HORIZON BANCORP /IN/
Form 10-Q
November 13, 2008

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HORIZON BANCORP
FORM 10-Q
United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008
Commission file number 0-10792
HORIZON BANCORP
(Exact name of registrant as specified in its charter)

Indiana	**35-1562417**
(State or other jurisdiction of incorporation or organization)	(I.R. S. Employer Identification No.)
515 Franklin Square, Michigan City, Indiana	**46360**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(219) 879-0211**
Former name, former address and former fiscal year, if changed since last report: **N/A**

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 þ No o

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule
12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer o Accelerated Filer o Non-accelerated Filer o Smaller Reporting Company þ
Do not check if 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 o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 3,254,482 at November 10, 2008.

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PART 1 FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Horizon Bancorp and Subsidiaries
Condensed Consolidated Balance Sheets
(Dollar Amounts in Thousands)

	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Cash and due from banks	**$ 20,527**	$ 19,714
Interest-bearing demand deposits	**1**	1
Federal funds sold		35,314
Cash and cash equivalents	**20,528**	55,029
Interest-bearing deposits	**1,186**	249
Investment securities, available for sale	**230,107**	234,675
Investment securities, held to maturity	**730**	
Loans held for sale	**4,834**	8,413
Loans, net of allowance for loan losses of $10,525 and $9,791	**847,422**	879,061
Premises and equipment	**26,424**	24,607
Federal Reserve and Federal Home Loan Bank stock	**12,625**	12,625
Goodwill	**5,787**	5,787
Other intangible assets	**1,829**	2,068
Interest receivable	**5,518**	5,897
Cash value life insurance	**22,232**	22,931
Deferred tax asset	**2,739**	2,187
Other assets	**6,670**	5,345
Total assets	**$1,188,631**	$1,258,874
Liabilities		
Deposits		
Non-interest bearing	**$ 86,093**	$ 84,097
Interest bearing	**663,329**	809,567
Total deposits	**749,422**	893,664
Borrowings	**328,442**	258,852
Subordinated debentures	**27,837**	27,837
Interest payable	**1,949**	2,439
Other liabilities	**5,909**	5,437
Total liabilities	**1,113,559**	1,188,229

Commitments and contingent liabilities

Stockholders Equity		
Preferred stock, no par value		
Authorized, 1,000,000 shares		
No shares issued		
Common stock, $.2222 stated value		
Authorized, 22,500,000 shares		
Issued, 5,013,906 and 5,011,656 shares	**1,114**	1,114
Additional paid-in capital	**25,884**	25,638
Retained earnings	**66,239**	60,982
Accumulated other comprehensive income	**(1,013)**	63
Less treasury stock, at cost, 1,759,424 shares	**(17,152)**	(17,152)
Total stockholders equity	**75,072**	70,645
Total liabilities and stockholders equity	**$1,188,631**	$1,258,874

See notes to condensed consolidated financial statements

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Horizon Bancorp and Subsidiaries
Condensed Consolidated Statements of Income
(Dollar Amounts in Thousands, Except Per Share Data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2008 (Unaudited)	**2007 (Unaudited)**	**2008 (Unaudited)**	**2007 (Unaudited)**
Interest Income				
Loans receivable	**$14,202**	16,330	**$43,763**	6,017
Investment securities				
Taxable	**2,172**	1,979	**6,934**	6,017
Tax exempt	**791**	864	**2,490**	2,582
Total interest income	**17,165**	19,173	**53,187**	55,687
Interest Expense				
Deposits	**4,261**	7,296	**15,552**	21,677
Borrowed funds	**3,108**	3,096	**8,782**	8,273
Subordinated debentures	**393**	522	**1,192**	1,800
Total interest expense	**7,762**	10,914	**25,526**	31,750
Net Interest Income	**9,403**	8,259	**27,661**	23,937
Provision for loan losses	**3,137**	550	**5,405**	1,140
Net Interest Income after Provision for Loan Losses	**6,266**	7,709	**22,256**	22,797
Other Income				
Service charges on deposit accounts	**1,065**	896	**2,975**	2,515
Wire transfer fees	**155**	81	**382**	266
Fiduciary activities	**911**	905	**2,817**	2,600
Gain on sale of loans	**657**	658	**2,122**	1,808
Increase in cash surrender value of Bank owned life insurance	**252**	233	**701**	696
Death benefit officer life insurance			**538**	
Loss on sale of securities			**(15)**	
Other income	**311**	357	**942**	1,098
Total other income	**3,351**	3,130	**10,462**	8,983

Other Expenses				
Salaries and employee benefits	**4,203**	4,277	**12,698**	13,147
Net occupancy expenses	**655**	606	**1,944**	1,777
Data processing and equipment expenses	**681**	648	**1,964**	1,913
Professional fees	**263**	214	**803**	955
Outside services and consultants	**287**	254	**821**	730
Loan expense	**593**	273	**1,603**	988
Other expenses	**1,601**	1,471	**4,716**	4,062
Total other expenses	**8,283**	7,743	**24,549**	23,572
Income Before Income Tax	**1,334**	3,096	**8,169**	8,208
Income tax expense	**2**	826	**1,319**	2,078
Net Income	**$ 1,332**	$ 2,270	**$ 6,850**	$ 6,130
Basic Earnings Per Share	**$ .42**	$ .71	**$ 2.14**	$ 1.92
Diluted Earnings Per Share	**$ .41**	$ .70	**$ 2.11**	$ 1.89

See notes to condensed consolidated financial statements

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Horizon Bancorp and Subsidiaries
Condensed Consolidated Statement of Stockholders Equity
(Unaudited)
(Table Dollar Amounts in Thousands, Except Per Share Data)

	Common Stock	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balances, December 31, 2007	$ 1,114	$ 25,638		$ 60,982	$ 63	$ (17,152)	$ 70,645
Net income			$ 6,850	6,850			6,850
Other comprehensive income (loss), net of tax: unrealized gain on securities			(1,025)		(1,025)		(1,025)
Unrealized loss on derivative instruments			(51)		(51)		(51)
Comprehensive income			$ 5,774				
Amortization of unearned compensation		175					175
Exercise of stock options		35					35
Tax benefit related to stock options		8					8
Stock option expense		28					28
Cash dividends ($.49 per share)				(1,593)			(1,593)
Balances, September 30, 2008	$ 1,114	$ 25,884		$ 66,239	$ (1,013)	$ (17,152)	$ 75,072

See notes to condensed consolidated financial statements.

