CODORUS VALLEY BANCORP INC
Form 10-Q
August 10, 2007

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ____________ to ______________

COMMISSION FILE NUMBER: 0-15536

CODORUS VALLEY BANCORP, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2428543
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

105 Leader Heights Road, P.O. Box 2887, York, Pennsylvania 17405
(Address of principal executive offices) (Zip code)

717-747-1519
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since the last report.)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. 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 [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On July 24, 2007, 3,690,062 shares of common stock, par value $2.50, were outstanding.

Codorus Valley Bancorp, Inc.
FORM 10-Q INDEX

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Codorus Valley Bancorp, Inc.
Consolidated Balance Sheets

(dollars in thousands, except per share data)	June 30, 2007	December 31, 2006
ASSETS		
Interest bearing deposits with banks	$ 142	$ 118
Cash and due from banks	11,850	11,104
Federal funds sold	24,089	24,150
Total cash and cash equivalents	36,081	35,372
Securities available-for-sale	79,386	73,423
Securities held-to-maturity (fair value $4,166 for 2007 and $7,840 for 2006)	3,964	7,503
Loans held for sale	550	1,687
Loans (net of deferred fees of $481 in 2007 and $534 in 2006)	436,608	405,573
Less-allowance for loan losses	(3,098)	(3,126)
Net loans	433,510	402,447
Premises and equipment, net	10,203	10,495
Other assets	17,992	17,285
Total assets	$581,686	$548,212
LIABILITIES		
Deposits		
Noninterest bearing	$ 48,512	$ 49,190
Interest bearing	442,626	407,455
Total deposits	491,138	456,645
Long-term debt	30,914	35,029
Junior Subordinated debentures	10,310	10,310
Other liabilities	4,465	3,442
Total liabilities	536,827	505,426
SHAREHOLDERS' EQUITY		
Preferred stock, par value $2.50 per share; 1,000,000 shares authorized; 0 shares issued and outstanding	0	0
Common stock, par value $2.50 per share; 10,000,000 shares authorized; 3,684,157 shares issued and outstanding on 6/30/07 and 3,502,919 on 12/31/06	9,210	8,757
Additional paid-in capital	31,890	28,839
Retained earnings	4,497	5,434
Accumulated other comprehensive loss	(738)	(244)
Total shareholders' equity	44,859	42,786
Total liabilities and shareholders' equity	$581,686	$548,212

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Income

(dollars in thousands, except per share data)	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
INTEREST INCOME				
Loans, including fees	$8,536	$7,115	$16,443	$14,120
Investment securities				
Taxable	662	606	1,363	1,205
Tax-exempt	301	161	588	299
Dividends	33	41	88	70
Federal funds sold	304	24	558	39
Other	2	2	4	4
Total interest income	9,838	7,949	19,044	15,737
INTEREST EXPENSE				
Deposits	4,210	3,010	8,201	5,504
Federal funds purchased and other short-term borrowings	0	21	0	133
Long-term debt	538	473	1,128	959
Total interest expense	4,748	3,504	9,329	6,596
Net interest income	5,090	4,445	9,715	9,141
PROVISION FOR (RECOVERY OF) LOAN LOSSES	35	145	(884)	355
Net interest income after provision for (recorvery of) loan losses	5,055	4,300	10,599	8,786
NONINTEREST INCOME				
Trust and investment services fees	304	315	628	640
Service charges on deposit accounts	483	486	937	920
Mutual fund, annuity and insurance sales	404	391	682	645
Income from bank owned life insurance	67	64	133	127
Other income	117	160	222	279
Gain on sales of mortgages	63	61	157	149
Loss on sales of securities	(7)	0	(7)	0
Total noninterest income	1,431	1,477	2,752	2,760
NONINTEREST EXPENSE				
Personnel	2,568	2,140	5,104	4,279
Occupancy of premises, net	338	348	691	732
Furniture and equipment	345	337	685	744
Postage, stationery and supplies	131	118	240	239
Professional and legal	68	79	130	110
Marketing and advertising	156	145	227	253
Other	694	675	1,679	1,406
Total noninterest expense	4,300	3,842	8,756	7,763
Income before income taxes	2,186	1,935	4,595	3,783
PROVISION FOR INCOME TAXES	559	512	1,199	999
Net income	$1,627	$1,423	$ 3,396	$ 2,784
Net income per share, basic	$ 0.44	$ 0.39	$ 0.92	$ 0.76
Net income per share, diluted	$ 0.43	$ 0.38	$ 0.90	$ 0.74

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Cash Flows

(dollars in thousands)	Six months ended June 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,396	$ 2,784
Adjustments to reconcile net income to net cash provided by operations		
Depreciation	572	593
Provision for (recovery of) loan losses	(884)	355
Amortization of investment in real estate partnership	252	242
Increase in cash surrender value of life insurance investment	(133)	(127)
Originations of held for sale mortgages	(10,284)	(11,376)
Proceeds from sales of held for sale mortgages	11,578	12,301
Gain on sales of held for sale mortgages	(157)	(149)
Loss on sales of securities	7	0
Loss on sales of foreclosed real estate	2	0
Stock-based compensation expense	17	25
Increase in accrued interest receivable and other assets	(53)	(310)
Increase in accrued interest payable and other liabilities	1,023	499
Other, net	5	161
Net cash provided by operating activities	5,341	4,998
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available-for-sale		
Purchases	(14,564)	(6,692)
Maturities and calls	6,848	6,622
Sales	961	0
Securities, held-to-maturity, calls	3,648	0
Net increase in loans made to customers	(30,810)	(21,790)
Purchases of premises and equipment	(283)	(525)
Investment in unconsolidated subsidiary	0	(217)
Purchase of insurance agency assets	0	(63)
Proceeds from sales of premises and equipment	0	55
Proceeds from sales of foreclosed real estate	36	0
Net cash used in investing activities	(34,164)	(22,610)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand and savings deposits	11,349	28,851
Net increase in time deposits	23,144	13,067
Net decrease in short-term borrowings	0	(9,781)
Proceeds from issuance of long-term debt	0	7,217
Repayment of long-term debt	(4,115)	(787)
Dividends paid	(947)	(822)
Issuance of common stock	107	0
Cash paid in lieu of fractional shares	(6)	(6)

