

COMMERCIAL NATIONAL FINANCIAL CORP /PA
Form 10-K
March 29, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004

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 15650

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:

(724) 539-3501

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

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

Common Stock, \$2 Par Value

(Title of Class)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of registrant's common stock held by

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non-affiliates computed by reference to the price at which the common

stock was last sold, as of June 30, 2004, the last business day

of the registrant's most recently completed second fiscal quarter.

\$63,574,614

Number of shares of common stock outstanding at March 24, 2005

3,430,376

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement relating to its 2005 annual meeting of shareholders to be held May 17, 2005 are incorporated by reference into Part III of this Form 10-K. In addition, portions of the registrant's Annual Report to Shareholders for the fiscal year ended December 31, 2004 are incorporated by reference into Part II of this Form 10-K.

Commercial National Financial Corporation
Form 10-K
INDEX
Part I PAGE

ITEM 1. Business	4
ITEM 2. Properties	7
ITEM 3. Legal Proceedings	7
ITEM 4. Submission of Matters to a Vote of Security Holders	7
PART II	
ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters	7
ITEM 6. Selected Financial Data	7
ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operation	7
ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk	7
ITEM 8. Financial Statements and Supplementary Data	7
ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	8
ITEM 9A. Controls and Procedures	8
ITEM 9B. Other Information	
PART III	
ITEM 10. Directors and Executive Officers of the Registrant	8
ITEM 11. Executive Compensation	8
ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	8
ITEM 13. Certain Relationships and Related Transactions	9
ITEM 14. Principal Accountant Fees and Services	9
PART IV	
ITEM 15. Exhibits and Financial Statement Schedules	9

PART I

Item 1. Business

PART I

Description of Business

Commercial National Financial Corporation (the "Corporation") is a Pennsylvania corporation and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and as a financial holding company under the Gramm Leach Bliley Act of 1999 ("GLB"). Through its subsidiary the Corporation is engaged in banking and trust operations.

The Bank Subsidiary

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

Each of the banking offices, except for downtown Latrobe and Greensburg, is equipped with 24 hour a day automatic teller machines (ATM). Bank ATM units are also located on the campuses of Saint Vincent College in Unity Township and the University of Pittsburgh at Greensburg, the terminal of the Westmoreland County Airport in Unity Township, the reception lobby of the Latrobe Area Hospital in Latrobe, and an in-store machine in the Norvelt Open Pantry. A separate freestanding drive-up teller staffed banking facility is attached to the Lincoln Road office in downtown Latrobe. This facility also provides ATM service.

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

The Financial Services Subsidiaries

In December 2002, the Corporation completed the acquisition of two insurance agencies, Gooder Agency, Inc., ("Gooder Agency") and Gooder & Mary, Inc., which owned a 50% interest in Commercial National Insurance Services, thus giving the Corporation full ownership of Commercial National Insurance Services, which is now operated as part of Gooder Agency. Gooder Agency was acquired as a wholly owned subsidiary of Commercial National Investment Corporation, which has changed its name to Commercial National Insurance Services, Inc ("CNIS").

Gooder Agency, located in Ligonier, Pennsylvania, is a full service provider of insurance products for individuals and businesses. Gooder Agency represents fifteen national, regional and mutual insurance companies that allows it to provide new and existing customers with products and programs needed at competitive prices.

On October 1, 2003, the Corporation formed a trust company subsidiary and the Bank transferred its trust operations to such subsidiary. This subsidiary, Highview Trust Company ("HTC"), enables the Corporation to offer more investment products to its customers. HTC provides a full range of trust services to its customers.

In June 2004, the Corporation sold all assets relating to Gooder. In December 2004, the Corporation received regulatory approval to merge HTC with the Bank. These moves were made to coincide with the Board of Directors' new business strategy that concentrates on growing its core banking business through traditional loans and deposits while supplementing those services with trust and asset management related services.

Competition

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

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

Supervision and Regulation

Introduction

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

Regulatory Agencies

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

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

Holding Company Activities

GLB permits bank holding companies with subsidiary banks meeting certain capital and management requirements to elect to become "financial

Although it preserved the FRB as the umbrella supervisor of financial holding companies, GLB adopted an administrative approach to regulation

In 2002, the Sarbanes Oxley Act of 2002 (SOX) became law. The goals of this law are to protect investors in publicly traded companies by impro

Capital Requirements

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

Effects of Governmental Policies

In addition to regulatory requirements, the Corporation and its subsidiary Bank are affected by the national economy and the influence on that economy exerted by governmental bodies through monetary and fiscal policies and their efforts to implement such policies. In particular, the impact of the open market operations on interest rates, the establishment of reserve requirements and the setting of the discount rate will

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continue to affect business volumes and earnings. The exact nature or the full extent of this impact is almost impossible to predict; however, management continues to monitor these activities on a regular basis and seeks to modify its policies and procedures accordingly.