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Horizon Bancorp and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Dollar Amounts in Thousands)

	Nine Months Ended September 30	
	2008 (Unaudited)	**2007 (Unaudited)**
Operating Activities		
Net income	**$ 6,850**	$ 6,130
Items not requiring (providing) cash		
Provision for loan losses	**5,405**	1,140
Loss on sale of investment securities	**15**	
Depreciation and amortization	**1,743**	1,711
Share based compensation	**28**	42
Mortgage servicing rights impairment	**5**	
Deferred income tax	**(555)**	(359)
Premium amortization on securities available for sale, net	**239**	(29)
Gain on sale of loans	**(1,929)**	(1,808)
Proceeds from sales of loans	**108,659**	95,928
Loans originated for sale	**(103,152)**	(98,948)
Decrease (increase) in cash surrender value of life insurance	**104**	(695)
Tax benefit of options exercised	**(8)**	(47)
Net change in		
Interest receivable	**379**	(260)
Interest payable	**(490)**	638
Other assets	**(1,471)**	251
Other liabilities	**472**	1,793
Net cash provided by operating activities	**16,294**	5,487
Investing Activities		
Net change in interest-bearing deposits	**(937)**	778
Purchases of securities available for sale	**(38,751)**	(17,171)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	**41,487**	30,001
Purchase of securities held to maturity	**(815)**	(10,546)
Proceeds from maturities of securities held to maturity	**85**	
Net change in loans	**(10,822)**	(405)
Redemption of Federal Reserve bank stock		
Recoveries on loans previously charged-off	**799**	50
Purchases of premises and equipment	**(3,141)**	
Proceeds from sale of loans transferred to held for sale	**37,695**	
Gain on sale of loans transferred to held for sale	**(193)**	(2,197)
Purchase of bank owned life insurance		(8,000)
Net cash provided by (used in) investing activities	**25,407**	(7,490)

Financing Activities		
Net change in		
Deposits	**(144,242)**	(118,129)
Borrowings	**69,590**	94,670
Redemption of trust preferred securities		(12,372)
Proceeds from issuance of stock	**35**	192
Tax benefit of options exercised	**8**	47
Dividends paid	**(1,593)**	(1,429)
Net cash used in financing activities	**(76,202)**	(37,021)
Net Change in Cash and Cash Equivalent	**(35,501)**	(39,024)
Cash and Cash Equivalents, Beginning of Period	**55,029**	58,812
Cash and Cash Equivalents, End of Period	**$ 20,528**	$ 19,788
Additional Cash Flows Information		
Interest paid	**$ 26,016**	$ 31,112
Income taxes paid	**1,405**	1,755
Non-cash supplemental information		
Transfers from loans to other real estate owned	**$ 1,223**	$ 134

See notes to condensed consolidated financial statements.

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Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

Note 1 Accounting Policies

The accompanying consolidated financial statements include the accounts of Horizon Bancorp (Horizon) and its wholly-owned subsidiaries, Horizon Bank, N.A. (Bank). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended September 30, 2008 and September 30, 2007 are not necessarily indicative of the operating results for the full year of 2008 or 2007. The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of Horizon s management, necessary to fairly present the financial position, results of operations and cash flows of Horizon for the periods presented. Those adjustments consist only of normal recurring adjustments.

Certain information and note disclosures normally included in Horizon s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Horizon s Form 10-K annual report for 2007 filed with the Securities and Exchange Commission. The consolidated balance sheet of Horizon as of December 31, 2007 has been derived from the audited balance sheet of Horizon as of that date.

Basic earnings per share is computed by dividing net income by the weighted-average number of shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. In August 2002, substantially all of the participants in Horizon s Stock Option and Stock Appreciation Rights Plans voluntarily entered into an agreement with Horizon to cap the value of their stock appreciation rights (SARS) at $14.67 per share and cease any future vesting of the SARS. These agreements with option holders make it more advantageous to exercise an option rather than a SAR whenever Horizon s stock price exceeds $14.67 per share, therefore the option becomes potentially dilutive at $14.67 per share or higher. The following table shows the number of shares used in the computation of basic and diluted earnings per share.

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Basic	3,209,482	3,202,341	3,208,362	3,197,300
Diluted	3,255,409	3,243,266	3,246,208	3,241,524

At September 30, 2008 and 2007 there were 28,000 shares and 27,402 shares respectively that were not included in the computation of diluted earnings per share because they were non-dilutive.

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in the December 31, 2007 Annual Report to shareholders.

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Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

Note 2 Loans

	September 30, 2008 (Unaudited)	**December 31, 2007**
Commercial loans	**$304,997**	$307,535
Mortgage warehouse loans	**101,992**	78,225
Real estate loans	**168,058**	216,019
Installment loans	**282,900**	287,073
	857,947	888,852
Allowance for loan losses	**(10,525)**	(9,791)
Total loans	**$847,422**	$879,061

Allowance for loan losses

	September 30, 2008 (Unaudited)	**September 30, 2007**
Allowance for loan losses		
Balances, beginning of period	**$ 9,791**	$ 8,738
Provision for losses	**5,405**	1,140
Recoveries on loans	**799**	532
Loans charged off	**(5,470)**	(1,587)
Balances, end of period	**$10,525**	$ 8,823
As percent of total loans	**1.23%**	1.03%

The following is a summary of non-performing assets:

	September 30, 2008 (Unaudited)	**December 31, 2007**

Non-performing loans	**$6,634**	$ 2,949
Other real estate owned	**1,357**	238
Total	**$7,991**	$ 3,187
As a percent of total loans plus other real estate owned	**0.93%**	0.36%

Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

Note 3 Derivative financial instruments

In the normal course of business, the Company uses various derivative financial instruments to manage its interest rate risk and market risks in accommodating the needs of its customers. These instruments carry varying degrees of credit, interest rate, and market or liquidity risks. Derivative instruments are recognized as either assets or liabilities in the accompanying financial statements and are measured at fair value. Subsequent changes in the derivatives fair values are recognized in earnings unless specific hedge accounting criteria are met.

Horizon has established objectives and strategies that include interest-rate risk parameters for maximum fluctuations in net interest income and market value of portfolio equity. Interest rate risk is monitored via simulation modeling reports. The goal of Horizon s asset/liability management efforts is to maintain profitable financial leverage within established risk parameters. Horizon has entered into several financial arrangements using derivatives during 2008 to add stability to interest income and to manage its exposure to interest rate movements.

Fair Value Hedges

Horizon enters into fixed rate loan agreements as part of its lending policy. To mitigate the risk of changes in fair value based on fluctuations in interest rates, Horizon has entered into seven interest rate swap agreements on individual loans, converting the fixed rate loans to a variable rate. These agreements were entered into at the time that the individual loans were closed during 2008. The cumulative change in fair value of both the hedge instruments and the underlying loans is recorded in non-interest income. Since the critical terms of the hedged loans and the interest rate swap are identical, the fair value hedges are considered to be highly effective. At September 30, 2008, management has determined that there is no hedge ineffectiveness.

The notional amounts of the debt obligations being hedged was $18,856,685 at September 30, 2008 and the fair value of the interest rate swap asset at September 30, 2008 was $43,206.

Cash Flow Hedges

Through certain special purpose entities (see note 10 of Item 8 in Horizon s 2007 Form 10-K) Horizon issued trust preferred debentures as part of its capital management strategy. These debentures are variable rate, which exposes Horizon to variability in cash flows. Given the characteristics of this debt, Horizon Bancorp is exposed to interest rate risk caused by the variability of expected future interest expense attributable to changes in 3-month LIBOR. To mitigate this exposure to fluctuations in cash flows resulting from changes in interest rates, Horizon entered into three pay-fixed interest rate swap agreements in January 2008.

Based on the evaluation performed at inception and through the current date, these derivative instruments qualify for cash flow hedge accounting. Therefore, the cumulative change in fair value of the interest rate swap, to the extent that it is expected to be offset by the cumulative change in anticipated interest cash flows from the hedged trust preferred debentures, will be deferred and reported as a component of other comprehensive income (OCI). Any hedge ineffectiveness will be charged to current earnings.

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Horizon Bancorp and Subsidiaries
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Since the floating index and reset dates are based on identical terms, management believes that the hedge relationship of the cumulative changes in expected future cash flow from the interest rate swap and the cumulative changes in expected interest cash flows from the trust preferred debentures will be highly effective. At September 30, 2008, management has determined that there is no hedge ineffectiveness.

