CODORUS VALLEY BANCORP INC
Form 10-Q
November 13, 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 SEPTEMBER 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 October 23, 2007, 3,738,950 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)	September 30, 2007	December 31, 2006
ASSETS		
Interest bearing deposits with banks	$ 128	$ 118
Cash and due from banks	11,702	11,104
Federal funds sold	26,357	24,150
Total cash and cash equivalents	38,187	35,372

Securities available-for-sale	81,445	73,423
Securities held-to-maturity		
(fair value $3,647 for 2007 and $7,840 for 2006)	3,448	7,503
Loans held for sale	636	1,687
Loans (net of deferred fees of $385 in 2007 and $534 in 2006)	441,548	405,573
Less-allowance for loan losses	(3,048)	(3,126)
Net loans	438,500	402,447
Premises and equipment, net	10,209	10,495
Other assets	17,328	17,285
Total assets	$589,753	$548,212
LIABILITIES		
Deposits		
Noninterest bearing	$ 49,491	$ 49,190
Interest bearing	448,801	407,455
Total deposits	498,292	456,645
Long-term debt	30,634	35,029
Junior Subordinated debentures	10,310	10,310
Other liabilities	3,603	3,442
Total liabilities	542,839	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; 3,701,062 shares issued and outstanding on 9/30/07 and 3,502,919 on 12/31/06	9,252	8,757
Additional paid-in capital	32,089	28,839
Retained earnings	5,640	5,434
Accumulated other comprehensive loss	(67)	(244)
Total shareholders' equity	46,914	42,786
Total liabilities and shareholders' equity	$589,753	$548,212

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Income

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands, except per share data)	2007	2006	2007	2006
INTEREST INCOME				
Loans, including fees	$ 8,778	$7,614	$25,221	$21,734
Investment securities				

Taxable	639	613	2,002	1,818
Tax-exempt	307	195	895	494
Dividends	33	31	121	101
Federal funds sold	332	201	890	240
Other	1	4	5	8
Total interest income	10,090	8,658	29,134	24,395
INTEREST EXPENSE				
Deposits	4,205	3,511	12,406	9,015
Federal funds purchased and other short-term borrowings	0	0	0	133
Long-term debt	536	612	1,664	1,571
Total interest expense	4,741	4,123	14,070	10,719
Net interest income	5,349	4,535	15,064	13,676
PROVISION FOR (RECOVERY OF) LOAN LOSSES	(35)	145	(919)	500
Net interest income after provision for (recorvery of) loan losses	5,384	4,390	15,983	13,176
NONINTEREST INCOME				
Trust and investment services fees	317	299	945	939
Service charges on deposit accounts	499	480	1,436	1,400
Mutual fund, annuity and insurance sales	410	278	1,092	923
Income from bank owned life insurance	71	70	204	197
Other income	102	110	324	389
Gain on sales of mortgages	51	61	208	210
Loss on sales of securities	0	0	(7)	0
Total noninterest income	1,450	1,298	4,202	4,058
NONINTEREST EXPENSE				
Personnel	2,741	2,208	7,845	6,487
Occupancy of premises, net	314	321	1,005	1,053
Furniture and equipment	347	299	1,032	1,043
Postage, stationery and supplies	101	79	341	318
Professional and legal	105	104	235	214
Marketing and advertising	247	138	474	391
Other	807	631	2,486	2,037
Total noninterest expense	4,662	3,780	13,418	11,543
Income before income taxes	2,172	1,908	6,767	5,691
PROVISION FOR INCOME TAXES	531	501	1,730	1,500
Net income	$ 1,641	$1,407	$ 5,037	$ 4,191
Net income per share, basic	$ 0.44	$ 0.38	$ 1.37	$ 1.15
Net income per share, diluted	$ 0.43	$ 0.38	$ 1.34	$ 1.12