Employees

As of December 31, 2004, the Corporation employed 124 people in full- and part-time positions. Approximately 58 employees are represented by the United Auto Workers, Local 1799. In 2004, the Corporation and bargaining unit employees entered into a five-year labor agreement that will expire in December 2008.

Executive Officers of the Corporation

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

<u>Name</u>	<u>Age</u>	<u>Present and Previous Positions</u>
Gregg E. Hunter	46	Vice chairman, president and chief executive officer (February 2004 - present), Vice chairman and chief financial officer (December 1995 to January 2004)
Ryan M. Glista	37	Senior vice president and chief financial officer (February 2004 - present), Vice president/comptroller (December 1997 To January 2004), assistant vice president/controller (December 1995 to November 1997)
Wendy S. Schmucker	36	Secretary/treasurer and senior vice president, division manager corporate administration (February 2004 – present) Secretary/treasurer And vice president, manager corporate administration (November 1997 to January 2004)
Susan R. Skoloda	30	Vice president, corporate controls and community relations officer (March 2004 to present); assistant vice president (April 2001 to February 2004); assistant secretary/treasurer (April 1998 to present)

Item 2. Properties

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

Item 3. Legal Proceedings

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

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

No matters were submitted to a vote of the Corporation's security holders during the last quarter of its fiscal year ended December 31, 2004.

PART II

Item 5. Market for Registrant's Common Equity AND Related Stockholder Matters

Information appearing in the Annual Report to Shareholders for the fiscal year ended December 31, 2004 (the Annual Report) in the section titled "Common Stock Information" is incorporated herein by reference in response to this item. As of March 24, 2005 there were 484

shareholders of record of the Corporation's common stock. The number of beneficial shareholders is approximately 814.

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

Item 6. Selected Financial Data

Information appearing in the Annual Report in the section titled "Selected Financial Data" is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

The Corporation's consolidated financial statements, the notes thereto and the report of the independent certified public accountants of the Annual Report and are incorporated herein by reference. In addition, a quarterly summary of financial data is in the section titled "Quarterly Summary of Financial Data" of the Annual Report and is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Evaluation and Disclosure Controls and Procedures

The Corporation carried out an evaluation under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Exchange Act), as of December 31, 2004 (the "Evaluation Date"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Corporation's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the applicable time period.

Changes in Internal Controls

There has not been any significant change in the Corporation's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Corporation's internal control over financial reporting. There were no significant deficiencies or material weakness identified in the internal control over financial reporting, and therefore no corrective actions were taken.

Item 9B. OTHER INFORMATION

PART III

Item 10. Directors and Executive Officers of the Registrant

Name

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Information concerning (i) directors, appearing under the captions "Election of Directors" and "Director's Meetings and Committees" in the Corporation's Proxy Statement, related to the Annual Meeting of Shareholders to be held May 17, 2005 (the "Proxy Statement") (ii) information concerning executive officers, appearing under the caption "Executive Officers of the Company" in Part I of this Form 10-K, and (iii) information contained under the section "Section 16(a) Beneficial Ownership Reporting Compliance", in the Proxy Statement, are incorporated herein by reference to this Item 10.

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

Item 11. Executive Compensation

The information contained in: (i) the section titled "Executive Officer's Compensation" in the Proxy Statement, with respect to executive compensation, (ii) the section titled "Compensation of Directors" in the Proxy Statement, with respect to director compensation, (iii) the information contained in the section titled "Executive Compensation Committee Report" in the Proxy Statement, (iv) the information contained in the section titled "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement, and (v) the information contained in the section titled "Performance Graph," in the Proxy Statement, with respect to shareholder returns, are incorporated hereby by reference to this Item 11. The stock performance graph and the Compensation Committee Report shall not be deemed to be "filed."

Item 12. Security Ownership of Certain Beneficial Owners and Management AND

RELATED STOCKHOLDER MATTERS

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

The following table provides information as of December 31, 2004 with respect to compensation plans under which equity securities of the Company are authorized for issuance.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	—	—	—
Equity compensation plans not approved by security holders(1)	-	-	-
Total	-	-	-

A Directors Call Program was established by the Bank in 2002 as an opportunity for directors to earn shares of common stock of the Corporation. Directors are awarded shares of common stock based on the number and type of referrals given to the Bank to increase its business volumes. The program is open to independent directors only. There were no shares of common stock awarded under the program in 2004.

Item 13. Certain Relationships and Related Transactions

The information contained in the section titled "Transactions with Directors, Nominees, Officers and Associates" in the Proxy Statement is incorporated herein by reference to this Item 13.

