

CODORUS VALLEY BANCORP INC

Form 10-Q

November 15, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2010  
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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On November 5, 2010, 4,100,408 shares of common stock, par value \$2.50, were outstanding.



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Codorus Valley Bancorp, Inc.  
Consolidated Balance Sheets  
Unaudited

<i>(dollars in thousands, except share data)</i>	September 30, 2010	December 31, 2009
<b>Assets</b>		
Interest bearing deposits with banks	\$ 13,041	\$ 14,545
Cash and due from banks	9,534	8,634
Federal funds sold	3,000	3,000
Total cash and cash equivalents	25,575	26,179
Securities, available-for-sale	236,543	174,177
Restricted investment in bank stocks, at cost	4,277	4,277
Loans held for sale	4,750	1,266
Loans (net of deferred fees of \$635 - 2010 and \$766 - 2009)	641,416	645,877
Less-allowance for loan losses	(6,602)	(7,175)
Net loans	634,814	638,702
Premises and equipment, net	10,898	11,223
Other assets	34,724	37,007
Total assets	\$ 951,581	\$ 892,831
 <b>Liabilities</b>		
Deposits		
Noninterest bearing	\$ 65,692	\$ 55,583
Interest bearing	729,439	667,374
Total deposits	795,131	722,957
Short-term borrowings	7,063	8,466
Long-term debt	52,028	73,972
Junior subordinated debt	10,310	10,310
Other liabilities	8,614	5,114
Total liabilities	873,146	820,819
 <b>Shareholders equity</b>		
Preferred stock, par value \$2.50 per share; \$1,000 liquidation preference, 1,000,000 shares authorized; 16,500 shares issued and outstanding - 2010 and 2009	15,944	15,828
Common stock, par value \$2.50 per share; 10,000,000 shares authorized; 4,100,408 shares issued and outstanding - 2010 and 4,074,636 - 2009	10,251	10,187
Additional paid-in capital	37,200	37,004
Retained earnings	10,279	6,592

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Accumulated other comprehensive income	4,761	2,401
Total shareholders' equity	78,435	72,012
Total liabilities and shareholders' equity	\$ 951,581	\$ 892,831

See accompanying notes.

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Codorus Valley Bancorp, Inc.  
Consolidated Statements of Income  
Unaudited

<i>(dollars in thousands, except per share data)</i>	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
<b>Interest income</b>				
Loans, including fees	\$ 9,748	\$ 8,945	\$ 28,395	\$ 25,578
Investment securities:				
Taxable	826	837	2,454	2,514
Tax-exempt	617	585	1,785	1,484
Dividends	2	2	6	11
Other	25	13	53	47
<b>Total interest income</b>	<b>11,218</b>	<b>10,382</b>	<b>32,693</b>	<b>29,634</b>
<b>Interest expense</b>				
Deposits	2,884	3,711	8,494	11,077
Federal funds purchased and other short-term borrowings	23		65	27
Long-term and junior subordinated debt	391	520	1,288	1,591
<b>Total interest expense</b>	<b>3,298</b>	<b>4,231</b>	<b>9,847</b>	<b>12,695</b>
<b>Net interest income</b>	<b>7,920</b>	<b>6,151</b>	<b>22,846</b>	<b>16,939</b>
<b>Provision for loan losses</b>	<b>560</b>	<b>600</b>	<b>1,910</b>	<b>2,483</b>
<b>Net interest income after provision for loan losses</b>	<b>7,360</b>	<b>5,551</b>	<b>20,936</b>	<b>14,456</b>
<b>Noninterest income</b>				
Trust and investment services fees	348	347	1,067	961
Income from mutual fund, annuity and insurance sales	329	312	1,091	1,016
Service charges on deposit accounts	632	592	1,843	1,698
Income from bank owned life insurance	161	162	480	480
Other income	147	144	433	446
Gains on sales of loans held for sale	177	191	538	761
Gains on sales of securities			108	291
<b>Total noninterest income</b>	<b>1,794</b>	<b>1,748</b>	<b>5,560</b>	<b>5,653</b>
<b>Noninterest expense</b>				
Personnel	3,393	3,199	9,812	9,702
Occupancy of premises, net	465	413	1,459	1,341
Furniture and equipment	405	427	1,264	1,263
Postage, stationery and supplies	112	104	389	353
Professional and legal	121	121	365	304



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Marketing and advertising	179	235	529	475
FDIC insurance	331	278	955	1,154
Debit card processing	156	131	436	383
Charitable donations	43	7	399	214
Telephone	140	132	412	387
Foreclosed real estate including (gains) losses on sales	765	310	1,749	415
Impaired loan carrying costs	199	117	782	250
Other	632	674	1,716	1,834
<b>Total noninterest expense</b>	<b>6,941</b>	<b>6,148</b>	<b>20,267</b>	<b>18,075</b>
Income before income taxes (benefit)	2,213	1,151	6,229	2,034
<b>Provision (benefit) for income taxes</b>	<b>433</b>	<b>75</b>	<b>1,113</b>	<b>(298)</b>
Net income	1,780	1,076	5,116	2,332
Preferred stock dividends and discount accretion	245	245	735	712
Net income available to common shareholders	\$ 1,535	\$ 831	\$ 4,381	\$ 1,620
Net income per common share, basic and diluted	\$ 0.37	\$ 0.21	\$ 1.07	\$ 0.40

See accompanying notes.