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Cash Flows

(dollars in thousands)	Nine months ended September 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,037	$ 4,191
Adjustments to reconcile net income to net cash provided by operations		
Depreciation	853	882
Provision for (recovery of) loan losses	(919)	500
Deferred federal income tax expense	0	28
Amortization of investment in real estate partnership	378	363
Increase in cash surrender value of life insurance investment	(204)	(197)
Originations of held for sale mortgages	(13,797)	(16,546)
Proceeds from sales of held for sale mortgages	15,056	16,662
Gain on sales of held for sale mortgages	(208)	(210)
Loss on sales of securities	7	0
Loss on sales of foreclosed real estate	2	0
Stock-based compensation expense	36	39
Decrease (increase) in accrued interest receivable and other assets	75	(657)
Increase in accrued interest payable and other liabilities	161	493
Other, net	95	159
Net cash provided by operating activities	6,572	5,707
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available-for-sale		
Purchases	(19,847)	(15,187)
Maturities and calls	11,028	9,339
Sales	1,031	0
Securities, held-to-maturity, calls	4,172	490
Net increase in loans made to customers	(35,861)	(29,040)
Purchases of premises and equipment	(570)	(635)
Investment in unconsolidated subsidiary	0	(217)
Investment in life insurance	(7)	(7)
Purchase of insurance agency assets	0	(63)
Proceeds from sales of premises and equipment	0	55
Proceeds from sales of foreclosed real estate	167	0
Net cash used in investing activities	(39,887)	(35,265)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand and savings deposits	12,997	25,211
Net increase in time deposits	28,650	23,055
Net decrease in short-term borrowings	0	(9,781)
Proceeds from issuance of long-term debt	0	7,217
Repayment of long-term debt	(4,395)	(1,186)
Dividends paid	(1,445)	(1,254)
Issuance of common stock	329	187
Cash paid in lieu of fractional shares	(6)	(6)
Net cash provided by financing activities	36,130	43,443
Net increase in cash and cash equivalents	2,815	13,885
Cash and cash equivalents at beginning of year	35,372	12,085
Cash and cash equivalents at end of period	$ 38,187	$ 25,970

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	Accumul Othe Comprehe Los
For the nine months ended September 30, 2007				
Balance, December 31, 2006	$8,757	$28,839	$ 5,434	($24
Comprehensive income:				
Net income			5,037	
Other comprehensive income, net of tax:				
Unrealized gains on securities, net				17
Total comprehensive income				
Cash dividends ($.393 per share, adjusted)			(1,445)	
5% stock dividend - 175,148 shares at fair value	438	2,942	(3,386)	
Stock-based compensation		36		
Issuance of common stock - 22,995 shares under stock option plan	57	272		
Balance, September 30, 2007	$9,252	$32,089	$ 5,640	($ 6
For the nine months ended September 30, 2006				
Balance, December 31, 2005	$7,902	$23,035	$ 8,204	($41
Comprehensive income:				
Net income			4,191	
Other comprehensive income, net of tax:				
Unrealized gains on securities, net				24
Total comprehensive income				
Cash dividends ($.342 per share, adjusted)			(1,254)	
(2) 5% stock dividends - 324,372 shares at fair value	811	5,572	(6,389)	
Stock-based compensation		39		
Issuance of common stock - 14,640 shares under stock option plan	37	150		
Balance, September 30, 2006	$8,750	$28,796	$ 4,752	($17

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.

The following unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Corporation believes that the disclosures made are adequate to make the information not misleading. 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 nine-month period ended September 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 September 30, 2007. The weighted average number of shares of common stock outstanding used for basic and diluted calculations are provided below.