The notional amounts of the debt obligations being hedged was $27,000,000 at September 30, 2008 and the fair value of the interest rate swap asset at September 30, 2008, was $(77,961).

Note 4 Disclosures about fair value of assets and liabilities

Effective January 1, 2008, Horizon adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available for sale securities

When quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities and corporate notes. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include Federal agency securities, State and municipal securities, Federal agency collateralized mortgage obligations and Federal agency mortgage-backed pools.

Hedged loans

Certain fixed rate loans have been converted to variable rate loans through entering into interest rate swap agreements. Fair value of those fixed rate loans is based on discounting estimated cash flows using interest rates determined by a respective interest rate swap agreement. Loans are classified within Level 3 of the valuation hierarchy based on the unobservable inputs used.

Interest rate swap agreements

The fair value is estimated by a third party using inputs that are primarily unobservable and cannot be corroborated by observable market data and, therefore, are classified within Level 3 of the valuation hierarchy.

Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at September 30, 2008:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$230,107	$ 1,418	$228,689	$
Hedged loans	18,814			18,814
Interest rate swap agreements	(35)			(35)

The following tables show a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying condensed consolidated balance sheet using significant unobservable (Level 3) inputs:

	Hedged Loans	Interest Rate Swaps
Beginning balance January 1, 2008	$	$
Total realized and unrealized gains and losses		
Included in net income	(43)	43
Included in other comprehensive income		(78)
Purchases, issuances and settlements	19,109	
Principal payments	(252)	
Ending balance September 30, 2008	$18,814	$ (35)

	Hedged Loans	Interest Rate Swaps
Beginning balance June 30, 2008	$16,269	$ 258
Total realized and unrealized gains and losses		
Included in net income	198	(198)

Included in other comprehensive income		**(95)**
Purchases, issuances and settlements	**2,506**	
Principal payments	**(159)**	
Ending balance September 30, 2008	**$18,814**	**$ (35)**

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Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

Realized gains and losses included in net income for the period from January 1, 2008 to September 30, 2008, are reported in the condensed consolidated statements of income as follows:

	Noninterest Income	
Total gains and losses from:		
Hedged loans	**$**	**(43)**
Fair value interest rate swaps		**43**
	$	

Note 6 Future accounting matters

Financial Accounting Standards Board Statement No. 141 (SFAS 141R), Business Combinations (Revised 2007), was issued in December 2007 and is effective January 1, 2009 and replaces SFAS 141 which applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual asset acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed. Under SFAS 141R, the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting. Instead, that contingency would be subject to the probable and estimable recognition criteria under SFAS 5, Accounting for Contingencies. SFAS 141R is effective as of the beginning of an entity s fiscal year beginning after December 15, 2008. Horizon is evaluating the requirements of SFAS 141R to determine if it will have a significant impact on the financial condition or results of operations.

Financial Accounting Standards Board Statement No. 160 (SFAS 160), Non-controlling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51, was issued in December 2007 and establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as a minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that are attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company s financial statements.

Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements
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Financial Accounting Standards Board Statement No. 161 (SFAS 161), Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133, was issued in March 2008 and amends and expands the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company s financial statements.

Note 7 Subsequent Events

The global and U.S. economies are experiencing significantly reduced business activity as a result of, among other factors, disruptions in the financial system during the past year, and in particular, the last several weeks. Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail.

Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers, including other financial institutions. The availability of credit, confidence in the financial sector, and level of volatility in the financial markets have been significantly adversely affected as a result. In recent weeks, volatility and disruption in the capital and credit markets has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers underlying financial strength.

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was signed into law. Pursuant to the EESA, the U.S. Department of Treasury (Treasury) has the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, the Treasury also announced it will offer to non-troubled U.S. banking organizations the opportunity to sell preferred stock, along with warrants to purchase common stock, to the Treasury on what may be considered attractive terms under the Troubled Asset Relief Program (TARP) and Capital Purchase Program (CPP). The CPP allows financial institutions, like Horizon, to issue non-voting preferred stock to the Treasury in an amount ranging between 1% and 3% of its total risk-weighted assets.

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Horizon Bancorp and Subsidiaries
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(Table Dollar Amounts in Thousands, Except Per Share Data)

Horizon has preliminarily determined that obtaining additional Tier 1 capital pursuant to the CPP is advisable to, among other things, enable Horizon to better serve the banking needs of its local communities, to provide a capital cushion against unforeseen future events and to provide additional capital to be used for other purposes permitted by the program. As a result, on November 3, 2008, Horizon filed an initial application with the Treasury pursuant to the CPP seeking approval to sell $25,000,000 in preferred stock to the Treasury (which will equal 2.83% of its total risk weighted assets as of June 30, 2008). The CPP is generally only available to healthy financial institutions to provide them with additional capital to expand the flow of credit to U.S. consumers and businesses on competitive terms and for related purposes to promote the sustained growth and vitality of the U.S. economy. As a result, Horizon s participation in the CPP is not an indication that Horizon is having financial difficulties. In fact, both Horizon and Horizon Bank currently exceed all applicable regulatory capital requirements to be classified as well capitalized.

The most important terms of the preferred stock to be issued by Horizon under the CPP are expected to be as follows:

Dividends at the rate of 5% per annum, payable quarterly in arrears, are required to be paid on the preferred stock for the first five years and dividends at the rate of 9% per annum are required thereafter until the stock is redeemed by Horizon;

Without the prior consent of the Treasury, Horizon will be prohibited from increasing its common stock dividends for the first three years while Treasury is an investor;

During the first three years the preferred stock is outstanding, Horizon will be prohibited from repurchasing such preferred stock, except with the proceeds from a sale of Tier 1 qualifying common or other preferred stock of Horizon in an offering that raises at least 25% of the initial offering price of the preferred stock sold to the Treasury ($6,250,000 assuming Horizon issues $25,000,000 in preferred stock to the Treasury under the CPP). After the first three years, the preferred stock can be redeemed at any time with any available cash;

During the first three years the preferred stock is outstanding, Horizon will need the Treasury s consent to buy back any of its common stock, unless the Treasury has transferred all the preferred stock prior to that time;

Under the CPP, Horizon is also required to issue the Treasury warrants entitling the Treasury to buy an amount of Horizon s common stock equal to 15% of the Treasury s total investment in the preferred stock (estimated to be approximately 210,000 shares of common stock based on current market price);

Horizon must agree to certain compensation restrictions for its senior executive officers and restrictions on the amount of executive compensation which is tax deductible; and

If Horizon issues preferred stock pursuant to the CPP, Congress can unilaterally change the terms of the preferred stock and other aspects of the CPP applicable to Horizon without Horizon s consent.

Horizon s participation in the CPP remains subject to various contingencies, including, but not limited to, review and approval of the preferred stock investment documents by Horizon s Board of Directors and verification that Horizon can otherwise comply with various other detailed requirements of the investment.

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In addition to the legislation mentioned above, federal and state governments could pass additional legislation responsive to current credit conditions. As an example, Horizon Bank could experience higher credit losses because of federal or state legislation or regulatory action that reduces the amount the bank s borrowers are otherwise contractually required to pay under existing loan contracts. Also, Horizon Bank could experience higher credit losses because of federal or state legislation or regulatory action that limits its ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

The Federal Deposit Insurance Corporation (FDIC) insures Horizon Bank s deposits up to certain limits. The FDIC charges us premiums to maintain the Deposit Insurance Fund. The FDIC may increase premium assessments to maintain adequate funding of the Deposit Insurance Fund, including requiring riskier institutions to pay a larger share of the premiums. An increase in premium assessments would increase our expenses.

