

CODORUS VALLEY BANCORP INC

Form 10-Q

August 12, 2009

**Table of Contents**

**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 June 30, 2009**

**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 August 7, 2009, 4,043,171 shares of common stock, par value \$2.50, were outstanding.



Codorus Valley Bancorp, Inc.  
**Form 10-Q Index**

	Page #
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial statements (unaudited):</u></b>	
<u>Consolidated balance sheets</u>	3
<u>Consolidated statements of income</u>	4
<u>Consolidated statements of cash flows</u>	5
<u>Consolidated statements of changes in shareholders' equity</u>	6
<u>Notes to consolidated financial statements</u>	7
<u>Item 2. Management's discussion and analysis of financial condition and results of operations</u>	20
<u>Item 3. Quantitative and qualitative disclosures about market risk</u>	36
<u>Item 4T. Controls and procedures</u>	36
<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1. Legal proceedings</u>	36
<u>Item 1A. Risk factors</u>	36
<u>Item 2. Unregistered sales of equity securities and use of proceeds</u>	36
<u>Item 3. Defaults upon senior securities</u>	36
<u>Item 4. Submission of matters to a vote of security holders</u>	36
<u>Item 5. Other information</u>	37
<u>Item 6. Exhibits</u>	37
<b><u>SIGNATURES</u></b>	39
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32</u>	

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

Codorus Valley Bancorp, Inc.  
Consolidated Balance Sheets  
Unaudited

<i>(dollars in thousands, except per share data)</i>	June 30, 2009	December 31, 2008
<b>Assets</b>		
Interest bearing deposits with banks	\$ 13,165	\$ 3,254
Cash and due from banks	9,598	11,621
Federal funds sold	3,000	
Total cash and cash equivalents	25,763	14,875
Securities available-for-sale	158,764	72,163
Securities held-to-maturity (fair value \$1,985 - 2009 and \$2,283 - 2008)	2,432	2,432
Restricted investment in bank stocks, at cost	4,262	2,692
Loans held for sale	4,753	7,373
Loans (net of deferred fees of \$599 - 2009 and \$566 - 2008)	612,113	573,078
Less-allowance for loan losses	(6,145)	(4,690)
Net loans	605,968	568,388
Premises and equipment, net	11,640	11,900
Other assets	26,443	22,943
Total assets	\$ 840,025	\$ 702,766
 <b>Liabilities</b>		
Deposits		
Noninterest bearing	\$ 50,185	\$ 47,781
Interest bearing	635,327	550,348
Total deposits	685,512	598,129
Short-term borrowings		18,283
Long-term debt	69,585	19,186
Junior subordinated debt	10,310	10,310
Other liabilities	5,924	4,677
Total liabilities	771,331	650,585
 <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 - 2009 and 0 - 2008	15,751	
Common stock, par value \$2.50 per share; 10,000,000 shares authorized; 4,043,171 shares issued and outstanding - 2009 and 4,017,033 - 2008	10,108	10,043
Additional paid-in capital	36,884	35,877
Retained earnings	5,147	5,057
Accumulated other comprehensive income	804	1,204

Total shareholders' equity	68,694	52,181
Total liabilities and shareholders' equity	\$ 840,025	\$ 702,766

See accompanying notes.