	Three months ended September 30,		Nine months ended September 30,	
(in thousands, except per share data)	2007	2006	2007	2006
Net income	$1,641	$1,407	$5,037	$4,191
Weighted average shares outstanding (basic)	3,690	3,661	3,684	3,660
Effect of dilutive stock options	84	84	88	84
Weighted average shares outstanding (diluted)	3,774	3,745	3,772	3,744
Basic earnings per share	$ .44	$ .38	$ 1.37	$ 1.15
Diluted earnings per share	$ .43	$ .38	$ 1.34	$ 1.12

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 and related tax effects are presented in the following table:

(Dollars in thousands)	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Unrealized holding gains arising during the period	$1,016	$1,147	$261	$ 367
Reclassification adjustment for losses included in income	0	0	7	0
Net unrealized gains	1,016	1,147	268	367
Tax effect	(345)	(390)	(91)	(125)
Net of tax amount	$ 671	$ 757	$177	$ 242

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 September 30, 2007 and December 31, 2006, was as follows:

(Dollars in thousands)	September 30, 2007	December 31, 2006
Noninterest bearing demand	$ 49,491	$ 49,190
NOW	42,019	43,864
Money market	158,291	144,292
Savings	18,075	17,533
Time CDs less than $100,000	162,335	145,849
Time CDs $100,000 or more	68,081	55,917
Total deposits	$498,292	$456,645

NOTE 4--LONG-TERM DEBT

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

(Dollars in thousands)	September 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	4,307	4,504
Due 2012, 4.25%, amortizing	1,748	1,998
Due 2013, 3.46%, amortizing	3,043	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
	30,098	34,467
Capital lease obligation	536	562
Total long-term debt	$30,634	$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 September 30, 2007, based on FDIC capital guidelines.

	ACTUAL	MINIMUM FOR CAPITAL ADEQUACY	WELL CAPITALIZED MINIMUM*

(dollars in thousands)	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
CODORUS VALLEY BANCORP, INC. (CONSOLIDATED)						
AT SEPTEMBER 30, 2007						
Capital ratios:						
Tier 1 risk based	$56,568	11.95%	$18,936	4.0%	n/a	n/a
Total risk based	59,616	12.59	37,872	8.0	n/a	n/a
Leverage	56,568	9.69	23,351	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 SEPTEMBER 30, 2007						
Capital ratios:						
Tier 1 risk based	$52,249	11.12%	$18,793	4.0%	$28,190	6.0%
Total risk based	55,297	11.77	37,586	8.0	46,983	10.0
Leverage	52,249	9.01	23,206	4.0	29,008	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 second quarter of 2007, shareholders approved and the Corporation adopted the 2007 Long Term Incentive Plan (LTIP), with 175,000 shares reserved for future issuance. No shares of stock were awarded or stock options granted under the LTIP since inception.

Also during the second quarter of 2007, shareholders approved and the Corporation adopted the 2007 Employee Stock Purchase Plan (ESPP), with 175,000 shares reserved for future issuance. On July 1, 2007, the first offering commenced for the ESPP. Actual shares purchased under the ESPP will be determined at the end of the six month offering period, i.e., year end 2007.

No stock options were granted under the Corporation's three stock option plans during the first nine months of 2007. A summary of options from the stock option plans, adjusted for stock dividends distributed, is shown below.

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM	AGGREGATE INTRINSIC VAL ($000)
Outstanding at January 1, 2007	284,205	$12.70	4.0 years	$1,884
Exercised	(23,300)	11.87		
Outstanding at September 30, 2007	260,905	$12.78	3.1 years	$1,362
Exercisable at September 30, 2007	240,700	$12.50	2.9 years	$1,324

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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 nine months of 2007 was $156,000 and during the first nine months of 2006 was $149,000. Cash received from such exercises in 2007 was $276,000 and the tax benefit recognized was $53,000 and for the same period in 2006 was $136,000 and the tax benefit recognized was $51,000.

As of September 30, 2007, total unrecognized compensation cost related to nonvested options under all equity award plans was $62,000. The cost is expected to be recognized over a weighted average period of 1.2 years.

NOTE 7--CONTINGENT LIABILITIES

Management was not aware of any material contingent liabilities on September 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 are conditional commitments issued by 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 $3,229,000 of standby letters of credit outstanding on September 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 amount of the liability as of September 30, 2007 and December 31, 2006, under standby letters of credit issued, was not material.