The EESA included a provision for an increase in the amount of deposits insured by FDIC from $100,000 to $250,000 until December 31, 2009.

On October 14, 2008, the FDIC announced a new program the Temporary Liquidity Guarantee Program that provides unlimited deposit insurance on funds in non-interest-bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000. All eligible institutions, including Horizon, are covered under the program for the first 30 days without incurring any costs. After the initial period, participating institutions will be assessed a 10 basis point surcharge on the additional insured deposits. Horizon Bank intends to continue participation in this program for the foreseeable future and estimates that the additional deposit insurance premium it will be required to pay to do so will be immaterial.

The actions described above, together with additional actions announced by the Treasury and other regulatory agencies continue to develop. It is not clear at this time what impact, EESA, TARP, other liquidity and funding initiatives of the Treasury and other bank regulatory agencies that have been previously announced, and any additional programs that may be initiated in the future, will have on the financial markets and the financial services industry. The extreme levels of volatility and limited credit availability currently being experienced could continue to effect the U.S. banking industry and the broader U.S. and global economies, which will have an affect on all financial institutions, including Horizon.

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

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Forward Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to Horizon and the Bank. Horizon intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and is including this statement for the purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of Horizon, are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project or similar expressions. Horizon s ability to predict results or the actu effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on Horizon s future activities and operating results include, but are not limited to:

- credit risk: the risk that loan customers or other parties will be unable to perform their contractual obligations;
- market risk: the risk that changes in market rates and prices will adversely affect our financial condition or results of operation;
- liquidity risk: the risk that Horizon or the Bank will have insufficient cash or access to cash to meet its operating needs; and
- operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Introduction

The purpose of this discussion is to focus on Horizon s financial condition, changes in financial condition and the results of operations in order to provide a better understanding of the consolidated financial statements included elsewhere herein. This discussion should be read in conjunction with the consolidated financial statements and the related notes.

Overview

Horizon had continued improvement in net interest margin during the third quarter of 2008, up five basis points from the 2nd quarter of 2008 and 44 basis points from the third quarter of 2007. This was offset by an increase in the provision for loan losses. This increase related to the deterioration of three commercial loans. Net income for the quarter declined to $1.3 million, down $938 thousand from the 3rd quarter of 2007. However, year to date net income is $6.85 million, up $720 thousand or 11.7% from the same period of the prior year.

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Critical Accounting Policies

The notes to the consolidated financial statements included in Item 8 on Form 10-K contain a summary of the Company s significant accounting policies and are presented on pages 42-48 of Form 10-K for 2007. Certain of these policies are important to the portrayal of the Company s financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management has identified the allowance for loan losses, intangible assets and hedge accounting as critical accounting policies.

Allowance for loan and lease losses

An allowance for loan and lease losses (ALLL) is maintained to absorb loan losses inherent in the loan portfolio. The allowance is based on regular assessments of the probable losses inherent in the loan portfolio. The allowance is increased by the provision for credit losses, which is charged against current period operating results and decreased by the amount of charge offs, net of recoveries. Horizon s methodology for assessing the appropriateness of the allowance consists of several key elements, which include the general allowance, specific allowances for identified problem loans and the qualitative allowance.

The general allowance is calculated by applying loss factors to pools of outstanding loans. Loss factors are based on a historical loss experience and may be adjusted for significant factors that, in management s judgment, affect the collectibility of the portfolio as of the evaluation date.

Specific allowances are established in cases where management has identified conditions or circumstances related to a credit that management believes indicate the probability that a loss will be incurred in excess of the amount determined by the application of the formula allowance.

The qualitative allowance is based upon management s evaluation of various conditions, the effects of which are not directly measured in the determination of the general and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific credits. The conditions evaluated in connection with the qualitative allowance may include factors such as local, regional and national economic conditions and forecasts, concentrations of credit and changes in the composition of the portfolio.

Horizon considers the allowance for loan losses of $10.525 million adequate to cover losses inherent in the loan portfolio as of September 30, 2008. However, no assurance can be given that Horizon will not, in any particular period, sustain loan losses that are significant in relation to the amount reserved, or that subsequent evaluations of the loan portfolio, in light of factors then prevailing, including economic conditions and management s ongoing quarterly assessments of the portfolio, will not require increases in the allowance for loan losses. Horizon has increased its allowance for loan and lease losses in recent quarters. See Results of Operations Material Changes in Results of Operations Three months ended September 30, 2008 compared to the three months ended September 30, 2007 beginning on page 22 for a further description of these additional allowances.

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Goodwill and intangible assets

Horizon periodically assesses the impairment of its goodwill and the recoverability of its core deposit intangible. Indefinite-lived intangible assets are tested annually for impairment or more frequently if there is significant adverse change in the business climate or the company receives an adverse action or assessment by a regulator. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. If actual external conditions and future operating results differ from Horizon s judgements, impairment and/or increased amortization charges may be necessary to reduce the carrying value of these assets to the appropriate value. Recent negative changes in economic conditions in general, and in the financial institutions industry in particular, have increased the potential for impairment. Horizon believes that while the company has experienced some negative impact from current economic conditions and the stock price has fallen below book value, it has continued to generate strong financial results in a difficult economic climate and while the stock price was below book value at the end of the quarter, Horizon s stock did trade at a price approximately $2.50 above book value during the quarter. Horizon believes that goodwill and other intangibles are not impaired at September 30, 2008.

Derivative Instruments

Horizon has entered into both fair value and cash flow derivative arrangements during the first nine months of 2008. For both fair value and cash flow hedges, management s objective is to ensure that changes in the fair value of the hedged item will be offset by changes in the fair value of the hedging derivative. SFAS 133 requires that the method selected for assessing hedge effectiveness must be reasonable, be defined at the inception of the hedging relationship and be applied consistently throughout the hedging relationship. A change in a derivative counterparty s creditworthiness would immediately affect the assessment of hedge effectiveness and the measurement of ineffectiveness. Horizon uses the dollar-offset method for assessing effectiveness of fair value hedges using the cumulative approach. Horizon performs effectiveness testing on a monthly basis and determined there was no hedge ineffectiveness and that the counterparty s creditworthiness was adequate at September 30, 2008.

Fair value hedges

For fair value hedges, the dollar-offset method compares the cumulative fair value of the hedging derivative with the cumulative fair value of the hedged items. The calculation of dollar offset is the change in clean fair value of hedging derivative, divided by the change in clean fair value of the hedged exposure attributable to changes in the LIBOR curve. To the extent that the cumulative change in fair value of the hedging derivative offsets from 80% to 125% of the cumulative change in fair value of the hedged exposure, the hedge is deemed effective.

Cash flow hedges

For cash flow hedges, Horizon measures the degree of hedge effectiveness by comparing the cumulative change in anticipated interest cash flows from the hedged exposure over the hedging period to the cumulative change in anticipated cash flows from the hedging derivative. Horizon utilizes the Hypothetical Derivative Method to compute the cumulative change in anticipated interest cash flows from the hedged exposure. To the extent that the cumulative change in anticipated cash flows from the hedging derivative offsets from 80% to 125% of the cumulative change in anticipated interest cash flows from the hedged exposure, the hedge is deemed effective.