Net cash provided by financing activities	29,532	37,739
Net increase in cash and cash equivalents	709	20,127
Cash and cash equivalents at beginning of year	35,372	12,085
Cash and cash equivalents at end of period	$ 36,081	$ 32,212

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Changes in Shareholders' Equity

(dollars in thousands, except share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss
For the six months ended June 30, 2007				
Balance, December 31, 2006	$8,757	$28,839	$ 5,434	($244)
Comprehensive income:				
Net income			3,396	
Other comprehensive loss, net of tax:				
Unrealized losses on securities, net				(494)
Total comprehensive income				
Cash dividends ($.258 per share, adjusted)			(947)	
5% stock dividend - 175,148 shares at fair value	438	2,942	(3,386)	
Stock-based compensation		17		
Issuance of common stock - 6,090 shares under stock option plan	15	92		
Balance, June 30, 2007	$9,210	$31,890	$ 4,497	($738)
For the six months ended June 30, 2006				
Balance, December 31, 2005	$7,902	$23,035	$ 8,204	($412)
Comprehensive income:				
Net income			2,784	
Other comprehensive loss, net of tax:				
Unrealized losses on securities, net				(515)
Total comprehensive income				
Cash dividends ($.224 per share, adjusted)			(822)	
5% stock dividend - 157,713 shares at fair value	394	2,667	(3,067)	
Stock-based compensation		25		
Balance, June 30, 2006	$8,296	$25,727	$ 7,099	($927)

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--BASIS OF PRESENTATION

The interim financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly the financial condition and results of operations for the reported periods, and are of a normal and recurring nature.

These statements should be read in conjunction with the notes to the audited financial statements contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

The consolidated financial statements include the accounts of Codorus Valley Bancorp, Inc. and its wholly owned bank subsidiary, PeoplesBank, A Codorus Valley Company (PeoplesBank), and its wholly owned nonbank subsidiary, SYC Realty Company, Inc. (collectively referred to as Codorus Valley or the Corporation). PeoplesBank has two wholly owned subsidiaries, Codorus Valley Financial Advisors, Inc. and SYC Settlement Services, Inc. All significant intercompany account balances and transactions have been eliminated in consolidation. The combined results of operations of the nonbank subsidiaries are not material to the consolidated financial statements.

The results of operations for the six-month period ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

NOTE 2--SIGNIFICANT ACCOUNTING POLICIES

Stock dividend and per share computations

All per share computations include the effect of stock dividends distributed through June 30, 2007. The weighted average number of shares of common stock outstanding used for basic and diluted calculations are provided below.

(in thousands, except per share data)	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Net income	$1,627	$1,423	$3,396	$2,784
Weighted average shares outstanding (basic)	3,683	3,659	3,680	3,659
Effect of dilutive stock options	91	84	91	84
Weighted average shares outstanding (diluted)	3,774	3,743	3,771	3,743
Basic earnings per share	$ .44	$ .39	$ .92	$ .76
Diluted earnings per share	$ .43	$ .38	$ .90	$ .74

Comprehensive income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components

of comprehensive income. The components of other comprehensive income (loss) and related tax effects are presented in the following table:

(Dollars in thousands)	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Unrealized holding (losses) gains arising during the period	$(1,047)	$(575)	$(755)	$(780)
Reclassification adjustment for losses (gains) included in income	7	0	7	0
Net unrealized (losses) gains	(1,040)	(575)	(748)	(780)
Tax effect	353	195	254	265
Net of tax amount	$ (687)	$(380)	$(494)	$(515)

Reclassification

Certain amounts in the 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation.

Income Taxes

The Corporation adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" in the first quarter of 2007 and, after evaluation, has determined that it is immaterial to the consolidated financial statements.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board 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 Codorus Valley on January 1, 2008. The Corporation is evaluating the impact that the adoption of SFAS No. 159 will have on its consolidated financial statements.

In September 2006, the Financial Accounting Standards Board issued FASB Statement No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under Generally Accepted Accounting Principles, 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 Corporation 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.

In September 2006, the FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements" ("EITF 06-4"). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in

force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policy holder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106 or Accounting Principles Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. Implementation is required in fiscal years beginning after December 15, 2007, with early adoption permitted. The Corporation is evaluating the impact that the adoption of EITF Issue No. 06-4 will have on its consolidated financial statements.

NOTE 3--DEPOSITS

The composition of deposits on June 30, 2007 and December 31, 2006, was as follows:

(Dollars in thousands)	June 30, 2007	December 31, 2006
Noninterest bearing demand	$ 48,512	$ 49,190
NOW	43,504	43,864
Money market	154,840	144,292
Savings	19,372	17,533
Time CDs less than $100,000	159,138	145,849
Time CDs $100,000 or more	65,772	55,917
Total deposits	$491,138	$456,645

NOTE 4--LONG-TERM DEBT

A summary of long-term debt at June 30, 2007 and December 31, 2006 follows:

(Dollars in thousands)	June 30, 2007	December 31, 2006
Obligations of PeoplesBank to FHLBP		
Due 2007, 4.68%	$ 7,000	$ 7,000
Due 2009, 3.47%, convertible quarterly after December 2006	5,000	5,000
Due 2010, 4.32%	6,000	6,000
Due 2011, 4.30%, amortizing	4,373	4,504
Due 2012, 4.25%, amortizing	1,832	1,998
Due 2013, 3.46%, amortizing	3,164	3,403
Due 2014, 6.43%, convertible quarterly after July 2009	3,000	5,000
Obligations of Codorus Valley Bancorp, Inc.		
Due 2011, floating rate based on 1 month LIBOR plus 1.50%, amortizing	0	1,562
	30,369	34,467
Capital lease obligation	545	562
Total long-term debt	$30,914	$35,029

PeoplesBank's obligations to Federal Home Loan Bank of Pittsburgh (FHLBP) are fixed rate and fixed/floating (convertible) rate instruments. The FHLBP has an option on the convertible borrowings to convert the rate to a floating rate after the expiration of a specified period. The floating rate is based on the LIBOR index plus a spread. If the FHLBP elects to exercise its conversion option, PeoplesBank may repay the converted loan without a prepayment penalty.