NOTE 9--SUBSEQUENT EVENTS

During October 2007, management received court approval to distribute proceeds from the sale of real estate that collateralized a $2,624,000 nonperforming business loan. As a result, PeoplesBank recovered in full all unpaid principal, interest and loan fees. In October 2007, PeoplesBank recorded accumulated interest income and loan fees totaling $539,000 from the distribution of the sale proceeds.

Also during October 2007, PeoplesBank paid off the remaining $3 million balance of a $5 million Federal Home Loan Bank advance prior to maturity. The FHLB advance had an above market interest rate of 6.43 percent and a maturity date of July 2014. As a result of the early payoff, PeoplesBank incurred a $252,000 prepayment penalty expense that it recorded in October as other noninterest expense. The reduction in long-term debt was made with excess liquidity and is expected to lower interest expense in future periods.

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 the 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 September 30, 2007, approximately $62,000 will be expensed over the weighted average period of 1.2 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 SEPTEMBER 30, 2007,
COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2006

FINANCIAL HIGHLIGHTS

The Corporation earned $1,641,000 or $.44 per share ($.43 diluted), for the three-month period ended September 30, 2007, compared to $1,407,000 or $.38 per share ($.38 diluted), for the same period of 2006. The $234,000 or 17 percent increase in net income for the current quarter was primarily the result of an increase in net interest income. Net interest income increased 18 percent as a result of an increase in the volume of interest earning assets, increased business loan fees and a higher net interest margin. The $180,000 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 increased 12 percent compared to the third quarter of 2006, due primarily to increased income and sales of mutual fund, annuity and insurance products. Noninterest expense for the current quarter increased 23 percent above the third quarter of 2006 due to increases in personnel expense, marketing and other expense.

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 September 30, 2007, was $5,349,000, an increase of $814,000 or 18 percent above the same period in 2006. The increase was due primarily to an increase in the volume of interest earning assets and net interest margin. Interest earning assets averaged $542 million for the current quarter, representing a $66 million or 14 percent increase above the third quarter of 2006. The increase in interest earning assets occurred primarily in business and home equity loans, and investment securities. The net interest margin was 4.03 percent for the third quarter of 2007, compared to 3.88 percent for the same quarter in 2006. The increase in net interest margin was due in part to an increase in business loan fees, principally pre-payment fees associated with the early payoff of several large business loans. Current period margin was also positively affected by the reclassification of a nonperforming business loan to accruing status, which resulted in the recognition of $93,000 in accumulated interest income.

PROVISION FOR LOAN LOSSES

The provision for loan losses was reduced (credited) by $35,000 for the third quarter of 2007, compared to a $145,000 expense for the same quarter in 2006. The current quarter provision reflects management's judgment of loan quality and of an appropriate level for the allowance for loan losses at September 30, 2007.

NONINTEREST INCOME

The following table presents the components of total noninterest income for the third quarter of 2007, compared to the third quarter of 2006. The $152,000 or 12 percent increase in noninterest income was primarily attributable to an increase in income and sales from mutual fund, annuity and insurance products.

TABLE 1 - NONINTEREST INCOME

	Three months ended September 30,		Change Increase (Decrease)	
(dollars in thousands)	2007	2006	$	%
Trust and investment services fees	$ 317	$ 299	$ 18	6%
Service charges on deposit accounts	499	480	19	4
Mutual fund, annuity and insurance sales	410	278	132	47
Income from bank owned life insurance	71	70	1	1
Other income	102	110	(8)	(7)
Gain on sales of mortgages	51	61	(10)	(16)
Total noninterest income	$1,450	$1,298	$152	12%

NONINTEREST EXPENSE

The following table presents the components of total noninterest expense for the third quarter of 2007, compared to the third quarter of 2006. The $882,000 or 23 percent increase was primarily attributable to increases in personnel expense, marketing and other expense. For the third quarter of 2007, personnel expense, comprised of wages, payroll taxes and employee benefits, increased $533,000 or 24 percent due largely to performance incentives and staff additions associated with normal business growth. The 79 percent increase in marketing expense for the current quarter reflected increased costs associated with product and promotional advertising, and sponsorships. The 28 percent increase in other expense included increased processing expense for loans and bank cards, and increased charitable donations.

