

HORIZON BANCORP /IN/
Form 10-Q
August 14, 2007

SECURITIES AND EXCHANGE COMMISSION
450 5th Street N.W.
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2007**

Commission file number **0-10792**

HORIZON BANCORP

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of incorporation
or organization)

35-1562417

(I.R. S. Employer Identification No.)

**515 Franklin Square, Michigan City,
Indiana**

(Address of principal executive offices)

46360

(Zip Code)

Registrant's telephone number, including area code: **(219) 879-0211**

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

3,251,582 at August 13 , 2007

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

	June 30, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and due from banks	\$ 24,893	\$ 52,311
Interest-bearing demand deposits	1	1
Federal funds sold		6,500
Cash and cash equivalents	24,894	58,812
Interest-bearing deposits	4,407	898
Investment securities, available for sale	224,541	243,078
Loans held for sale	16,233	13,103
Loans, net of allowance for loan losses of \$8,665 and \$8,738	840,736	835,096
Premises and equipment	23,861	23,394
Federal Reserve and Federal Home Loan Bank stock	12,087	12,136
Goodwill	5,787	5,787
Other intangible assets	2,234	2,412
Interest receivable	6,134	6,094
Other assets	31,369	21,620
Total assets	\$ 1,192,283	\$ 1,222,430
Liabilities		
Deposits		
Noninterest bearing	\$ 82,635	\$ 81,949
Interest bearing	738,309	832,024
Total deposits	820,944	913,973
Short-term borrowings	86,689	83,842
Long-term borrowings	185,864	115,951
Subordinated debentures	27,837	40,209
Interest payable	1,785	1,771
Other liabilities	5,992	4,807
Total liabilities	1,129,111	1,160,553
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, 5,010,406 and 4,998,106 shares	1,113	1,111
Additional paid-in capital	25,431	25,229

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Retained earnings	57,678	54,196
Accumulated other comprehensive loss	(3,898)	(1,507)
Less treasury stock, at cost, 1,759,424 shares	(17,152)	(17,152)
Total stockholders' equity	63,172	61,877
Total liabilities and stockholders' equity	\$ 1,192,283	\$ 1,222,430

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 June		Six Months Ended June 30	
	2007 (Unaudited)	2006 (Unaudited)	2007 (Unaudited)	2006 (Unaudited)
Interest Income				
Loans receivable	\$ 15,774	\$ 13,829	\$ 30,758	\$ 26,602
Investment securities				
Taxable	1,935	2,059	4,038	4,226
Tax exempt	857	762	1,718	1,485
Total interest income	18,566	16,650	36,514	32,313
Interest Expense				
Deposits	7,087	5,977	14,381	11,270
Federal funds purchased and short-term borrowings	798	592	1,635	990
Long-term borrowings	2,127	1,697	3,542	3,347
Subordinated debentures	512	548	1,278	1,060
Total interest expense	10,524	8,814	20,836	16,667
Net Interest Income	8,042	7,836	15,678	15,646
Provision for loan losses	365	225	590	605
Net Interest Income after Provision for Loan Losses	7,677	7,611	15,088	15,041
Other Income				
Service charges on deposit accounts	841	778	1,619	1,464
Wire transfer fees	91	103	185	189
Fiduciary activities	891	810	1,695	1,473
Gain on sale of loans	600	325	1,150	628
Increase in cash surrender value of bank owned life insurance	231	118	463	226
Loss on sale of securities	-	(91)	-	(249)
Other income	334	336	741	679
Total other income	2,988	2,379	5,853	4,410
Other Expenses				
Salaries and employee benefits	4,501	4,062	8,870	8,296
Net occupancy expenses	554	561	1,171	1,179
Data processing and equipment expenses	628	659	1,265	1,299
Professional fees	372	304	741	545
Outside services and consultants	217	255	476	538
Loan expense	275	263	547	488
Other expenses	1,426	1,321	2,759	2,594
Total other expenses	7,973	7,425	15,829	14,939

Income Before Income Tax	2,692	2,565	5,112	4,512
Income tax expense	676	731	1,252	1,229
Net Income	\$ 2,016	\$ 1,834	\$ 3,860	\$ 3,283
Basic Earnings Per Share	\$.63	\$.58	\$ 1.21	\$ 1.04
Diluted Earnings Per Share	\$.62	\$.57	\$ 1.19	\$ 1.02

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, 2006	\$ 1,111	\$ 25,229		\$ 54,196	\$ (1,507)	\$ (17,152)	\$ 61,877
Net income			\$ 3,860	3,860			3,860
Other comprehensive loss, net of tax, unrealized losses on securities			(2,391)		(2,391)		(2,391)
Comprehensive income			\$ 1,469				
Amortization of unearned compensation		118					118
Issuance of restricted stock	2	(2)					
Reversal of compensation expense for forfeiture of non-vested shares	(2)	(79)					(81)
Exercise of stock options	2	89					91
Tax benefit related to stock options		46					46
Stock option expense		30					30
Adjustment to accrued income taxes upon adoption of financial Interpretation 48				563			563

Cash dividends (\$.29 per share)				(941)			(941)
Balances, June 30, 2007	\$ 1,113	\$ 25,431		\$ 57,678	\$ (3,898)	\$ (17,152)	\$ 63,172

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)

