

HORIZON BANCORP /IN/
Form 10-Q
November 12, 2009

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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, 2009
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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 3,273,881 at November 12, 2009.

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(Dollar Amounts in Thousands)

	September 30 2009 (Unaudited)	December 31 2008
Assets		
Cash and due from banks	\$ 10,848	\$ 36,001
Interest-bearing deposits	4,464	2,679
Investment securities, available for sale	333,031	301,638
Investment securities, held to maturity	15,661	1,630
Loans held for sale	6,119	5,955
Loans, net of allowance for loan losses of \$13,924 and \$11,410	861,785	870,557
Premises and equipment	29,972	28,280
Federal Reserve and Federal Home Loan Bank stock	13,225	12,625
Goodwill	5,787	5,787
Other intangible assets	1,521	1,751
Interest receivable	6,222	5,708
Cash value life insurance	22,966	22,451
Other assets	9,623	11,795
Total assets	\$1,321,224	\$1,306,857
Liabilities		
Deposits		
Non-interest bearing	\$ 87,725	\$ 83,642
Interest bearing	770,272	757,527
Total deposits	857,997	841,169
Borrowings	311,884	324,383
Subordinated debentures	27,837	27,837
Interest payable	1,304	1,910
Other liabilities	8,369	8,208
Total liabilities	1,207,391	1,203,507
Commitments and contingent liabilities		
Stockholders Equity		
Preferred stock, no par value, \$1,000 liquidation value		
Authorized, 1,000,000 shares		
Issued 25,000 shares		
Common stock, \$.2222 stated value	24,267	24,154
Authorized, 22,500,000 shares		
Issued, 3,271,631 and 3,254,482 shares	1,118	1,114
Additional paid-in capital	9,974	9,650

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Retained earnings	72,255	67,804
Accumulated other comprehensive income	6,219	628
Total stockholders' equity	113,833	103,350
Total liabilities and stockholders' equity	\$1,321,224	\$1,306,857

See notes to condensed consolidated financial statements

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Table of Contents**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	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest Income				
Loans receivable	\$13,797	\$14,202	\$43,793	\$ 43,763
Investment securities				
Taxable	2,673	2,172	8,333	6,934
Tax exempt	1,015	791	2,882	2,490
Total interest income	17,485	17,165	55,008	53,187
Interest Expense				
Deposits	3,528	4,261	11,517	15,552
Borrowed funds	2,897	3,108	9,011	8,782
Subordinated debentures	341	393	1,082	1,192
Total interest expense	6,766	7,762	21,610	25,526
Net Interest Income	10,719	9,403	33,398	27,661
Provision for loan losses	3,416	3,137	9,903	5,405
Net Interest Income after Provision for Loan Losses	7,303	6,266	23,495	22,256
Other Income				
Service charges on deposit accounts	972	1,065	2,880	2,975
Wire transfer fees	201	155	709	382
Interchange fees	514	216	1,358	618
Fiduciary activities	745	911	2,486	2,817
Gain (loss) on sale of securities	422		422	(15)
Gain on sale of mortgage loans	1,277	657	4,861	2,122
Mortgage servicing net of impairment	35	3	(131)	8
Increase in cash surrender value of bank owned life insurance	206	252	547	701
Death benefit on officer life insurance				538
Other income	170	92	420	316
Total other income	4,542	3,351	13,552	10,462

Other Expenses

Salaries and employee benefits	4,539	4,203	14,264	12,698
Net occupancy expenses	941	944	2,872	2,834
Data processing	419	391	1,194	1,073
Professional fees	316	263	1,021	803
Outside services and consultants	366	328	1,043	940
Loan expense	631	593	1,841	1,603
FDIC insurance expense	400	146	1,751	404
Other (gains) losses	(25)	25	442	267
Other Expenses	1,342	1,390	3,826	3,927
Total other expenses	8,929	8,283	28,254	24,549
Income Before Income Tax	2,916	1,334	8,793	8,169
Income tax expense	559	2	1,737	1,319
Net Income	2,357	1,332	7,056	6,850
Preferred stock dividend and discount accretion	(351)		(1,051)	
Net Income Available to Common Shareholders	\$ 2,006	\$ 1,332	\$ 6,005	\$ 6,850
Basic Earnings Per Share	\$ 0.62	\$ 0.42	\$ 1.86	\$ 2.14
Diluted Earnings Per Share	\$ 0.61	\$ 0.41	\$ 1.84	\$ 2.11
See notes to condensed consolidated financial statements				

Table of Contents**Horizon Bancorp and Subsidiaries****Condensed Consolidated Statement of Stockholders Equity****(Unaudited)**