NOTE 5--REGULATORY MATTERS

Codorus Valley and PeoplesBank are subject to various regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a material effect on Codorus Valley's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Codorus Valley and PeoplesBank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators.

Quantitative measures established by regulators to ensure capital adequacy require Codorus Valley and PeoplesBank to maintain minimum ratios, as set forth below, to total and Tier 1 capital as a percentage of risk-weighted assets, and of Tier 1 capital to year-to-date average assets (leverage ratio). Management believes that Codorus Valley and PeoplesBank were well capitalized on June 30, 2007, based on FDIC capital guidelines.

(dollars in thousands)	ACTUAL AMOUNT	ACTUAL RATIO	MINIMUM FOR CAPITAL ADEQUACY AMOUNT	MINIMUM FOR CAPITAL ADEQUACY RATIO	WELL CAPITALIZED MINIMUM* AMOUNT	WELL CAPITALIZED MINIMUM* RATIO
CODORUS VALLEY BANCORP, INC. (CONSOLIDATED)						
AT JUNE 30, 2007						
Capital ratios:						
Tier 1 risk based	$55,174	11.77%	$18,747	4.0%	n/a	n/a
Total risk based	58,272	12.43	37,494	8.0	n/a	n/a
Leverage	55,174	9.58	23,057	4.0	n/a	n/a
AT DECEMBER 31, 2006						
Capital ratios:						
Tier 1 risk based	$52,587	11.99%	$17,538	4.0%	n/a	n/a
Total risk based	55,713	12.71	35,076	8.0	n/a	n/a
Leverage	52,587	9.83	21,401	4.0	n/a	n/a
PEOPLESBANK, A CODORUS VALLEY COMPANY						
AT JUNE 30, 2007						
Capital ratios:						
Tier 1 risk based	$50,919	10.96%	$18,587	4.0%	$27,881	6.0%
Total risk based	54,017	11.62	37,174	8.0	46,468	10.0
Leverage	50,919	8.91	22,884	4.0	28,605	5.0
AT DECEMBER 31, 2006						
Capital ratios:						
Tier 1 risk based	$48,130	11.12%	$17,316	4.0%	$25,973	6.0%
Total risk based	51,256	11.84	34,631	8.0	43,289	10.0
Leverage	48,130	9.09	21,168	4.0	26,460	5.0

* To be well capitalized under prompt corrective action provisions.

NOTE 6--STOCK-BASED COMPENSATION

During the quarter ended June 30, 2007, shareholders approved and the Corporation adopted the 2007 Long Term Incentive Plan and the 2007 Employee Stock Purchase Plan, with 175,000 shares reserved for future issuance under each plan.

No stock options were granted during the first six months of 2007. A summary of stock options from all plans, adjusted for stock dividends declared, is shown below.

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM	AGGREGATE INTRINSIC VALU ($000)
Outstanding at January 1, 2007	284,205	$12.70	4.0 years	$1,884
Exercised	(12,300)	12.66		
Outstanding at June 30, 2007	271,905	$12.71	3.5 years	$1,662
Exerciseable at June 30, 2007	251,700	$12.43	3.2 years	$1,607

Intrinsic value represents the amount by which the market price of the stock on the measurement date exceeded the exercise price of the option. The intrinsic value of options exercised during the first six months of 2007 was $78,000, cash received from such exercises was $156,000 and the tax benefit recognized was $26,000. There were no options exercises during the first six months of 2006.

As of June 30, 2007, total unrecognized compensation cost related to nonvested options was $60,000. The cost is expected to be recognized over a weighted average period of 1.4 years.

NOTE 7--CONTINGENT LIABILITIES

Management was not aware of any material contingent liabilities on June 30, 2007.

NOTE 8--GUARANTEES

Codorus Valley 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 PeoplesBank to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral and/or personal guarantees supporting these commitments. The Corporation had $3,403,000 of standby letters of credit outstanding on June 30, 2007, compared to $6,121,000 on December 31, 2006. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payment required under the corresponding letters of credit. The current amount of the liability as of June 30, 2007 and December 31, 2006, under standby letters of credit issued, is not material.

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

Management's discussion and analysis of the significant changes in the results of operations, capital resources and liquidity presented in the accompanying consolidated financial statements for Codorus Valley Bancorp, Inc. (Codorus Valley or the Corporation), a bank holding company, and its wholly owned subsidiary, PeoplesBank, A Codorus Valley Company (PeoplesBank), are provided below. Codorus Valley's consolidated financial condition and results of operations consist almost entirely of PeoplesBank's financial condition and results of operations. Current performance does not guarantee, and may not be indicative of, similar performance in the future.

FORWARD-LOOKING STATEMENTS:

Management of the Corporation has made forward-looking statements in this Form 10-Q. These forward-looking statements are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of operations of the Corporation and its subsidiaries. When words such as "believes," "expects," "anticipates" or similar expressions occur in the Form 10-Q, management is making forward-looking statements.

Readers should note that many factors, some of which are discussed elsewhere in this report and in the documents that are incorporated by reference, could affect the future financial results of the Corporation and its subsidiaries, both individually and collectively, and could cause those results to differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this Form 10-Q. These factors include:

- operating, legal and regulatory risks;

- changes in market interest rates;

- economic, political and competitive forces affecting banking, securities, asset management and credit services businesses; and

- the risk that management's analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

The Corporation undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this report. Readers should carefully review the risk factors described in other documents that Codorus Valley files periodically with the Securities and Exchange Commission.