TABLE 2 - NONINTEREST EXPENSE

(dollars in thousands)	Three months ended September 30, 2007	2006	Change Increase (Decrease) $	%
Personnel	$2,741	$2,208	$533	24%
Occupancy of premises, net	314	321	(7)	(2)
Furniture and equipment	347	299	48	16
Postage, stationery and supplies	101	79	22	28
Professional and legal	105	104	1	1
Marketing and advertising	247	138	109	79
Other	807	631	176	28
Total noninterest expense	$4,662	$3,780	$882	23%

INCOME TAXES

The provision for income tax was $531,000 for the third quarter of 2007, compared to $501,000 for the same period in 2006. The $30,000 or 6 percent increase in the tax provision was the result of a 14 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 September 30, 2007 and 2006.

NINE MONTHS ENDED SEPTEMBER 30, 2007,
COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2006

FINANCIAL HIGHLIGHTS

The Corporation earned $5,037,000 or $1.37 per share ($1.34 diluted) for the nine-month period ended September 30, 2007, compared to $4,191,000 or $1.15 per share ($1.12 diluted), for the same period of 2006. The $846,000 or 20 percent increase in net income was due in part to an $839,000 (or $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. Earnings were also favorably impacted by a 10 percent increase in net interest income largely the result of an increase in interest earning assets, principally business loans, overnight investments and investment securities. An increase in business loan fees (e.g., pre-payment fees), and a recovery of accumulated interest income from the reclassification of a nonperforming business loan to accrual status during the third quarter also contributed to the increase in net interest income. Current period total noninterest income increased 4 percent above 2006 due primarily to an increase in income from the sale of mutual fund, annuity and insurance products. The positive effect on net income for 2007 from the reduction in loan loss provision, the increase in interest earning assets, and the increase in noninterest income more than offset an increase in noninterest expense. Total noninterest expense increased 16 percent for the first nine months of 2007 due primarily to increased personnel costs, caused by the timing of performance incentives and staff additions associated with normal business growth, increased marketing expense, 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 $590 million on September 30, 2007, an increase of $65 million or 12 percent above September 30, 2006. Asset growth was funded by strong deposit growth, primarily money market deposits and CDs.

Net income as a percentage of average shareholders' equity (ROE) was 14.94 percent for the first nine months (annualized) of 2007, compared to 13.85 percent for the same period of 2006. Net income as a percentage of average total assets (ROA) was 1.18 percent for the first nine months (annualized) of 2007, compared to 1.12 percent for the same period of 2006. The efficiency ratio, computed as noninterest expense as a percentage of net interest income and noninterest income (tax equivalent), was 67.3 percent for the first nine months of 2007, compared to 63.6 percent for the same period of 2006.

On September 30, 2007, nonperforming assets as a percentage of total loans and net foreclosed real estate were 1.02 percent, compared to 1.38 percent for September 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 September 30, 2007. An analysis of the allowance is provided in Table 6--Analysis of Allowance for Loan Losses.

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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 September 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 nine-month period ended September 30, 2007, was $15,064,000, an increase of $1,388,000 or 10 percent above the same period in 2006. The increase was due primarily to an increase in the volume of interest earning assets. Earning assets averaged $532 million and yielded 7.44 percent (tax equivalent basis) for the first nine months of 2007, compared to $461 million and 7.17 percent, respectively, for the same period in 2006. The $71 million or 15 percent increase in average earning assets occurred primarily in business loans, overnight investments and investment securities. An increase in the volume of home equity loans also contributed to the growth in earning assets. Net interest margin was 3.90 percent for the first nine months of 2007(annualized), compared to 4.06 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 $478 million at an average rate of 3.93 percent for the first nine months of 2007, compared to $410 million and 3.50 percent, respectively, for the same period in 2006. Current period deposit rates were higher than the prior period and reflected the presence of the flat (or slightly inverted) US treasury yield curve environment through June 2007, and customer preference for deposit products with competitive rates, principally money markets and CDs. The decline in short-term market interest rates during the third quarter of 2007, which caused an upward slope in the US treasury yield curve, are expected to result in lower future funding costs.