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Financial Condition

Liquidity

The Bank maintains a stable base of core deposits provided by long standing relationships with consumers and local businesses. These deposits are the principal source of liquidity for Horizon. Other sources of liquidity for Horizon include earnings, loan repayment, investment security sales and maturities, sale of real estate loans and borrowing relationships with correspondent banks, including the Federal Home Loan Bank (FHLB). Horizon maintains a liquidity contingency plan, which requires the monitoring of certain liquidity ratios, and based on these ratios, may require actions to acquire additional liquidity as noted above. During the nine months ended September 30, 2008, cash and cash equivalents decreased by approximately $34.5 million. Federal funds sold declined and borrowings increased to provide funding for a decline in deposits. These proceeds from the liquidation of these short-term investments and additional borrowings were used to redeem maturing certificates of deposit. At September 30, 2008, in addition to liquidity provided from the normal operating, funding, and investing activities of Horizon, the Bank has available approximately $124 million in unused credit lines with various money center banks including the FHLB.

There have been no other material changes in the liquidity of Horizon from December 31, 2007 to September 30, 2008.

Fair Value Measurement

Horizon has Federal agency collateralized mortgage obligations totaling $13.319 million and Federal agency mortgage-backed pools totaling $105.807 million. These securities, which are classified as available for sale and are therefore carried at fair value in the financial statements, are secured by first mortgage residential loans and are guaranteed by various Government Sponsored Enterprises.

Determinations of fair value are based on market data. Pricing models are used that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available, loan performance data. Because many fixed income securities do not trade on a daily basis, pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, model processes such as the Option Adjusted Spread are used to assess interest rate impact and develop prepayment scenarios. Market inputs normally used for evaluation of securities, listed in approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

For broker-quoted securities, quotes are obtained from market makers, broker dealers or closing prices on stock exchanges.

At September 30, 2008, the Company's unrealized losses relating to municipal securities are attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company has the intent and ability to hold these securities until a recovery of fair value, which may be at maturity, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2008.

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Capital Resources

The capital resources of Horizon and the Bank exceeded regulatory capital ratios for well capitalized banks at September 30, 2008. Stockholders equity totaled $75.072 million as of September 30, 2008, compared to $70.645 million as of December 31, 2007. At September 30, 2008, the ratio of stockholders equity to assets was 6.32% compared to 5.61% for December 31, 2007. Horizon s capital increased during the period as a result of increased earnings, net of dividends declared and the amortization of unearned compensation. These increases were offset by an increase in unrealized loss on securities available for sale. The ratio improved due to a decline in assets and the increase in equity.

Horizon declared dividends in the amount of $.49 per share during the first nine months of 2008, and $.44 per share for the same period of 2007. The dividend payout ratio (dividends as a percent of net income) was 23% for the first nine months of both 2008 and 2007. For additional information regarding dividend conditions, see page 46 of Form 10-K for 2007.

There have been no other material changes in Horizon s capital resources from December 31, 2007 to September 30, 2008.

On October 14, 2008, the U.S. Treasury announced it will offer to non-troubled U.S. banking organizations the opportunity to sell preferred stock, along with warrants to purchase common stock, to the Treasury on what may be considered attractive terms under the Troubled Asset Relief Program (TARP) and Capital Purchase Program (CPP). Horizon has preliminarily determined that obtaining additional Tier 1 capital pursuant to the CPP is advisable to, among other things, enable Horizon to better serve the banking needs of its local communities, provide a capital cushion against unforeseen future events and provide additional capital to be used for other purposes permitted by the program. As a result, on November 3, 2008, Horizon filed an initial application with the Treasury pursuant to the CPP seeking approval to sell $25 million in preferred stock to the Treasury (which will equal 2.83% of its total risk weighted assets as of June 30, 2008). The CPP is generally only available to healthy financial institutions to provide them with additional capital to expand the flow of credit to U.S. consumers and businesses on competitive terms and for related purposes to promote the sustained growth and vitality of the U.S. economy. As a result, Horizon s participation in the CPP is not an indication that Horizon is having financial difficulties. In fact, both Horizon and Horizon Bank currently exceed all applicable regulatory capital requirements to be classified as well capitalized. See Note 7 Subsequent Events"-to the financial statements beginning on page 13 for a complete description of the terms and conditions of the CPP.

Material Changes in Financial Condition September 30, 2008 compared to December 31, 2007

During the first nine months of 2008, net loans decreased by $31.6 million. The major portion of the decline related to the sale of approximately $38 million of adjustable rate mortgage loans. The loans were sold to reduce reliance on non-core funding. Partially offsetting this was an increase in mortgage warehouse loans. Commercial and installment loans have decreased slightly as new volume was not sufficient to offset normal amortization in these portfolios.

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Deposits declined from the end of the preceding year. Consumer certificates of deposit declined by approximately $69 million and negotiable certificates of deposit declined by $57 million during the first nine months of 2008. The declines in both categories came in short term, high cost deposits, which matured during the period. These declines were offset by the decline in loans and additional borrowings, at lower interest rates.

There have been no other material changes in the financial condition of Horizon from December 31, 2007 to September 30, 2008.

Results of Operations

Material Changes in Results of Operations Three months ended September 30, 2008 compared to the three months ended September 30, 2007

During the three months ended September 30, 2008, net income totaled $1.332 million or $.41 per diluted share compared to $2.270 million or $.70 per diluted share for the same period in 2007.

Net interest income for the quarter ended September 30, 2008 was $9.403 million, an increase of $1.201 million from the third quarter of 2007. The net interest margin improved 44 basis points from the third quarter of 2007 to 3.45%. The improvement resulted primarily from reductions in funding costs that exceeded declines in yields on earning assets. Horizon s cost of funds has dropped approximately 109 basis points since the third quarter of 2007 while the yield on earning assets declined only 65 basis points. Horizon reduced rates on NOW and money market accounts in line with short-term rate decreases put in place by the Federal Open Market Committee. In addition, a large amount of Certificates of Deposit (CDs) matured during the quarter and were renewed in lower rate CDs or the funding was replaced with lower cost borrowed money.

Horizon assesses the adequacy of its Allowance for Loan and Lease Losses (ALLL) by regularly reviewing the performance of all of its loan portfolios. As a result of its most recent review, Horizon determined that there had been recent deterioration in the commercial and indirect loan portfolios. As a result, a provision for loan losses of $3.137 million was taken for the third quarter of 2008. This compares to a provision of $550 thousand for the third quarter of 2007. This increase is primarily due to the deterioration of three commercial loans. In addition, Horizon has experienced increased charge-offs related to repossessions and voluntary surrenders of vehicles in its indirect loan portfolio. To reflect these recent trends, Horizon has adjusted, to a more recent period, the historical charge-off ratios used to determine the historical loss component of the ALLL.

For the third quarter of 2008, Horizon s non-performing loans of approximately $6.634 increased from the September 30, 2007 level of $2.3 million. Total non-performing loans as of September 30, 2008 were approximately 0.77% of total loans. Net charge-offs for the quarter were $2.423 million compared to $392 thousand for the same quarter of 2007. The current quarter charge-offs related to deterioration in the commercial and indirect loan portfolios. Additionally, Horizon has $1.357 million of other real estate owned, which represent an increase from September 30, 2007 of $1.071 million. Management feels that the total ALLL of $10.525 million or 1.23% of total loans is adequate to absorb probable incurred losses contained in the loan portfolio.