**Table of Contents**

Codorus Valley Bancorp, Inc.  
Consolidated Statements of Income  
Unaudited

<i>(dollars in thousands, except per share data)</i>	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
<b>Interest income</b>				
Loans, including fees	\$ 8,568	\$ 7,858	\$ 16,633	\$ 16,071
Investment securities				
Taxable	841	607	1,677	1,254
Tax-exempt	533	320	899	634
Dividends	2	16	9	31
Federal funds sold	2	75	5	282
Other	17	1	29	2
<b>Total interest income</b>	<b>9,963</b>	<b>8,877</b>	<b>19,252</b>	<b>18,274</b>
<b>Interest expense</b>				
Deposits	3,710	3,451	7,366	7,038
Federal funds purchased and other short-term borrowings	10	1	27	1
Long-term and junior subordinated debt	551	323	1,071	692
<b>Total interest expense</b>	<b>4,271</b>	<b>3,775</b>	<b>8,464</b>	<b>7,731</b>
<b>Net interest income</b>	<b>5,692</b>	<b>5,102</b>	<b>10,788</b>	<b>10,543</b>
<b>Provision for loan losses</b>	<b>1,639</b>	<b>910</b>	<b>1,883</b>	<b>1,060</b>
<b>Net interest income after provision for loan losses</b>	<b>4,053</b>	<b>4,192</b>	<b>8,905</b>	<b>9,483</b>
<b>Noninterest income</b>				
Trust and investment services fees	303	362	614	676
Income from mutual fund, annuity and insurance sales	358	496	704	984
Service charges on deposit accounts	581	563	1,106	1,083
Income from bank owned life insurance	155	68	318	135
Other income	154	124	302	246
Gain on sales of mortgages	403	108	570	168
Gain on sales of securities	128	123	291	123
<b>Total noninterest income</b>	<b>2,082</b>	<b>1,844</b>	<b>3,905</b>	<b>3,415</b>
<b>Noninterest expense</b>				
Personnel	3,157	2,675	6,503	5,533
Occupancy of premises, net	448	397	928	777
Furniture and equipment	401	368	836	718
Postage, stationery and supplies	139	126	249	235
Professional and legal	99	109	183	197
Marketing and advertising	115	210	240	282
FDIC insurance	646	96	876	152
Debit card processing	130	120	252	241

Edgar Filing: CODORUS VALLEY BANCORP INC - Form 10-Q

Charitable donations	31	45	207	600
Telephone	146	36	255	84
Other	807	659	1,398	819
Total noninterest expense	6,119	4,841	11,927	9,638
Income before income taxes (benefit)	16	1,195	883	3,260
<b>Provision (benefit) for income taxes</b>	<b>(277)</b>	<b>224</b>	<b>(373)</b>	<b>766</b>
Net income	293	971	1,256	2,494
Preferred stock dividends and discount accretion	244		467	
Net income available to common shareholders	\$ 49	\$ 971	\$ 789	\$ 2,494
Net income per common share, basic	\$ 0.01	\$ 0.25	\$ 0.20	\$ 0.63
Net income per common share, diluted	\$ 0.01	\$ 0.24	\$ 0.20	\$ 0.63

See accompanying notes.



**Table of Contents**

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

<i>(dollars in thousands)</i>	Six months ended June 30,	
	2009	2008
<b>Cash flows from operating activities</b>		
Net income	\$ 1,256	\$ 2,494
Adjustments to reconcile net income to net cash provided by operations		
Depreciation	701	573
Provision for loan losses	1,883	1,060
Amortization of investment in real estate partnership	271	261
Increase in cash surrender value of life insurance investment	(318)	(135)
Originations of held for sale mortgages	(50,766)	(15,670)
Proceeds from sales of held for sale mortgages	50,371	12,416
Gain on sales of held for sale mortgages	(570)	(168)
Gain on sales of securities	(291)	(123)
Stock-based compensation expense	100	26
(Increase) decrease in accrued interest receivable	(555)	270
Increase in other assets	(1,159)	(1,290)
Increase (decrease) in accrued interest payable	132	(92)
Increase in other liabilities	1,118	622
Other, net	262	(121)
<b>Net cash provided by operating activities</b>	<b>2,435</b>	<b>123</b>
<b>Cash flows from investing activities</b>		
Securities available-for-sale		
Purchases	(108,679)	(9,608)
Maturities and calls	12,565	8,788
Sales	8,947	6,639
Securities, held-to-maturity, calls		1,036
(Increase) decrease in restricted investment in bank stock	(1,570)	2
Net increase in loans made to customers	(37,401)	(51,199)
Purchases of premises and equipment	(465)	(1,213)
<b>Net cash used in investing activities</b>	<b>(126,603)</b>	<b>(45,555)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in demand and savings deposits	39,197	(10,394)
Net increase in time deposits	48,186	49,677
Net (decrease) increase in short-term borrowings	(18,283)	1,675
Proceeds from issuance of long-term debt	66,000	
Repayment of long-term debt	(15,601)	(576)
Cash dividends paid to preferred shareholders	(289)	
Cash dividends paid to common shareholders	(804)	(1,049)
Net proceeds from issuance of preferred stock and common stock warrants	16,461	
Issuance of common stock	189	689
Purchase of treasury stock		(66)
Issuance of treasury stock		54