CRITICAL ACCOUNTING ESTIMATES:

Disclosure of Codorus Valley's significant accounting policies is included in Note 1 to the consolidated financial statements of the 2006 Annual Report on Form 10-K for the period ended December 31, 2006. Some of these policies require management to make significant judgments, estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities.

Management makes significant estimates in determining the allowance for loan losses. Management considers a variety of factors in establishing this estimate such as 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 present value of future cash flows and other relevant factors. Estimates related to the value of collateral also have a significant impact on whether or not management continues to accrue income on delinquent loans and on the amounts at which foreclosed real estate is recorded on the statement of financial condition. Additional information is contained in Management's Discussion and Analysis regarding critical accounting estimates, including the provision and allowance for loan losses, located on pages 14 and 22 of this Form 10-Q.

The Corporation changed its method of accounting for stock-based compensation in 2006, in accordance with Financial Accounting Standard No. 123(R). Based on stock options outstanding on June 30, 2007, approximately $60,000 will be expensed over the weighted average period of 1.4 years.

Management discussed the development and selection of critical accounting estimates and related Management Discussion and Analysis disclosure with the Audit Committee. There were no material changes made to the critical accounting estimates during the periods presented within this report.

THREE MONTHS ENDED JUNE 30, 2007, COMPARED TO THREE MONTHS ENDED JUNE 30, 2006

FINANCIAL HIGHLIGHTS

The Corporation earned $1,627,000 or $.44 per share ($.43 diluted), for the three-month period ended June 30, 2007, compared to $1,423,000 or $.39 per share ($.38 diluted), for the same period of 2006. The $204,000 or 14 percent increase in net income for the current quarter was primarily the result of an increase in net interest income. Net interest income increased 15 percent as a result of an increase in the volume of interest earning assets, principally business loans, overnight investments and investment securities. The increase in the volume of interest earning assets more than offset a decrease in net interest margin, which was 3.91 percent for the current quarter, compared to 4.01 percent for the second quarter of 2006. The margin declined due to an increase in deposit costs, resulting from an increase in deposit volume and rate. The margin was also adversely affected by the flat US treasury yield curve

environment. The $110,000 decrease in the provision for loan losses for the current quarter, due to adequacy of the allowance, also contributed to the improvement in earnings. Noninterest income for the current quarter decreased 3 percent compared to the second quarter of 2006. The prior period included a non-recurring $45,000 gain from the sale of real estate. Noninterest expense for the current quarter increased 12 percent above the second quarter of 2006 due largely to an increase in personnel expense, which included performance incentives and staff additions associated with normal business growth.

A more detailed analysis of the factors and trends affecting corporate earnings follows.

INCOME STATEMENT ANALYSIS

NET INTEREST INCOME

Net interest income for the three-month period ended June 30, 2007, was $5,090,000, an increase of $645,000 or 15 percent above the same period in 2006. The increase was due primarily to an increase in the volume of interest earning assets (particularly loans), which more than offset a decrease in net interest margin. Interest earning assets averaged $538 million for the current quarter, representing an $82 million or 18 percent increase above the second quarter of 2006. The increase in interest earning assets occurred primarily in business loans, overnight investments and investment securities. The net interest margin was 3.91 percent for the second quarter of 2007, compared to 4.01 percent for the same quarter in 2006. The decline in the net interest margin was primarily the result of an increase in interest expense due to a larger volume of interest bearing deposits and higher interest rates, due to the lingering presence of the flat US treasury yield curve environment and competitive pricing pressures.

PROVISION FOR LOAN LOSSES

A $35,000 provision expense for loan losses was recorded for the second quarter of 2007, compared to $145,000 for the same quarter in 2006. The current quarter provision reflects management's judgment of an appropriate level for the allowance for loan losses at June 30, 2007.

NONINTEREST INCOME

The following table presents the components of total noninterest income for the second quarter of 2007, compared to the second quarter of 2006. The $46,000 or 3 percent decrease was primarily attributable to a decrease in other income. Other income for 2006 included a nonrecurring gain of $45,000 from the sale of two small parcels of land to a local township for a road throughway.

TABLE 1 - NONINTEREST INCOME

(dollars in thousands)	Three months ended June 30, 2007	2006	Change Increase (Decrease) $	%
Trust and investment services fees	$ 304	$ 315	$(11)	(3)%
Service charges on deposit accounts	483	486	(3)	(1)
Mutual fund, annuity and insurance sales	404	391	13	3
Income from bank owned life insurance	67	64	3	5
Other income	117	160	(43)	(27)
Gain on sales of mortgages	63	61	2	3
Loss on sales of securities	(7)	0	(7)	0.0
Total noninterest income	$1,431	$1,477	$(46)	(3)%

NONINTEREST EXPENSE

The following table presents the components of total noninterest expense for the second quarter of 2007, compared to the second quarter of 2006. The $458,000 or 12 percent increase was primarily attributable to an increase in personnel expense. For the second quarter of 2007, personnel expense, comprised of wages, payroll taxes and employee benefits, increased $428,000 or 20 percent due largely to performance incentives and staff additions associated with normal business growth. Other expense for the current quarter included a net recovery of problem loan carrying costs of approximately $79,000 from a nonperforming business loan. The increase in other expense, as adjusted, was the result of normal business growth.

TABLE 2 - NONINTEREST EXPENSE

(dollars in thousands)	Three months ended June 30, 2007	2006	Change Increase (Decrease) $	%
Personnel	$2,568	$2,140	$428	20%
Occupancy of premises, net	338	348	(10)	(3)
Furniture and equipment	345	337	8	2
Postage, stationery and supplies	131	118	13	11
Professional and legal	68	79	(11)	(14)
Marketing and advertising	156	145	11	8
Other	694	675	19	3
Total noninterest expense	$4,300	$3,842	$458	12%

INCOME TAXES

The provision for income tax was $559,000 for the second quarter of 2007, compared to $512,000 for the same period in 2006. The $47,000 or 9 percent increase in the tax provision was the result of a 13 percent increase in pretax income. Codorus Valley's effective federal income tax and marginal tax rates were 25 percent and 34 percent, respectively, for quarters ended June 30, 2007, and 2006. The effective

tax rate reflects the impact of low income housing credits and tax-exempt interest income, including income from bank owned life insurance.