PROVISION FOR LOAN LOSSES

As a result of a large loan loss recovery during the current period and adequacy of the allowance on September 30, 2007, the Corporation recorded a $919,000 credit to the provision for loan losses, compared to a $500,000 provision expense for the same period in 2006. In February 2007, PeoplesBank recovered approximately $839,000 ($554,000 after-tax), 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.

The current period provision reflected management's judgment of loan quality and of an appropriate level for the allowance for loan losses at September 30, 2007. The Corporation does not participate in the subprime lending market and accordingly, it has no loss exposure to subprime lending.

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NONINTEREST INCOME

The following table presents the components of total noninterest income for the first nine months of 2007, compared to the same period of 2006. Current period noninterest income increased $144,000 or 4 percent above 2006. Most of the overall increase was attributable to PeoplesBank subsidiary Codorus Valley Financial Advisors (CVFA), which increased income from the sale of mutual fund, annuity and insurance products. CVFA was also the recipient of selected accounts, principally IRAs and investment advisory accounts, from the Trust Department. Management realigned accounts between these functions to leverage off of CVFA's investment expertise and lower cost structure. The other income component declined due in part to the recognition of a nonrecurring gain of $45,000 in 2006 from the sale of two small parcels of land to the local township for a road throughway.

TABLE 3 - NONINTEREST INCOME

	Nine months ended September 30,		Change Increase (Decrease)	
(dollars in thousands)	2007	2006	$	%
Trust and investment services fees	$ 945	$ 939	$ 6	1%
Service charges on deposit accounts	1,436	1,400	36	3
Mutual fund, annuity and insurance sales	1,092	923	169	18
Income from bank owned life insurance	204	197	7	4
Other income	324	389	(65)	(17)
Gain on sales of mortgages	208	210	(2)	(1)
Loss on sales of securities	(7)	0	(7)	0.0
Total noninterest income	$4,202	$4,058	$144	4%

NONINTEREST EXPENSE

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

TABLE 4 - NONINTEREST EXPENSE

	Nine months ended September 30,		Change Increase (Decrease)	
(dollars in thousands)	2007	2006	$	%
Personnel	$ 7,845	$ 6,487	$1,358	21%
Occupancy of premises, net	1,005	1,053	(48)	(5)
Furniture and equipment	1,032	1,043	(11)	(1)
Postage, stationery and supplies	341	318	23	7
Professional and legal	235	214	21	10
Marketing and advertising	474	391	83	21
Other	2,486	2,037	449	22
Total noninterest expense	$13,418	$11,543	$1,875	16%

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

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Personnel--For the first nine months of 2007, personnel expense, comprised of wages, payroll taxes and employee benefits, increased $1,358,000 or 21 percent above 2006 levels due to performance incentives and staff additions associated with normal business growth.

Professional and legal--For the first nine months of 2007, professional and legal expense increased $21,000 or 10 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. Years 2007 and 2006 included consulting expense for assistance with section 404 of the Sarbanes-Oxley Act (SOX404) compliance of approximately $27,000, and $30,000, respectively. CPA fees in the current period increased as a result of SOX404 documentation review.

In the period ahead, management anticipates additional CPA and consulting fees to comply with SOX404. 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 nine months of 2007, marketing and advertising expense increased $83,000 or 21 percent above the same period in 2006. The increase was due in part to advertising promotions (e.g., check card rewards promotion), an increase in sponsorship expenses and normal business growth.

