield on the loan portfolio for the first three months of 2007 increased twenty- six (26) basis points to 6.03% from 5.77% in 2006. In addition, average loan balances increased 8.91% in 2007 compared with the averages for the first quarter 2006. The bank has been able to increase yields due to higher market rates for loans. The yield on the securities portfolio for the first three months of 2007 increased forty-eight (48) basis points to 5.86%. The yield increased mainly due to the corporation's ability to purchase higher yielding securities between first quarter 2006 and first quarter 2007. The securities purchased were mortgage-backed securities. The yield on total average earning assets for the first three months of 2007 increased thirty-three (33) basis points from 2006 to 5.99%.

Total interest expense of $1.65 million for the first three months of 2007 increased by $450,000 or 38% from the first three months of 2006. In the first quarter of 2007, the market cost of interest-bearing deposits increased, in addition, the volume of the Corporation's interest-bearing deposits increased. The average cost of interest-bearing liabilities for the first three months of 2007 was 2.92%, a sixty-one (61) basis points increase from the same period in 2006.

As a result of the foregoing, net interest income for the first three months of 2007 was substantially the same as the first three months of 2006, $2.9 million.

The Corporation recorded a provision for loan losses of $90,000 for the three months ended March 31, 2007 compared to a $30,000 provision for the three months ended March 31, 2006. The Corporation increased the provision in 2007 due to higher outstanding loan balances.

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

Non-interest income for the first three months of 2007 was $798,000, an increase of 7% from 2006. This increase in income of $52,000 is primarily the result of an increase in Asset Management and Trust income of $65,000 offset by a $13,000 reduction in service charge and overdraft fees on deposit accounts.

Non-interest expenses for the first three months of 2007 was $2.7 million, a decrease of $205,000 or 7% from non-interest expenses for the first three months of 2006. Personnel costs increased $42,000 period to period. Legal and Professional expense decreased by $181,000, mainly due to costs associated with the repurchase of stock in 2006. In 2007 Furniture and Equipment expense decreased by $53,000 due to lower equipment maintenance and lower depreciation costs on Furniture and Equipment. Other expenses decreased by $11,000.

Federal income tax for the first three months of 2007 was $246,000 compared to $195,000 for the same period in 2006. The effective tax rates for the first three months of 2007 and 2006 were 24.9% and 26.6%, respectively.

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 indicates cash provided by the decrease in loan balances and the maturities and calls of securities were used to increase federal funds sold. The increase in deposits provided funding to eliminate short-term borrowings.

As of March 31, 2007, the Corporation had available funding of approximately $187 million at the FHLB, with an additional $26 million of short term funding available through other lines of credit.

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.

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

The following table identifies the Corporation's commitments to extend credit and obligations under letters of credit as of March 31, 2007 (dollars in thousands):

	TOTAL AMOUNT COMMITTED
Financial instruments whose contractual amounts represent credit risk:	
Commitments to extend credit	$38,810
Standby letters of credit	600
Financial standby letters of credit	3,409

CREDIT QUALITY RISK

The following table presents a comparison of loan quality as of March 31, 2007 with that as of December 31, 2006. 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 Three month ended March 31, 2007	At or For the Year ended December 31, 2006
		(dollars in thousands)
Non-performing loans:		
Loans on non-accrual basis	$ 540	$ 561
Past due loans > 90 days	-	-
Renegotiated loans	2,812	2,823
Total non-performing loans	3,352	3,384
Foreclosed real estate	880	905
Total non-performing assets	$ 4,232	$ 4,289
Loans outstanding at end of period	$ 225,043	$ 229,528
Average loans outstanding (year-to-date)	$ 226,843	$ 218,944
Non-performing loans as a percent of total loans	1.49%	1.47%
Provision for loan losses	$ 90	$ 210
Net charge-offs	$ 16	$ 40

Net charge-offs as a percent of average loans		.01%		.02%
Provision for loan losses as a percent of net charge-offs		563.00%		525.00%
Allowance for loan losses	$	1,880	$	1,806
Allowance for loan losses as a percent of average loans outstanding		0.83%		0.82%

As of March 31, 2007, $426,000 of non-accrual loans were paying principal or principal and interest with payments recognized on a cash basis.

$2.4 million of the renegotiated loan amount relates to a single borrower. The borrower requested a modification of interest and a period of

interest only payments. At present, the Corporation has no knowledge of other outstanding loans that present a serious doubt in regard to the borrower’s ability to comply with current loan repayment terms.

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

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. Banking organizations with supervisory, financial, operational, or managerial weaknesses, as well as organizations that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above minimum levels. Moreover, higher capital ratios may be required for any bank holding company if warranted by its particular circumstances or risk profile. In all cases, bank hold holding companies should hold capital commensurate with the level and nature of the risks, including the volume and severity of problem loans, to which they are exposed. As of March 31, 2007, the Corporation, under these guidelines, had Tier I and total equity capital to risk weighted assets ratios of 16.86% and 17.73% respectively. The leverage ratio was 10.87%. The bank's capital position and related ratios are similar to the Corporation's amounts listed below.

The table below presents the Corporation's capital position at March 31, 2007
(Dollar amounts in thousands)

	Amount	Percent of Adjusted Assets
Tier I Capital	$ 36,225	16.86%
Tier I Capital Requirement	8,595	4.00
Total Equity Capital	$ 38,105	17.73%
Total Equity Capital Requirement	17,190	8.00
Leverage Capital	$ 36,225	10.87%
Leverage Requirement	13,329	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 of up 100 basis points (bps), up 200 bps, down 100 bps and down 200 bps. 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 March 31, 2007 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 5.9% if rates rise 200 bps, and projects a 2.7% decrease of net interest income if rates rise 100 bps. If rates decrease 200 bps, the model projects a 2.7% decrease in net interest income and if rates decrease 100 bps, the model projects net interest income will increase 0.7%.

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 March 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 March 31, 2007.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than proceedings, which occur in the normal course of business, there is 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

There have been no material changes from the risk factors as previously disclosed in the Corporation's December 31, 2006 Form 10-K, Item 1A.

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

2 (a) None
2 (b) None
2 (c) 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
January 1- January 31	0	0	0	166,926
February 1 -February 28	0	0	0	166,926
March 1- March 31	0	0	0	166,926
Total	0	0	0	166,926

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 193,074 shares purchased under this authorization through March 31, 2007.

In March 2006, the Board of Directors authorized the repurchase of 362,113 shares of the Corporation's common stock at $18.50 per share. These shares are not included in any previously approved stock repurchase program. Please see the Corporation's 8-K dated March 27, 2006 for additional information on this transaction.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

a. 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	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 year ended December 31, 2003
31.1	Rule 13a-15(e) and 15d-15(e) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-15(e) and 15d-15(e) Certification of Chief Financial Officer	Filed herewith
32.1		Filed herewith

	Section 1350 Certification of the Chief Executive Officer	
32.2	Section 1350 Certification of the Chief Financial Officer	Filed herewith

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: May 14, 2007	/s/ Gregg E. Hunter Gregg E. Hunter, Vice Chairman President and Chief Executive Officer
Dated: May 14, 2007	/s/ Thomas D. Watters Thomas D. Watters, Senior Vice President and Chief Financial Officer