Item 14. Principal AccountANT Fees and Services

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

PART IV

Item 15. Exhibits AND Financial Statement Schedules

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

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

Exhibit <u>Number</u>	<u>Description</u>	Page Number or Incorporated by <u>Reference to</u>
3.1	Articles of Incorporation	Exhibit C to Form S-4 Registration Statement Filed April 9, 1990
3.2	By-laws of Registrant	Exhibit D to Form S-4 Registration Statement Filed April 9, 1990
3.3	Amended Articles of Incorporation	Exhibit 3.6 to Form 10-Q Filed for the quarter ended September 30, 2004
3.4	Amended Bylaws of Registrant	Exhibit 3.8 to Form 10-Q Filed for the quarter ended September 30, 2004
10.1	Employment agreement between Gregg E. Hunter and Commercial Bank of Pennsylvania	Exhibit 10.1 to Form 10-Q for the Quarter ended September 30, 2003
10.2	Employment agreement between Louis T. Steiner and Commercial Bank of Pennsylvania	Exhibit 10.2 to Form 10-Q for the Quarter ended September 30, 2003
10.3	Mutual Release and Non-Disparagement Agreement between Commercial Bank of Pennsylvania and Louis T. Steiner	Exhibit 10-3 to Form 10-K for the period ended December 31, 2004.
13	Portions of the Annual Report to Shareholders for the Fiscal year Ended December 31, 2004	Filed herewith
14	Code of Ethics for Senior Financial Officers	Filed herewith
21	Subsidiaries of the Registrant	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith
32.1	Section 1350 Certification of Chief Executive Officer	Filed herewith
32.2	Section 1350 Certification of Chief Financial Officer	Filed herewith

SIGNATURES

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

Act of 1934, the registrant
has duly caused this report
to be signed on its

behalf by the undersigned,
thereunto duly authorized.

**COMMERCIAL
NATIONAL**

Description

FINANCIAL CORPORATION
(Registrant)
By:/s/ Gregg E. Hunter
Gregg E. Hunter, Vice Chairman, President and Chief Executive Officer
March 29, 2005

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

<u>SIGNATURE AND CAPACITY</u>	<u>DATE</u>
/s/ George V. Welty George V. Welty, Chairman of the Board and Director	March 15, 2005
/s/ Gregg E. Hunter Gregg E. Hunter, Vice Chairman of the Board, Director, Chief Executive Officer	March 15, 2005
(principal executive officer)	
/s/ Ryan M. Glista Ryan M. Glista, Senior Vice President and Chief Financial Officer	March 15, 2005
(principal financial and accounting officer)	
/s/ Wendy S. Schmucker Wendy S. Schmucker, Secretary/Treasurer	March 15, 2005
/s/ John T. Babilya John T. Babilya, Director	March 15, 2005
/s/ George A. Conti, Jr. George A. Conti Jr., Director	March 15, 2005
/s/ Richmond H. Ferguson Richmond H. Ferguson, Director	March 15, 2005
/s/ Dorothy S. Hunter Dorothy S. Hunter, Director	March 15, 2005
/s/ Frank E. Jobe Frank E. Jobe, Director	March 15, 2005
/s/ Steven H. Landers Steven H. Landers, Director	March 15, 2005
/s/ John C. McClatchey John C. McClatchey, Director	March 15, 2005
/s/ Joseph A. Mosso Joseph A. Mosso, Director	March 15, 2005
/s/ Joedda M. Sampson Bruce A. Robinson, Director	March 15, 2005

SIGNATURES

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/s/ Debra L. Spatola March 15, 2005
Debra L. Spatola, Director
/s/ C. Edward Wible March 15, 2005
C. Edward Wible, Director

EXHIBIT TABLE OF CONTENTS

Exhibit

Number Description

- 13 Portions of the Annual Report to Shareholders for the Fiscal Year Ended December 31, 2004
- 14 Code of Ethics for Senior Financial Officers
- 21 Subsidiaries of the Registrant
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer

Exhibit 21 - Subsidiaries of Commercial National Financial Corporation

<u>Subsidiary</u>	<u>State or Jurisdiction of Incorporation</u>
Commercial Bank & Trust of PA	Pennsylvania
Commercial National Insurance Services, Inc.	Pennsylvania

The Corporation will provide without charge to any shareholder a copy of its 2004 annual report on form 10-K as required to be filed with the Securities and Exchange Commission. Requests should be made in writing to:

COMMERCIAL NATIONAL FINANCIAL CORPORATION

STOCK TRANSFER DEPARTMENT

P.O. BOX 429

LATROBE, PA 15650

DATE