Other--For the first nine months of 2007, other expense increased $449,000 or 22 percent due in part to the recognition of a $185,000 prepayment penalty on the early pay-down of $2 million on a $5 million Federal Home Loan Bank advance. The Corporation partially paid down the advance, which was due July 2014 and had an above market interest rate of 6.43%, to reduce interest expense in future periods. There was no comparable prepayment penalty in the prior year. (In October 2007, the Corporation paid down the remaining $3 million balance of the Federal Home Loan Bank advance and incurred a prepayment penalty of $252,000.) Increases in miscellaneous loan expense (loan volume), Pennsylvania shares tax (the prior period tax was reduced by education improvement tax credits), ATM/point-of-sale processing costs (volume), and normal business growth also contributed to the increase in other expense.

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; however, the credit is likely to be depleted in the first quarter of 2008. Accordingly, PeoplesBank will begin to recognize the assessment at that time. (Management's estimate of the FDIC assessment expense, net of the credit, for 2008 is approximately $200,000.)

INCOME TAXES

The provision for income tax was $1,730,000 for the current nine-month period, compared to $1,500,000 for the same period in 2006. The $230,000 or 15 percent increase in the tax provision was the result of a 19 percent increase in pretax income. Codorus Valley's effective federal income tax and marginal tax rates were 26 percent and 34 percent, respectively, for the nine-month periods ended

September 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.

BALANCE SHEET REVIEW

INVESTMENT SECURITIES

On September 30, 2007, the securities available-for-sale portfolio was approximately $81 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 September 30, 2007, the securities held-to-maturity portfolio, recorded at amortized cost, was approximately $3.4 million, compared to approximately $7.5 million for year-end 2006. The decrease in the portfolio was the result of six 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 September 30, 2007, total loans were approximately $442 million, an increase of $36 million or 9 percent above year-end 2006. The increase was primarily attributable to an increase in business and home equity loans. The average yield (tax-equivalent basis) earned on total loans was 7.95 percent for the first nine months of 2007, compared to 7.61 percent for the same period of 2006.

DEPOSITS

On September 30, 2007, total deposits were approximately $498 million, an increase of $42 million or 9 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 average rate paid on interest-bearing deposits was 3.81 percent for the first nine months of 2007, compared to 3.31 percent for the same period of 2006. The higher average rate reflected the lingering effects of a flat US treasury yield curve through June 2007, and competitive pricing pressures.

LONG-TERM DEBT

On September 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 (FHLB advance), 6.43% rate, 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.

(During October 2007, PeoplesBank paid off the remaining $3 million balance of the aforementioned FHLB advance with the 6.43% interest rate prior to maturity and incurred a prepayment penalty of $252,000. These transactions will be reported on Form 10-K for year-end 2007.)

SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY

Shareholders' equity or capital enables Codorus Valley to maintain asset growth and absorb losses. Total shareholders' equity was approximately $47 million on September 30, 2007, an increase of $4 million, or approximately 10 percent, above December 31, 2006. The increase was caused primarily by retained earnings from profitable operations.

On October 9, 2007, the Board of Directors declared two cash dividends payable on or before November 13, 2007, to shareholders of record October 23, 2007. The first was a regular quarterly cash dividend of $.14 per common share. The second was a special cash dividend of $.05 per common share. The special cash divided was declared solely as a result of the recovery the company realized from loan losses experienced in a prior period. These dividends follow $.135 per share cash dividends paid in August, May ($.129 adjusted) and February ($.129 adjusted). The Board also distributed a 5 percent stock dividend in June 2007, 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 September 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 September 30, 2007, compared to December 31, 2006.

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TABLE 5-NONPERFORMING ASSETS

(dollars in thousands)	September 30, 2007	December 31, 2006
Nonaccrual loans	$3,632	$4,368
Accruing loans that are contractually past due 90 days or more as to principal or interest	461	4
Foreclosed real estate, net of allowance	403	38
Total nonperforming assets	$4,496	$4,410
Ratios:		
Nonaccrual loans as a % of total period-end loans	0.82%	1.08%
Nonperforming assets as a % of total period-end loans and net foreclosed real estate	1.02%	1.09%
Nonperforming assets as a % of total period-end shareholders' equity	9.58%	10.31%
Allowance for loan losses as a multiple of nonaccrual loans	.8x	.7x