	Six Months Ended June 30	
	2007	2006
	(Unaudited)	(Unaudited)
Operating Activities		
Net income	\$ 3,860	\$ 3,283
Items not requiring (providing) cash		
Provision for loan losses	590	605
Depreciation and amortization	1,126	1,262
Share based compensation	30	15
Mortgage servicing rights (recovery) impairment	1	22
Deferred income tax	(469)	1,036
Investment securities amortization, net	(61)	130
Loss on sale of securities	—	249
Gain on sale of loans	(1,150)	(628)
Proceeds from sales of loans	87,733	46,974
Loans originated for sale	(89,713)	(48,660)
(Gain) loss on sale of other real estate owned	—	4
Loss on sale of fixed assets	11	—
Increase in cash surrender value of life insurance	(463)	(226)
Tax benefit of options exercised	(46)	(438)
Net change in:		
Interest receivable	(40)	448
Interest payable	14	(221)
Other assets	441	(1,042)
Other liabilities	1,195	(103)
Net cash provided by operating activities	3,059	2,710
Investing Activities		
Net change in interest-bearing deposits	(3,509)	14,037
Purchases of securities available for sale	(9,970)	(52,639)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	24,888	81,564
Net change in loans	(6,589)	(62,680)
(Purchase) Redemption Federal Reserve Bank stock	49	(31)
Proceeds from sale of fixed assets	—	1
Recoveries on loans previously charged-off	349	294
Proceeds from sale of other real estate owned	—	25
Purchases of premises and equipment	(1,387)	(2,096)
Purchase of bank owned life insurance	(8,000)	—
Net cash used in investing activities	(4,169)	(21,525)
Financing Activities		
Net change in		

Deposits	(93,029)	(15,451)
Short-term borrowings	2,847	22,964
Increase (decrease) of long-term borrowings	69,913	(4,582)
Redemption of trust preferred securities	(12,372)	
Proceeds from issuance of stock	165	636
Purchase of treasury stock	—	(128)
Tax benefit of options exercised	46	438
Cumulative effect of change in accounting principle	563	
Dividends paid	(941)	(904)
Net cash provided by (used in) financing activities	(32,808)	2,973
Net Change in Cash and Cash Equivalents	(33,918)	(15,842)
Cash and Cash Equivalents, Beginning of Period	58,812	39,250
Cash and Cash Equivalents, End of Period	\$ 24,894	\$ 23,408
Additional Cash Flows Information		
Interest paid	\$ 20,822	\$ 16,888
Income tax paid	1,080	250

See notes to condensed consolidated financial statements.

Table of Contents**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 subsidiary, Horizon Bank, N.A. (Bank). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended June 30, 2007 and June 30, 2006, are not necessarily indicative of the operating results for the full year of 2007 or 2006. 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 2006 filed with the Securities and Exchange Commission. The consolidated balance sheet of Horizon as of December 31, 2006, 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 June 30, 2007	Three months Ended June 30, 2006	Six months Ended June 30, 2007	Six months Ended June 30, 2006
Basic	3,200,259	3,183,870	3,197,300	3,163,159
Diluted	3,243,537	3,209,294	3,241,524	3,205,780

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in, Horizon's Form 10-K annual report for 2006 filed with the Securities and Exchange Commission.

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(Table Dollar Amounts in Thousands, Except Per Share Data)**Note 2 - Change in Accounting Principle**

Horizon files income tax returns in the U.S. Federal, Indiana, and Michigan jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal, state and local examinations by tax authorities for years before 2004.

The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FIN 48, no material liabilities for uncertain tax positions have been recorded, however, the Company reduced its liabilities for certain tax positions by \$563,000. This reduction was recorded as a cumulative effect adjustment to equity. The following financial statement line items for 2007 were affected by the change in accounting principle.

	2007		
	As Computed Pre-FIN 48	As Reported Under FIN 48	Effect of Change
<i>Balance Sheet</i>			
Other assets	\$ 30,806	\$ 31,369	\$ (563)
Retained earnings	\$ 57,115	\$ 57,678	\$ (563)

Note 3 – Future Accounting Pronouncements

On September 6, 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS 157 clarifies the fair value measurement objective, its application in GAAP and establishes a framework that builds on current practice and requirements. The framework simplifies and, where appropriate, codifies the similar guidance in existing pronouncements and applies broadly to financial and non-financial assets and liabilities. The Statement clarifies the definition of fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, known as an exit-price definition of fair value. It also provides further guidance on the valuation techniques to be used in estimating fair value. Current disclosures about the use of fair value to measure assets and liabilities are expanded in this Statement. The disclosures focus on the methods used for fair value measurements and apply whether the assets and liabilities are measured at fair value in all periods, such as trading securities, or in only some periods, such as impaired assets. The Statement is effective for all financial statements issued for fiscal years beginning after November 15th, 2007 as well as for interim periods within such fiscal years. The Company is currently evaluating the impact of this Statement on its 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)

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115 which will permit entities to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the Fair Value Option). The Fair Value Option permits all entities to choose to measure eligible items at fair value at specified election dates. An entity will be required to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is expected to improve financial reporting by providing entities with the opportunity to mitigate volatility without having to apply complex hedge accounting provisions and is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, Fair Value Measurements. The Company did not elect to early adopt SFAS No. 159 and has not yet made a determination if it will elect to apply the options available in SFAS No. 159.

In September 2006, FASB ratified the consensus reached by the EITF in Issue No. 06-4 “Accounting for Deferred Compensation and Post-retirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.” EITF 06-4 requires companies with split-dollar life insurance policies that provide a benefit to an employee that extends to post retirement periods to recognize a liability for future benefits based on the substantive agreement with the employee. Companies are permitted to recognize the effects of applying the consensus through either (1) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets as of the beginning of the year of adoption or (2) a change in accounting principle through retrospective application to all prior periods. EITF 06-4 will be effective for fiscal years beginning after December 15, 2007, with early adoption permitted. We are currently evaluating the impact, if any, that EITF 06-4 will have on our consolidated financial condition and results of operations.

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

Horizon Bancorp and Subsidiaries

**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

For the Three and Six Months Periods Ended June 30, 2007

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 Bancorp ("Horizon" or "Company") and Horizon Bank, N.A. ("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 actual 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 state