Cash paid in lieu of fractional shares		(5)
Net cash provided by financing activities	135,056	40,005
Net increase (decrease) in cash and cash equivalents	10,888	(5,427)
Cash and cash equivalents at beginning of year	14,875	39,053
Cash and cash equivalents at end of period	\$ 25,763	\$ 33,626

See accompanying notes.

**Table of Contents**

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

	Preferred	Common	Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Treasury	Total
<i>(dollars in thousands, except share data)</i>	Stock	Stock	Capital	Earnings	(Loss)	Stock	
For the six months ended June 30, 2009							
Balance, January 1, 2009	\$	\$ 10,043	\$ 35,877	\$ 5,057	\$ 1,204	\$	\$ 52,181
Comprehensive income:							
Net income				1,256			1,256
Other comprehensive loss, net of tax:							
Unrealized losses on securities, net					(400)		(400)
Total comprehensive income							856
Preferred stock and common stock warrants issued, net of issuance costs of \$39	15,678		783				16,461
Preferred stock discount accretion	73			(73)			
Common stock cash dividends (\$0.20 per share)				(804)			(804)
Preferred stock dividends				(289)			(289)
Stock-based compensation			100				100
Issuance of common stock:							
18,557 shares under dividend reinvestment and stock purchase plan		46	102				148
7,581 shares under employee stock purchase plan		19	22				41
Balance, June 30, 2009	\$ 15,751	\$ 10,108	\$ 36,884	\$ 5,147	\$ 804	\$	\$ 68,694
For the six months ended June 30, 2008							
Balance, January 1, 2008	\$	\$ 9,347	\$ 32,516	\$ 6,267	\$ 285	\$	\$ 48,415
Cumulative effect adjustment for adoption of EITF Issue No. 06-04				(703)			(703)
Comprehensive income:							
Net income				2,494			2,494
Other comprehensive loss, net of tax:							
Unrealized losses on securities, net					(383)		(383)
Total comprehensive income				(1,049)			2,111 (1,049)

Edgar Filing: CODORUS VALLEY BANCORP INC - Form 10-Q

Common stock cash dividends (\$0.266 per share, adjusted)						
Common stock 5% stock dividend - 187,363 shares at fair value	469	2,492	(2,966)			(5)
Purchase of 3,783 shares for treasury				(66)		(66)
Stock-based compensation		26				26
Issuance of common stock: 50,577 shares under stock option plan	126	563				689
Re-issuance of 3,783 shares under employee stock purchase plan		(12)		66		54
Balance, June 30, 2008	\$	\$ 9,942	\$ 35,585	\$ 4,043	\$ (98)	\$ 49,472

See accompanying notes.

**Table of Contents**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note 1 Basis of Presentation**

The interim unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, the instructions to Form 10-Q, and Article 10 of Regulation S-X. Accordingly, they do not include all of the financial information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the financial statements include all adjustments 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, 2008.

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, 2009 are not necessarily indicative of the results to be expected for the full year.

In accordance with Financial Accounting Standards No. 165, Subsequent Events, the Corporation evaluated the events and transactions that occur