On September 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 September 30, 2007, the nonaccrual loans portfolio balance totaled $3,632,000 and was comprised of 9 unrelated accounts ranging in size from $9,000 to $2,624,000. The underlying real estate collateral for the largest account, totaling $2,624,000, has been sold at public auction, and management is awaiting court approval for the distribution of the proceeds. (Subsequent to September 30, 2007, management received court approval to distribute the sale proceeds, which resulted in the full recovery of all unpaid principal, interest and fees. Income from interest and fees, which totaled $539,000, was recorded in October 2007.)

On September 30, 2007, foreclosed real estate, net of allowance, totaled $403,000, compared to $38,000 on December 31, 2006. The current period portfolio contains one property that management is trying to liquidate.

On September 30, 2007, loans contractually past due 90 days or more as to principal or interest totaled $461,000, representing two accounts. One account, a business loan totaling $446,000, collateralized by real estate, makes up most of the balance. (Subsequent to September 30, 2007, this account was paid off in full, including unpaid interest.)

ALLOWANCE FOR LOAN LOSSES

Table 6--Analysis of Allowance for Loan Losses, shows the allowance was $3,048,000 or .69 percent of total loans on September 30, 2007, compared to $2,969,000 or .75 percent of total loans on September 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 the 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 September 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	(919)	500
Loans charged off:		
Commercial	7	104
Real estate-mortgage	31	17
Consumer	22	22
Total loans charged off	60	143
Recoveries:		
Commercial	874	45
Real estate-mortgage	2	2
Consumer	25	27
Total recoveries	901	74
Net (recoveries) charge-offs	(841)	69
Balance-September 30,	$3,048	$2,969
Ratios:		
Net (recoveries) charge-offs (annualized) to average total loans	(0.26)%	0.02%
Allowance for loan losses to total loans at period-end	0.69%	0.75%
Allowance for loan losses to nonaccrual loans and loans past due 90 days or more	74.5%	54.1%

LIQUIDITY

At September 30, 2007, management believes that liquidity was more than adequate based on the level of overnight investment, the potential liquidation of an $81 million portfolio of available-for-sale securities, valued at September 30, 2007, and available credit from the Federal Home Loan Bank of Pittsburgh (FHLB). Available funding from the FHLB was approximately $100 million based on the latest available information from the FHLB. 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 89 percent and 92 percent, respectively, as of September 30, 2007 and 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 September 30, 2007, totaled $139,545,000 and consisted of $109,660,000 in unfunded commitments under existing loan facilities, $26,656,000 to grant new loans and $3,229,000 in letters of credit. Due to

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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 September 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 September 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. For both periods, management presumed that trust preferred investment securities held by the Corporation and PeoplesBank, which are callable at a premium, would be called and would result in a one time increase in interest income. 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 SEPTEMBER 30, 2007		
Most likely	-50	(491)	(7.2)
High	+200	(746)	(10.9)
Flat (baseline)	0	0	0.0
Low	-200	(249)	(3.6)
	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 24 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. Pursuant to compliance with Section 404 of the Sarbanes-Oxley Act, management strengthened controls over the financial reporting process during the third quarter of 2007 by adopting companywide policies that require two individuals to post transactions or to authorize disbursements over a specified dollar amount. Management also began an initiative, which will be completed by year end 2007, to better segregate processing responsibilities and to limit access to critical software applications and information. Based upon their evaluation of disclosure controls and procedures performed as of September 30, 2007, the chief executive and chief financial officers of Codorus Valley concluded that Codorus Valley's disclosure controls and procedures were adequate.

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.

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 September 30, 2007.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Nothing to report.

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

Nothing to report.

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.)
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)

November 8, 2007	/s/ Larry J. Miller
Date	Larry J. Miller President & CEO (Principal executive officer)
November 8, 2007	/s/ Jann A. Weaver
Date	Jann A. Weaver Treasurer & Assistant Secretary (Principal financial and accounting officer)