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The following tables show the allocation of the ALLL and net charge-offs:

Allocation of the Allowance for Loan and Lease Losses
(Dollars in Thousands)

	September 30, 2008	September 30, 2007
Commercial	**$ 2,659**	$ 2,579
Real estate	**1,115**	750
Mortgage warehousing	**1,341**	1,417
Installment	**5,410**	3,769
Unallocated		308
Total	**$10,525**	$ 8,823

Net Charge-offs
(Dollars in Thousands)

	Three months ended September 30, 2008	Three months ended September 30, 2007	**Nine months ended September 30, 2008**	Nine months ended September 30, 2007
Commercial	**$1,275**	$ (21)	**$ 1,348**	$ (42)
Real estate	**(50)**		**275**	
Mortgage warehousing				
Installment	**1,198**	413	**3,047**	1,097
Total	**$2,423**	$ 392	**$ 4,671**	$ 1,055

Non-interest income increased $221 thousand or 7.1% from the third quarter of 2007. The main contributing factors were: (a) an increase in service charges on deposit accounts primarily due to an increase in the charge for non-sufficient fund checks implemented in the first quarter of 2008, (b) an increase in wire transfer fees related to an increase in mortgage warehouse loan activity.

Non-interest expense increased $540 thousand or 7.0% from the third quarter of 2007. Salaries and benefits decreased due to the staff reduction, which occurred during the third quarter of 2007. Loan expense increased from the prior year due to higher collection expense and lower deferred costs on new loans. The major cause of the increase in other expenses relates to increased FDIC insurance premiums. The one time credit granted by the FDIC in November of 2006 was fully utilized in the first quarter of 2008.

The effective tax rate declined to 0.0% for the third quarter of 2008 compared to 26.7% in the third quarter of 2007. Pre-tax income was almost entirely offset by tax-exempt interest income generated from tax-exempt loans and investments as well as the increase in cash surrender value of officer life insurance. Also during the current quarter,

Horizon realized $47 thousand from amended returns filed to claim additional tax benefits related to Horizon s investment subsidiary.

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There have been no other material changes in the results of operations of Horizon for the three months ending September 30, 2008 compared to the same period of 2007.

Material Changes in Results of Operations-Nine months ended September 30, 2008 compared to the Nine months ended September 30, 2007.

For the Nine months ended September 30, 2008, net income totaled $6.850 million or $2.11 per diluted share compared to $6.130 million or $1.89 per diluted share for the same period of 2007. An increase in net interest margin of 34 basis points to 3.31% for the period and a $36 million increase in average earning assets contributed to the increase.

Non-interest income for the first nine months of 2008 increased by $1.479 million or 16.5%. In addition to the reasons noted above for the three-month period, during the second quarter, Horizon received death benefit proceeds from a bank owned life insurance policy.

Non-interest expense increased $977 thousand or 4.1% from the first nine months of 2007. The increase relates to the same reasons mentioned above for the three months ended September 30, 2008.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The degree by which net interest income may fluctuate due to changes in interest rates is monitored by Horizon using computer simulation models, incorporating not only the current GAP position but the effect of expected repricing of specific financial assets and liabilities. When repricing opportunities are not properly aligned, net interest income may be affected when interest rates change. Forecasting results of the possible outcomes determines the exposure to interest rate risk inherent in Horizon s balance sheet. The goal is to manage imbalanced positions that arise when the total amount of assets that reprice or mature in a given time period differs significantly from liabilities that reprice or mature in the same time period. The theory behind managing the difference between repricing assets and liabilities is to have more assets repricing in a rising rate environment and more liabilities repricing in a declining rate environment. At September 30, 2008, the amount of assets that reprice within one year were 130% of liabilities that reprice within one year. At December 31, 2007, the amount of assets that reprice within one year were approximately 103% of the amount of liabilities that reprice within the same time period. The increase in asset sensitivity was accomplished by extending maturities of interest bearing time deposits.

	Rate Sensitivity				
	3 Months or Less	> 3 Months and < 6 Months	> 6 Months and < 1 Year	Greater Than 1 Year	Total
Loans	$327,203	$69,907	$ 105,796	$359,875	$ 862,781
Federal funds sold					
Interest-bearing balances with Banks	1,186				1,186
Investment securities and FRB and FHLB stock	25,554	8,818	12,597	196,493	243,462
Other assets	22,232			58,970	81,202
Total assets	$376,175	$78,725	$ 118,393	$615,338	$1,188,631

	Rate Sensitivity				
	3 Months or Less	> 3 Months and < 6 Months	> 6 Months and < 1 Year	Greater Than 1 Year	Total
Noninterest-bearing deposits	$ 7,125	$ 7,124	$ 11,890	$ 59,954	$ 86,093
Interest-bearing deposits	102,727	74,612	102,802	383,188	663,329
Borrowed funds	59,950	3,175	70,641	222,513	356,279
Other liabilities				7,858	7,858
Stockholders equity				75,072	75,072
Total liabilities and stockholders equity	$169,802	$ 84,911	$ 185,333	$748,585	$1,188,631

GAP	$206,373	$ (6,186)	$ (66,940)	$ (15,213)
Cumulative GAP	$206,373	$200,187	$ 133,247	

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (continued)

Included in the GAP analysis are certain interest-bearing demand accounts and savings accounts. These interest-bearing accounts are subject to immediate withdrawal. However, Horizon considers approximately 59% of these deposits to be insensitive to gradual changes in interest rates and generally to behave like deposits with longer maturities based upon historical experience.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls And Procedures

Based on an evaluation of disclosure controls and procedures as of September 30, 2008, Horizon s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Horizon s disclosure controls (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)). Based on such evaluation, such officers have concluded that, as of the evaluation date, Horizon s disclosure controls and procedures are effective to ensure that the information required to be disclosed by Horizon in the reports it files under the Exchange Act is recorded, processed, summarized and reported within the time specified in Securities and Exchange Commission rules and forms and are designed to ensure that information required to be disclosed in those reports is accumulated and communicated to management as appropriate to allow timely decisions regarding disclosure.

Changes In Internal Controls

Horizon s management, including its Chief Executive Officer and Chief Financial Officer, also have concluded that during the fiscal quarter ended September 30, 2008, there have been no changes in Horizon s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Horizon s internal control over financial reporting.

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ITEM 1. LEGAL PROCEEDINGS

On August 5, 2008, Maria Coto filed a putative class action complaint in the Porter County Superior Court, in Porter County, Indiana, on behalf of herself and others who had their vehicles repossessed by the Bank during the four years prior to the filing of the action. The complaint alleges that the Bank s post-repossession notice to defaulting borrowers does not comply with certain aspects of Indiana law. The Bank has filed its response to the initial complaint and is vigorously defending the action.

ITEM 1A. RISK FACTORS

This Item 1A requires disclosure of any material changes from risk factors previously disclosed in Horizon s most recent annual report on Form 10-K for the year ended December 31, 2007. Horizon has revised certain risk factors it previously disclosed in its Form 10-K for the year ended December 31, 2007, and added certain new risk factors. The revised and additional risk factors are set forth below in their entirety and supercede and replace the risk factors in the 2007 Form 10-K.