SIX MONTHS ENDED JUNE 30, 2007, COMPARED TO SIX MONTHS ENDED JUNE 30, 2006

FINANCIAL HIGHLIGHTS

The Corporation earned $3,396,000 or $.92 per share ($.90 diluted) for the six-month period ended June 30, 2007, compared to $2,784,000 or $.76 per share ($.74 diluted), for the same period of 2006. The $612,000 or 22 percent increase in net income was primarily the result of an $839,000 pre-tax ($554,000 after-tax) first quarter 2007 recovery of loan losses that were incurred by PeoplesBank during 2002-2003. Due to the adequacy of the allowance for loan losses, the full amount of the recovery was recorded as a reduction to the loan loss provision. In spite of a decrease in net interest margin (3.84% vs. 4.17%) attributable to a flat US treasury yield curve environment and competitive pricing pressures, the Corporation increased net interest income by 6 percent due largely to an increase in interest earning assets. The positive effect on net income for 2007 from the reduction in loan loss provision and increase in interest earning assets more than offset an increase in noninterest expense. Noninterest expense increased 13 percent for the first six months of 2007 due primarily to increased personnel costs, caused by the timing of performance incentives and staff additions associated with normal business growth, and the recognition of a $185,000 ($122,000 after-tax) prepayment penalty on the early pay-down of a $2 million Federal Home Loan Bank advance. The Corporation paid down the advance, which had an above market rate, to reduce interest expense in future periods.

Total assets were approximately $582 million on June 30, 2007, an increase of $65 million or 13 percent above June 30, 2006. Asset growth occurred primarily in business loans and investment securities, which were funded by strong deposit growth, primarily money market deposits and CDs.

Net income as a percentage of average shareholders' equity (ROE) was 15.28 percent for the first six months (annualized) of 2007, compared to 13.98 percent for the same period of 2006. Net income as a percentage of average total assets (ROA) was 1.20 percent for the first six months (annualized) of 2007, compared to 1.14 percent for the same period of 2006. The efficiency ratio was 67.8 percent for the first six months of 2007, compared to 63.8 percent for the same period of 2006.

On June 30, 2007, nonperforming assets as a percentage of total loans and net foreclosed real estate were 1.72 percent, compared to 1.44 percent for June 30, 2006. Information regarding nonperforming assets is provided in the Risk Management section of this report, including Table 5--Nonperforming Assets. Based on a recent evaluation of probable loan losses and the current loan portfolio, management believes that the allowance is adequate to support losses inherent in the loan portfolio on June 30, 2007. An analysis of the allowance is provided in Table 6--Analysis of Allowance for Loan Losses.

Throughout the current period, Codorus Valley maintained a capital level well above minimum regulatory quantitative requirements. Currently, there are three federal regulatory definitions of capital that take the form of minimum ratios. Note 5--Regulatory Matters, shows that the Corporation and PeoplesBank were well capitalized on June 30, 2007.

A more detailed analysis of the factors and trends affecting corporate earnings follows.

INCOME STATEMENT ANALYSIS

NET INTEREST INCOME

Net interest income for the six-month period ended June 30, 2007, was $9,715,000, an increase of $574,000 or 6 percent above the same period in 2006. The increase was due primarily to an increase in the volume of interest earning assets, which more than offset a decrease in net interest margin. Earning assets averaged $527 million and yielded 7.41 percent (tax equivalent basis) for the first six months of 2007, compared to $451 million and 7.12 percent, respectively, for the same period in 2006. The $76 million or 17 percent increase in average earning assets occurred primarily in business loans, overnight investments and investment securities. Net interest margin was 3.84 percent for the first six months of 2007(annualized), compared to 4.17 percent for the same period in 2006. The decrease in margin was primarily the result of an increase in interest expense related to a larger volume of interest bearing liabilities and higher rates. Interest bearing liabilities averaged $473 million at an average rate of 3.98 percent for the first six months of 2007, compared to $400 million and 3.33 percent, respectively, for the same period in 2006. Current period deposit rates were higher than the prior period and reflected the lingering presence of the flat (or slightly inverted) US treasury yield curve environment and customer preference for deposit products with competitive rates, principally high-yielding money markets and CDs. In the period ahead, management expects that increases in net interest income will remain challenging for the Corporation and the financial services industry as a result of competitive pricing pressures, particularly if the flat US treasury yield curve environment persists.

PROVISION FOR LOAN LOSSES

As a result of a large loan loss recovery during the current period and adequacy of the allowance on June 30, 2007, the Corporation recorded an $884,000 credit to the provision for loan losses, compared to a $355,000 provision expense for the same period in 2006. In February 2007, PeoplesBank recovered approximately $839,000, representing its portion of a $12 million restitution fund created in settlement of a claim by the United States Department of Justice against the Bank of New York. The funds materially reimbursed PeoplesBank for loan losses that were incurred in 2002 and 2003 that pertained to a group of related equipment leasing contracts that PeoplesBank acquired from a third-party broker who designated Bank of New York as escrow agent for payments under these contracts.

NONINTEREST INCOME

The following table presents the components of total noninterest income for the first six months of 2007, compared to the first half of 2006. Overall, noninterest income was stable. Other income for 2006 included a nonrecurring gain of $45,000 from the sale of two small parcels of land to the local township for a road throughway.