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Codorus Valley Bancorp, Inc.  
Consolidated Statements of Cash Flows  
Unaudited

<i>(dollars in thousands)</i>	Nine months ended September 30,	
	2010	2009
<b>Cash flows from operating activities</b>		
Net income	\$ 5,116	\$ 2,332
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,030	1,047
Provision for loan losses	1,910	2,483
Provision for losses on foreclosed real estate	722	189
Deferred federal income tax expense (benefit)	299	(103)
Amortization of investment in real estate partnership	421	406
Increase in cash surrender value of life insurance investment	(480)	(480)
Originations of loans held for sale	(33,456)	(64,025)
Proceeds from sales of loans held for sale	30,350	66,232
Gains on sales of loans held for sale	(538)	(761)
Gains on sales of securities available-for-sale	(108)	(291)
Gains on sales of held for sale assets	(35)	
Gains on sales of foreclosed real estate	(110)	
Stock-based compensation expense	87	136
Increase in accrued interest receivable	(126)	(942)
Decrease (increase) in other assets	968	(1,455)
(Decrease) increase in accrued interest payable	(19)	100
Increase (decrease) in other liabilities	3,525	(59)
Other, net	799	456
 Net cash provided by operating activities	 10,355	 5,265
<b>Cash flows from investing activities</b>		
Securities, available-for-sale		
Purchases	(89,850)	(131,440)
Maturities, repayments and calls	25,561	18,332
Sales	4,845	8,947
Net increase in restricted investment in bank stock		(1,570)
Net increase in loans made to customers	(6,284)	(63,979)
Purchases of premises and equipment	(713)	(682)
Proceeds from sales of foreclosed real estate	7,802	
Investment in life insurance	(7)	(6)
 Net cash used in investing activities	 (58,646)	 (170,398)
<b>Cash flows from financing activities</b>		
Net increase in demand and savings deposits	49,081	58,799
Net increase in time deposits	23,093	56,047
Net decrease in short-term borrowings	(1,403)	(18,283)
Proceeds from issuance of long-term debt		66,000

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Repayment of long-term debt	(21,944)	(15,906)
Cash dividends paid to preferred shareholders	(619)	(495)
Cash dividends paid to common shareholders	(694)	(926)
Net proceeds from issuance of preferred stock and common stock warrants		16,461
Issuance of common stock	173	219
Net cash provided by financing activities	47,687	161,916
Net decrease in cash and cash equivalents	(604)	(3,217)
Cash and cash equivalents at beginning of year	26,179	14,875
Cash and cash equivalents at end of period	\$ 25,575	\$ 11,658

See accompanying notes.

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

<i>(dollars in thousands, except share data)</i>	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
For the nine months ended September 30, 2010						
Balance, January 1, 2010	\$ 15,828	\$ 10,187	\$ 37,004	\$ 6,592	\$ 2,401	\$ 72,012
Comprehensive income:						
Net income				5,116		5,116
Other comprehensive income, net of tax:						
Unrealized gains on securities, net					2,360	2,360
Total comprehensive income						7,476
Preferred stock discount accretion	116			(116)		
Common stock cash dividends (\$0.17 per share)				(694)		(694)
Preferred stock dividends				(619)		(619)
Stock-based compensation			87			87
Issuance of common stock:						
17,759 shares under dividend reinvestment and stock purchase plan		44	92			136
7,932 shares under employee stock purchase plan		20	17			37
Balance, September 30, 2010	\$ 15,944	\$ 10,251	\$ 37,200	\$ 10,279	\$ 4,761	\$ 78,435
For the nine months ended September 30, 2009						
Balance, January 1, 2009	\$	\$ 10,043	\$ 35,877	\$ 5,057	\$ 1,204	\$ 52,181
Comprehensive income:						
Net income				2,332		2,332
Other comprehensive income, net of tax:						
Unrealized gains on securities, net					2,639	2,639
Total comprehensive income						4,971
	15,678		783			16,461

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Preferred stock and common stock warrants issued, net of issuance costs of \$39							
Preferred stock discount accretion	112			(112)			
Common stock cash dividends (\$0.23 per share)				(926)			(926)
Preferred stock dividends				(495)			(495)
Stock-based compensation		136					136
Issuance of common stock:							
23,164 shares under dividend reinvestment and stock purchase plan	58	120					178
7,581 shares under employee stock purchase plan	19	22					41
13,667 shares of stock-based compensation awards	34	(34)					
Balance, September 30, 2009	\$ 15,790	\$ 10,154	\$ 36,904	\$ 5,856	\$ 3,843	\$ 72,547	

See accompanying notes.