Risks Related to our Business

As a financial institution, we are subject to a number of risks relating to our day-to-day business.

As a financial institution, we are subject to a number of risks relating to our daily business. Although we undertake a variety of efforts to manage and control those risks, many of the risks are outside of our control. Among the risks we face are the following:

- credit risk: the risk that loan customers or other parties will be unable to perform their contractual obligations;

- market risk: the risk that changes in market rates and prices will adversely affect our financial condition or results of operation;

- liquidity risk: the risk that Horizon or the Bank will have insufficient cash or access to cash to meet its operating needs; and

- operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or external events.

Investors should consider carefully these risks and the other risks and uncertainties described below. Any of these risks could materially adversely affect our business, financial condition or operating results which could cause our stock price to decline. The risks and uncertainties described below are not, however, the only ones that we may face. Additional risks and uncertainties not currently known to us, or that we currently believe are not material, could also materially adversely affect our business, financial condition or operating results.

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The current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations.

We are operating in a challenging and uncertain economic environment, including generally uncertain national conditions and local conditions in our markets. The capital and credit markets have been experiencing volatility and disruption for more than 12 months. In recent weeks, the volatility and disruption has reached unprecedented levels. The risks associated with our business become more acute in periods of a slowing economy or slow growth such as we experienced in the latter half of 2007 and which has continued into 2008. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. While we are taking steps to decrease and limit our exposure to residential construction and land development loans and home equity loans, we nonetheless retain direct exposure to the residential and commercial real estate markets, and we are affected by these events.

Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment, including job losses, could have an adverse effect on our borrowers or their customers, which could adversely affect our financial condition and results of operations. In addition, a possible national economic recession or further deterioration in local economic conditions in our markets could drive losses beyond that which is provided for in our allowance for loan losses and result in the following other consequences: increases in loan delinquencies, problem assets and foreclosures may increase; demand for our products and services may decline; deposits may decrease, which would adversely impact our liquidity position; and collateral for our loans, especially real estate, may decline in value, in turn reducing customers borrowing power, and reducing the value of assets and collateral associated with our existing loans.

Our financial performance may be adversely impacted if we are unable to continue to grow our commercial and consumer loan portfolios, obtain low-cost funds and compete with other providers of financial services.

Our ability to maintain our history of record earnings year after year will depend, in large part, on our ability to continue to grow our commercial and consumer loan portfolios and obtain low-cost funds. During 2006 and 2007, we focused on increasing consumer loans, and we intend to continue to emphasize and grow consumer, as well as commercial types of loans in the foreseeable future. This represented a shift in our emphasis from 2002 and 2003 when we focused on mortgage banking services, which generated a large portion of our income during those years. We have also funded our growth with low-cost consumer deposits, and our ability to sustain our growth will depend in part on our continued success in attracting such deposits or finding other sources of low-cost funds.

Another factor in maintaining our history of record earnings will be our ability to expand our scope of available financial services to our customers in an increasingly competitive environment. In addition to other banks, our competitors include credit unions, securities brokers and dealers, mortgage brokers, mortgage bankers, investment advisors, and finance and insurance companies. Competition is intense in most of our markets. We compete on price and service with our competitors. Competition could intensify in the future as a result of industry consolidation, the increasing availability of products and services from non-banks, greater technological developments in the industry, and banking reform.

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Our commercial and consumer loans expose us to increased credit risks.

We have a large percentage of commercial and consumer loans. Commercial loans generally have greater credit risk than residential mortgage loans because repayment of these loans often depends on the successful business operations of the borrowers. These loans also typically have much larger loan balances than residential mortgage loans. Consumer loans generally involve greater risk than residential mortgage loans because they are unsecured or secured by assets that depreciate in value. Although we undertake a variety of underwriting, monitoring and reserving protections with respect to these types of loans, there can be no guarantee that we will not suffer unexpected losses, and recently, we have experienced some increase in the default rates in our consumer loan portfolio, particularly relating to indirect auto loans.

Our holdings of construction, land and home equity loans, may pose more credit risk than other types of mortgage loans.

In light of current economic conditions, construction loans, loans secured by commercial real estate and home equity loans are considered more risky than other types of mortgage loans. Due to the disruptions in credit and housing markets, real estate values have decreased dramatically in most areas of the U.S., and many of the developers to whom we lend experienced a dramatic decline in sales of new homes from their projects. As a result of this unprecedented market disruption, some of our land and construction loans have become non-performing as developers are unable to build and sell homes in volumes large enough for orderly repayment of loans and as other owners of such real estate (including homeowners) were unable to keep up with their payments. We believe we have established adequate reserves on our financial statements to cover the credit risk of these loan portfolios. However, there can be no assurance that losses will not exceed our reserves, and ultimately result in a material level of charge-offs, which could adversely impact our results of operations, liquidity and capital.

Changes in market interest rates could adversely affect our financial condition and results of operations.

Our financial condition and results of operations are significantly affected by changes in market interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income that we earn on our interest-earning assets and the interest expense that we pay on our interest-bearing liabilities. Our profitability depends on our ability to manage our assets and liabilities during periods of changing market interest rates. If rates increase rapidly as a result of an improving economy, we may have to increase the rates paid on our deposits and borrowed funds more quickly than loans and investments re-price, resulting in a negative impact on interest spreads and net interest income. The impact of rising rates could be compounded if deposit customers move funds from savings accounts to higher rate certificate of deposit accounts. Conversely, should market interest rates fall below current levels, our net interest margin could also be negatively affected, as competitive pressures could keep us from further reducing rates on our deposits, and prepayments and curtailments on assets may continue. Such movements may cause a decrease in our interest rate spread and net interest margin, and therefore, decrease our profitability.

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We also are subject to reinvestment risk associated with changes in interest rates. Changes in interest rates may affect the average life of loans and mortgage-related securities. Increases in interest rates may decrease loan demand and/or may make it more difficult for borrowers to repay adjustable rate loans. Decreases in interest rates often result in increased prepayments of loans and mortgage-related securities, as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments in loans or other investments that have interest rates that are comparable to the interest rates on existing loans and securities.

An economic slowdown in Northwestern Indiana and Southwestern Michigan could affect our business.

Our primary market area for deposits and loans consists of LaPorte and Porter Counties in Northwestern Indiana and Berrien County in Southwestern Michigan. An economic slowdown, which could cause a rise in unemployment and a decline in real estate values in our market areas could hurt our business. Possible consequences of such a downturn could include the following:

- increases in loan delinquencies and foreclosures;
- declines in the value of real estate and other collateral for loans;
- a decline in the demand for our products and services;

The preparation of our financial statements requires the use of estimates that may vary from actual results.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates that affect the financial statements. One of our most critical estimates is the level of the allowance for loan losses. Due to the inherent nature of these estimates, we cannot provide absolute assurance that we will not have to increase the allowance for loan losses and/or sustain loan losses that are significantly higher than the provided allowance.

Our mortgage warehouse and indirect lending operations are subject to a higher fraud risk than our other lending operations.

We buy loans originated by mortgage bankers and automobile dealers. Because we must rely on the mortgage bankers and automobile dealers in making and documenting these loans, there is an increased risk of fraud to us on the part of the third-party originators and the underlying borrowers. In order to guard against this increased risk, we perform investigations on the loan originators with whom we do business, and we review the loan files and loan documents we purchase to attempt to detect any irregularities or legal noncompliance. However, there is no guarantee that our procedures will detect all cases of fraud or legal noncompliance.