TABLE 3 - NONINTEREST INCOME

(dollars in thousands)	Six months ended June 30, 2007	2006	Change Increase (Decrease) $	%
Trust and investment services fees	$ 628	$ 640	$(12)	(2)%
Service charges on deposit accounts	937	920	17	2
Mutual fund, annuity and insurance sales	682	645	37	6
Income from bank owned life insurance	133	127	6	5
Other income	222	279	(57)	(20)
Gain on sales of mortgages	157	149	8	5
Loss on sales of securities	(7)	0	(7)	0.0
Total noninterest income	$2,752	$2,760	$ (8)	(0)%

NONINTEREST EXPENSE

The following table presents the components of total noninterest expense for the first six months of 2007, compared to the first half of 2006.

TABLE 4 - NONINTEREST EXPENSE

(dollars in thousands)	Six months ended June 30, 2007	2006	Change Increase (Decrease) $	%
Personnel	$5,104	$4,279	$825	19%
Occupancy of premises, net	691	732	(41)	(6)
Furniture and equipment	685	744	(59)	(8)
Postage, stationery and supplies	240	239	1	0
Professional and legal	130	110	20	18
Marketing and advertising	227	253	(26)	(10)
Other	1,679	1,406	273	19
Total noninterest expense	$8,756	$7,763	$993	13%

The discussion that follows addresses changes in selected categories of noninterest expense.

Personnel--For the first six months of 2007, personnel expense, comprised of wages, payroll taxes and employee benefits, increased $825,000 or 19 percent above 2006 levels due to performance incentives and staff additions associated with normal business growth.

Professional and legal--For the first six months of 2007, professional and legal expense increased $20,000 or 18 percent above 2006. The first quarter of 2006 included a $35,000 reimbursement of legal expenses to PeoplesBank, which resulted from the settlement of a lawsuit from routine bank business. There was no comparable reimbursement for 2007.

In the period ahead, management anticipates an increase in professional fees such as CPA fees and consulting fees to comply with Section 404 of the Sarbanes-Oxley Act. Based on current compliance requirements for the Corporation, the CEO and CFO must certify as to the adequacy of controls over

financial reporting on December 31, 2007, and thereafter. Effective December 31, 2008, and thereafter, the Corporation's public accounting firm is required to audit and opine on the Corporation's controls over financial reporting.

Marketing and advertising--For the first six months of 2007, marketing and advertising expense decreased $26,000 or 10% below last year due to timing.

Other--For the first six months of 2007, other expense increased $273,000 or 19 percent due primarily to the recognition of a $185,000 prepayment penalty on the early pay-down of a $2 million Federal Home Loan Bank advance. The Corporation paid down the advance, which had an above market interest rate, to reduce interest expense in future periods. There was no comparable prepayment penalty in the prior year.

Effective January 1, 2007, the Federal Deposit Insurance Corporation (FDIC) created a new risk framework of four risk categories and established assessment rates to coincide with each category. Assessment rates for Risk Category I institutions, which includes PeoplesBank, range from 5 to 7 basis points. The FDIC also approved a one-time assessment credit for banks in existence on December 31, 1996, that paid a deposit insurance assessment prior to that date. Management believes that the one-time credit will more than offset the new FDIC assessment cost for 2007. It anticipates that the credit will be depleted in the first quarter of 2008. Accordingly, PeoplesBank will begin to recognize the FDIC assessment cost at that time.

INCOME TAXES

The provision for income tax was $1,199,000 for the current six-month period, compared to $999,000 for the same period in 2006. The $200,000 or 20 percent increase in the tax provision was the result of a 21 percent increase in pretax income. Codorus Valley's effective federal income tax rates were 25 percent and 26 percent, respectively, for the six-month periods ended June 30, 2007, and 2006. The marginal tax rate was 34 percent for both periods.

BALANCE SHEET REVIEW

INVESTMENT SECURITIES

On June 30, 2007, the securities available-for-sale portfolio was approximately $79 million, compared to $73 million for year-end 2006. The increase occurred primarily from the purchase of high quality US agency mortgage-backed bonds and tax-exempt municipal bonds.

On June 30, 2007, the securities held-to-maturity portfolio recorded at amortized cost, was approximately $4 million, compared to approximately $8 million for year-end 2006. The decrease in the portfolio was the result of five bonds being called by issuers exercising their call options. The held-to-maturity portfolio for both periods consisted of fixed rate, junior subordinated debt instruments issued by commercial bank holding companies. These investments are callable in 2007 and thereafter, and mature in years 2026-2028. In the period ahead, it is probable that more of these high yielding investments will be called by issuers based on the current level of market interest rates. If such calls occur, the calls will be at a premium; however, reinvestment yields are expected to be much lower.

LOANS

On June 30, 2007, total loans were $437 million, an increase of $31 million or 8 percent above year-end 2006. The increase was primarily attributable to an increase in business loans. The average yield (tax-equivalent basis) earned on total loans was 7.88 percent for the first six months of 2007, compared to 7.54 percent for the same period of 2006.

DEPOSITS

On June 30, 2007, total deposits were approximately $491 million, an increase of $34 million or 8 percent above year-end 2006. The increase in deposits, which reflected the continuation of a long trend of successful sales efforts, occurred primarily within the money market and CD categories, as shown in Note 3--Deposits. The flat or slightly inverted US treasury yield curve environment (deposits rates are priced off of the short end of the curve), customer preference for higher rate deposit products and competitive pricing pressures are factors that increased deposit interest rates. The average rate paid on interest-bearing deposits was 3.85 percent for the first six months of 2007, compared to 3.13 percent for the same period of 2006.

LONG-TERM DEBT

On June 30, 2007, long-term debt was approximately $31 million, compared to $35 million outstanding at year-end 2006. During the second quarter of 2007, Codorus Valley paid in full a $1.5 million mortgage on the corporate center office building without prepayment penalty. In March 2007, PeoplesBank paid down $2 million on a $5 million Federal Home Loan Bank advance, and incurred a $185,000 prepayment penalty included in other noninterest expense. The reduction in long-term debt was made with excess liquidity and is expected to lower interest expense in future periods. A listing of outstanding long-term debt obligations is provided in Note 4--Long-term Debt.

SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY

Shareholders' equity or capital, as a source of funds, enables Codorus Valley to maintain asset growth and absorb losses. Total shareholders' equity was approximately $45 million on June 30, 2007, an increase of $2 million, or approximately 5 percent above December 31, 2006. The increase was caused primarily by retained earnings from profitable operations.

On July 10, 2007, the Board of Directors declared a quarterly cash dividend of

$.135 per common share payable on or before August 14, 2007, to shareholders of record July 24, 2007. This dividend followed $.135 per share (or $.129 as adjusted for the stock dividend) cash dividends paid in May and February. The Board also distributed a 5 percent stock dividend in June, which resulted in the issuance of 175,148 common shares.

Codorus Valley and PeoplesBank are subject to various regulatory capital requirements administered by banking regulators that involve quantitative guidelines and qualitative judgments. Quantitative measures established by regulators pertain to minimum capital ratios, as set forth in Note 5--Regulatory Matters, to the financial statements. Management believes that Codorus Valley and PeoplesBank were well capitalized on June 30, 2007, based on FDIC capital guidelines.

RISK MANAGEMENT

NONPERFORMING ASSETS

Table 5--Nonperforming Assets, provides a summary of nonperforming assets and related ratios. The paragraphs below provide information for selected categories for June 30, 2007, compared to December 31, 2006.

TABLE 5-NONPERFORMING ASSETS

(dollars in thousands)	June 30, 2007	December 31, 2006
Nonaccrual loans	$6,634	$4,368
Accruing loans that are contractually past due 90 days or more as to principal or interest	350	4
Foreclosed real estate, net of allowance	535	38
Total nonperforming assets	$7,519	$4,410
Ratios:		
Nonaccrual loans as a % of total period-end loans	1.52%	1.08%
Nonperforming assets as a % of total period-end loans and net foreclosed real estate	1.72%	1.09%
Nonperforming assets as a % of total period-end shareholders' equity	16.76%	10.31%
Allowance for loan losses as a multiple of nonaccrual loans	.5x	.7x

On June 30, 2007, nonaccrual loans consisted of collateralized business and mortgage loans, and consumer loans. The Corporation recognizes interest income on a cash basis for nonaccrual loans. On June 30, 2007, the nonaccrual loans portfolio balance totaled $6,634,000 and was comprised of 12 unrelated accounts ranging in size from $4,000 to $3,582,000. The largest account, totaling $3,582,000, involves a public-private construction project that management is closely monitoring to determine if unexpected public funding issues can be resolved. Management is also in the process of obtaining appraisals for the real estate collateral that supports this loan. The underlying real estate collateral for the second largest account, totaling $2,624,000, has been sold at public auction, and management is awaiting court approval for the distribution of the proceeds, which should provide full recovery of all unpaid principal, interest and fees.

On June 30, 2007, foreclosed real estate, net of allowance, totaled $535,000, compared to $38,000 on December 31, 2006. The current portfolio contains two unrelated properties. One property, with a carrying value of approximately $132,000, is under contract of sale. Settlement is scheduled for September 2007, and management anticipates full recovery of the carrying value. The remaining property has a carrying value of approximately $403,000. Management is presently evaluating its liquidation options and the value of collateral.

On June 30, 2007, loans contractually past due 90 days or more as to principal or interest totaled $350,000, representing one account. The real estate supporting this loan is under contract of sale with settlement scheduled for August 1, 2007. Management anticipates full recovery of all unpaid principal, interest and fees.

ALLOWANCE FOR LOAN LOSSES

Table 6--Analysis of Allowance for Loan Losses, shows the allowance was $3,098,000 or .71 percent of total loans on June 30, 2007, compared to $2,925,000 or .75 percent of total loans on June 30, 2006. The current period allowance was based on management's estimate to bring the allowance to a level reflective of risk in the portfolio, loan growth, and macro-economic factors such as the heightened level of energy costs and interest rates, and a slow down in the real estate market. The large recovery of prior period commercial loan losses was discussed in the provision for loan loss section of this report. Based on a recent evaluation of probable loan losses in the current portfolio, management believes that the allowance is adequate to support losses inherent in the loan portfolio on June 30, 2007.

TABLE 6-ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

(dollars in thousands)	2007	2006
Balance-January 1,	$3,126	$2,538
Provision charged (credited) to operating expense	(884)	355
Loans charged off:		
Commercial	7	10
Real estate-mortgage	0	0
Consumer	21	20
Total loans charged off	28	30
Recoveries:		
Commercial	865	34
Real estate-mortgage	1	2
Consumer	18	26
Total recoveries	884	62
Net recoveries	(856)	(32)
Balance-June 30,	$3,098	$2,925

Ratios:		
Net recoveries (annualized) to average total loans	(0.41)%	(0.02)%
Allowance for loan losses to total loans at period-end	0.71%	0.75%
Allowance for loan losses to nonaccrual loans and loans past due 90 days or more	44.4%	52.2%

LIQUIDITY

At June 30, 2007, management believes that liquidity was more than adequate based on the level of overnight investment, the potential liquidation of a $79 million portfolio of available-for-sale securities, valued at June 30, 2007, and available credit from the Federal Home Loan Bank of Pittsburgh (FHLBP). Available funding from the FHLBP was approximately $94 million based on the latest available

information from the FHLBP. The Consolidated Statements of Cash Flows, included in this report, present the changes in cash from operating, investing and financing activities. Codorus Valley's loan-to-deposit ratio, which is used as a broad measure of liquidity, was approximately 88.9 percent on June 30, 2007, compared to 88.8 percent on December 31, 2006.