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We are subject to extensive regulation and changes in laws, regulations and policies could adversely affect our business.

Our operations are subject to extensive regulation by federal agencies. See Supervision and Regulation in the description of our Business in Item 1 of our Form 10-K for the fiscal year ended December 31, 2007 for detailed information on the laws and regulations to which we are subject. As apparent from the recent EESA and TARP legislation, changes in applicable laws, regulations or regulator policies can materially affect our business. The likelihood of any major changes in the future and their effects are impossible to determine.

In addition to the EESA and TARP legislation mentioned above, federal and state governments could pass additional legislation responsive to current credit conditions. As an example, Horizon Bank could experience higher credit losses because of federal or state legislation or regulatory action that reduces the amount the Bank s borrowers are otherwise contractually required to pay under existing loan contracts. Also, Horizon Bank could experience higher credit losses because of federal or state legislation or regulatory action that limits its ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

The new laws described above, together with additional actions announced by the Treasury and other regulatory agencies continue to develop. It is not clear at this time what impact, EESA, TARP, other liquidity and funding initiatives of the Treasury and other bank regulatory agencies that have been previously announced, and any additional programs that may be initiated in the future will have on the financial markets and the financial services industry. The extreme levels of volatility and limited credit availability currently being experienced could continue to effect the U.S. banking industry and the broader U.S. and global economies, which will have an affect on all financial institutions, including Horizon.

Our inability to continue to accurately process large volumes of transactions could adversely impact our business and financial results.

In the normal course of business, we process large volumes of transactions. If systems of internal control should fail to work as expected, if systems are used in an unauthorized manner, or if employees subvert the system of internal controls, significant losses could result.

We process large volumes of transactions on a daily basis and are exposed to numerous types of operational risk. Operational risk resulting from inadequate or failed internal processes, people and systems includes the risk of fraud by persons inside or outside the company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes the potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

We establish and maintain systems of internal operational controls that are designed to provide us with timely and accurate information about our level of operational risk. While not foolproof, these systems have been designed to manage operational risk at appropriate, cost-effective levels. Procedures also exist that are designed to ensure that policies relating to conduct, ethics and business practices are followed. From time to time, losses from operational risk may occur, including the effects of operational errors.

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While we continually monitor and improve the system of internal controls, data processing systems and corporate-wide processes and procedures, there can be no assurance that future losses will not occur.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default by our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

Risks Related to our Common Stock

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell our common stock at times or at prices you find attractive.

Although our common stock is listed on the NASDAQ Global Market, our stock price constantly changes (sometimes dramatically), and we expect our stock price to continue to fluctuate in the future. Our stock price is impacted by a variety of factors, some of which are beyond our control.

These factors include:

- variations in our operating results or the quality of our assets;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements of new products, strategic developments, acquisitions and other material events by us or our competitors;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- actual or anticipated sales of our equity or equity-related securities;
- our past and future dividend practice;
- our creditworthiness;
- interest rates;
- the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing;
- developments with respect to financial institutions generally; and
- economic, financial, geopolitical, regulatory, congressional or judicial events that affect us or the financial markets.

In addition, in recent years, and especially in recent weeks, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many

companies and particularly those in the financial services and banking sector, including for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, notwithstanding our operating results.

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Our participation in the TARP Capital Purchase Program may adversely affect the value of our common stock and the rights of our common stockholders.

The terms of the preferred stock Horizon will issue under the TARP Capital Purchase Program could reduce investment returns to Horizon s common stockholders by restricting dividends, diluting existing stockholders ownership interests, and restricting capital management practices. Without the prior consent of the Treasury, Horizon will be prohibited from increasing its common stock dividends for the first three years while the Treasury holds the preferred stock.

Also, the preferred stock requires quarterly dividends to be paid at the rate of 5% per annum for the first five years and 9% per annum thereafter until the stock is redeemed by Horizon. The payments of these dividends will decrease the excess cash Horizon otherwise has available to pay dividends on its common stock and to use for general corporate purposes, including working capital.

Finally, Horizon will be prohibited from continuing to pay dividends on its common stock unless it has fully paid all required dividends on the preferred stock issued to the Treasury. Although Horizon fully expects to be able to pay all required dividends on the preferred stock (and to continue to pay dividends on its common stock at current levels), there is no guarantee that it will be able to do so in the future.

Because our stock is thinly traded, it may be more difficult for you to sell your shares or buy additional shares when you desire to do so and the price may be volatile.

Although our common stock has been listed on the NASDAQ stock market since December 2001, our common stock is thinly traded. Average daily trading volume during 2007 was only 1,689 shares. The prices of thinly traded stocks, such as ours, are typically more volatile than stocks traded in a large, active public market and can be more easily impacted by sales or purchases of large blocks of stock. Thinly traded stocks are also less liquid, and because of the low volume of trades, you may be unable to sell your shares when you desire to do so.

Provisions in our articles of incorporation, our by-laws, and Indiana law may delay or prevent an acquisition of us by a third party.

Our articles of incorporation and by-laws and Indiana law contain provisions which have certain anti-takeover effects. While the purpose of these provisions is to strengthen the negotiating position of the board in the event of a hostile takeover attempt, the overall effects of these provisions may be to render more difficult or discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a larger block of our shares, and the removal of incumbent directors and key management.

Our articles of incorporation provide for a staggered board, which means that only one-third of our board can be replaced by shareholders at any annual meeting. Our articles also provide that our directors may only be removed without cause by shareholders owning 70% or more of our outstanding common stock. Furthermore, our articles provide that only our board of directors, and not our shareholders, may adopt, alter, amend and repeal our by-laws. Our articles also preempt Indiana law with respect to business combinations with a person who acquires 10% or more of our common stock and provide that such transactions are subject to independent and super-majority shareholder approval requirements unless certain pricing and board pre-approval requirements are satisfied.

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Our by-laws do not permit cumulative voting of shareholders in the election of directors, allowing the holders of a majority of our outstanding shares to control the election of all our directors, and our directors are elected by plurality (not majority) voting. Our by-laws also establish detailed procedures that shareholders must follow if they desire to nominate directors for election or otherwise present issues for consideration at a shareholders meeting. We also have a mandatory retirement age for directors.

These and other provisions of our governing documents and Indiana law are intended to provide the board of directors with the negotiating leverage to achieve a more favorable outcome for our shareholders in the event of an offer for the company. However, there is no assurance that these same anti-takeover provisions could not have the effect of delaying, deferring or preventing a transaction or a change in control that might be in the best interest of our shareholders.

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

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

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ITEM 6. EXHIBITS

(a) Exhibits

Exhibit 11	Statement Regarding Computation of Per Share Earnings
Exhibit 31.1	Certification of Craig M. Dwight
Exhibit 31.2	Certification of James H. Foglesong
Exhibit 32	Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

		HORIZON BANCORP
11-11-2008		/s/ Craig M. Dwight
Date:	BY:	Craig M. Dwight President and Chief Executive Officer
11-12-2008		/s/ James H. Foglesong
Date:	BY:	James H. Foglesong Chief Financial Officer

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INDEX TO EXHIBITS

The following documents are included as Exhibits to this Report.

Exhibit		Location
11	Statement Regarding Computation of Per Share Earnings	Attached
31.1	Certification of Craig M. Dwight	Attached
31.2	Certification of James H. Foglesong	Attached
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Attached