Off-Balance Sheet Arrangements

Codorus Valley's financial statements do not reflect various commitments that are made in the normal course of business, which may involve some liquidity risk. These commitments consist primarily of commitments to grant new loans, unfunded commitments under existing loan facilities, and letters of credit made under the same standards as on-balance sheet instruments. Unused commitments on June 30, 2007, totaled $128,102,000 and consisted of $95,305,000 in unfunded commitments under existing loan facilities, $29,394,000 to grant new loans and $3,403,000 in letters of credit. Due to fixed maturity dates and specified conditions within these instruments, many commitments will expire without being drawn upon. Management believes that amounts actually drawn upon can be funded in the normal course of operations and therefore do not present a significant liquidity risk to Codorus Valley.

Contractual Obligations

Codorus Valley has various long-term contractual obligations outstanding at June 30, 2007, including long-term debt, time deposits and obligations under capital and operating leases, which were reported in Table 13 of the Annual Report on Form 10-K for the year ended 2006. A comparative schedule of deposits, which includes time deposits, is provided in Note 3 of this Form 10-Q report. A comparative schedule of long-term debt is provided in Note 4.

MARKET RISK MANAGEMENT

In the normal course of conducting business, Codorus Valley is exposed to market risk, principally interest rate risk, through the operations of its banking subsidiary. Interest rate risk arises from market driven fluctuations in interest rates, which may affect cash flows, income, expense and values of financial instruments. An asset-liability management committee, comprised of members of management, manages interest rate risk.

Codorus Valley performed financial simulations on its balance sheet for June 30, 2007 and December 31, 2006 to determine its sensitivity to market interest rate risk. The results of the point-in-time analyses are shown in Table 7--Interest Rate Sensitivity. For both periods the asset-liability management model portrayed a balance sheet that was liability sensitive. Liability sensitivity means that deposits and corporate debt are likely to re-price to a greater and faster degree than the loans and investments that they fund. This asset-liability position suggests that net income may increase if market interest rates decrease significantly. Conversely, net income would be expected to decrease if short-term market interest rates increase significantly. Under the flat and low rate scenarios for both periods, management presumed that trust preferred investment securities, which are callable at a premium, would be called and would result in a one time increase in interest income to the Corporation. A detailed discussion of market interest rate risk is provided in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

TABLE 7-INTEREST RATE SENSITIVITY

Forecasted interest rate scenario	Change in interest rates ramped over 12 months (basis points)	Change in net income	
		$000's	%
	AT JUNE 30, 2007		
Most likely	0	(211)	(3.2)
High	+200	(284)	(4.4)
Flat (baseline)	0	0	0.0
Low	-200	72	1.1
	AT DECEMBER 31, 2006		
Most likely	-75	(91)	(1.5)
High	+200	(300)	(5.0)
Flat (baseline)	0	0	0.0
Low	-200	78	1.3

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to the section entitled "Market risk management" within Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations on page 23 of this Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

Codorus Valley maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that the Corporation files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed as of June 30, 2007, the chief executive and chief financial officers of Codorus Valley concluded that Codorus Valley's disclosure controls and procedures were adequate.

Codorus Valley made no significant changes in its internal controls or in other factors that could significantly affect these controls in the quarter ended June 30, 2007, as evaluated by the chief executive and chief financial officers.

PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no known legal proceedings pending against Codorus Valley Bancorp, Inc. or any of its subsidiaries which are expected to have a material impact upon the financial position and/or operating results of the Corporation. Management is not aware of any proceedings known or contemplated by government authorities.

ITEM 1A. RISK FACTORS

Management is not aware of any material changes in the risk factors previously disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

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

Codorus Valley made no sales or repurchases of equity securities during the quarter ended June 30, 2007.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Nothing to report.

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

(a) An annual meeting of shareholders was held on May 15, 2007, at 9:00 am, Codorus Valley Corporate Center, 105 Leader Heights Road, York, Pennsylvania 17403.

(b), (c) Three directors were re-elected at the May 15, 2007, meeting. Votes were as follows:

Re-elected	Term Expires	Votes For	Votes Against or Withheld*
Class B:			
William H. Simpson	2010	2,828,839	131,163
Donald H. Warner	2010	2,825,313	134,689
Michael L. Waugh	2010	2,787,707	172,295

* Includes broker non-votes

Directors whose term continued after the meeting:

	Term Expires
Class C:	
D. Reed Anderson, Esquire	2008
MacGregor S. Jones	2008
Larry J. Miller	2008
Class A:	
Rodney L. Krebs	2009
Dallas L. Smith	2009

(c) Proposal to approve and adopt the 2007 Codorus Valley Bancorp, Inc. Employee Stock Purchase Plan

Votes were as follows:

Votes For	Votes Against	Abstentions	Broker Non-Vote
2,430,012	103,180	91,686	335,124

(c) Proposal to approve and adopt the 2007 Codorus Valley Bancorp Inc. Long-Term Incentive Plan

Votes were as follows:

Votes For	Votes Against	Abstentions	Broker Non-Vote
2,392,071	183,772	49,035	335,124

ITEM 5. OTHER INFORMATION

Nothing to report.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
3(i)	Amended Articles of Incorporation (Incorporated by reference to Exhibit 3(i) to the Registrant's Current Report on Form 8-K, filed with the Commission on October 14, 2005.)
3(ii)	Amended By-laws (Incorporated by reference to Exhibit 3(ii) to the Registrant's Current Report on Form 8-K, filed with the Commission on

May 10, 2007.)

4	Rights Agreement dated as of November 4, 2005 (Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K, filed with the Commission on November 8, 2005.)
10.1	2007 Employee Stock Purchase Plan (Incorporated by reference to Exhibit A to Codorus Valley Bancorp's proxy statement, filed with the Commission on April 10, 2007)
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

Codorus Valley Bancorp, Inc.
(Registrant)

August 9, 2007 Date	/s/ Larry J. Miller Larry J. Miller President & CEO (Principal executive officer)
August 9, 2007 Date	/s/ Jann A. Weaver Jann A. Weaver Treasurer & Assistant Secretary (Principal financial and accounting officer)