(Table Dollar Amounts in Thousands, Except Per Share Data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances, December 31, 2008	\$ 24,154	\$ 1,114	\$ 9,650		\$ 67,804	\$ 628	\$ 103,350
Net income				\$ 7,056	7,056		7,056
Amortization of discount on preferred stock	113				(113)		
Other comprehensive income (loss), net of tax:							
Unrealized gain on securities				5,523		5,523	5,523
Unrealized gain on derivative instruments				68		68	68
Comprehensive income				\$ 12,647			
Amortization of unearned compensation			147				147
Issuance of restricted shares		3	101				104
Exercise of stock options		1	31				32
Tax benefit related to stock options			16				16
Stock option expense			29				29
Cash dividends on preferred stock (5.00%)					(1,051)		(1,051)
Cash dividends on common stock (\$.51 per share)					(1,441)		(1,441)
Balances, September 30, 2009	\$ 24,267	\$ 1,118	\$ 9,974		\$ 72,255	\$ 6,219	\$ 113,833

See notes to condensed consolidated financial statements

Table of Contents**HORIZON BANCORP AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows**

(Dollar Amounts in Thousands)

	Nine Months Ended September 30	
	2009	2008
	(Unaudited)	(Unaudited)
Operating Activities		
Net income	\$ 7,056	\$ 6,850
Items not requiring (providing) cash		
Provision for loan losses	9,903	5,405
Depreciation and amortization	1,733	1,743
Share based compensation	29	28
Mortgage servicing rights impairment	124	5
Deferred income tax	(576)	(555)
Premium amortization on securities available for sale, net	491	239
(Gain) loss on sale of investment securities	(422)	15
Gain on sale of mortgage loans	(4,861)	(1,929)
Proceeds from sales of loans	270,354	108,659
Loans originated for sale	(267,847)	(103,152)
Increase in cash surrender value of life insurance	(515)	104
Loss on sale of other real estate owned	13	
Net change in		
Interest receivable	(514)	379
Interest payable	(606)	(490)
Other assets	961	(1,479)
Other liabilities	247	472
Net cash provided by operating activities	15,570	16,294
Investing Activities		
Net change in interest-bearing deposits	(1,785)	(937)
Purchases of securities available for sale	(89,034)	(38,751)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	66,068	41,487
Purchase of securities held to maturity	(14,031)	(815)
Proceeds from maturities of securities held to maturity		85
Purchases of FRB Stock	(600)	
Net change in loans	(9,115)	(10,822)
Proceeds on sale of OREO and repossessed assets	8,833	
Recoveries on loans previously charged-off		799
Purchases of premises and equipment	(3,048)	(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)
Net cash provided by (used in) investing activities	(42,712)	25,407

Financing Activities

Net change in		
Deposits	16,828	(144,242)
Borrowings	(12,499)	69,590
Proceeds from issuance of stock	136	35
Tax benefit from issuance of stock	16	8
Dividends paid on preferred shares	(1,051)	
Dividends paid on common shares	(1,441)	(1,593)
Net cash provided by (used in) financing activities	1,989	(76,202)
Net Change in Cash and Cash Equivalent	(25,153)	(34,501)
Cash and Cash Equivalents, Beginning of Period	36,001	55,029
Cash and Cash Equivalents, End of Period	\$ 10,848	\$ 20,528
Additional Cash Flows Information		
Interest paid	\$ 22,216	\$ 26,016
Income taxes paid	2,005	1,405
Transfer of loans to other real estate owned	7,578	1,223
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 or the Company) and its wholly-owned subsidiaries, including Horizon Bank, N.A. (Bank). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended September 30, 2009 and September 30, 2008 are not necessarily indicative of the operating results for the full year of 2009 or 2008. 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 Annual Report on Form 10-K for 2008 filed with the Securities and Exchange Commission. The consolidated balance sheet of Horizon as of December 31, 2008 has been derived from the audited balance sheet of Horizon as of that date.

Basic earnings per share is computed by dividing net income available to common shareholders (net income less dividend requirements for preferred stock and accretion of preferred stock discount) by the weighted-average number of common shares outstanding. Diluted earnings per share reflect 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 computation of basic and diluted earnings per share.

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Basic earnings per share				
Net income	\$ 2,357	\$ 1,332	\$ 7,056	\$ 6,850
Less: Preferred stock dividends and accretion of discount	351		1,051	
Net income available to common shareholders	\$ 2,006	\$ 1,332	\$ 6,005	\$ 6,850
Weighted average common shares outstanding	3,245,505	3,209,482	3,221,622	3,208,362
Basic earnings per share	\$ 0.62	\$ 0.42	\$ 1.86	\$ 2.14
Diluted earnings per share	\$ 2,006	\$ 1,332	\$ 6,005	\$ 6,850

Net income available to common
shareholders

Weighted average common shares outstanding	3,245,505	3,209,482	3,221,622	3,208,362
Effect of dilutive securities:				
Restricted stock	20,572	34,257	41,895	26,903
Stock options	7,665	11,670	6,637	10,943
Weighted average shares outstanding	3,273,742	3,255,409	3,270,154	3,246,208
Diluted earnings per share	\$ 0.61	\$ 0.41	\$ 1.84	\$ 2.11

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(Table Dollar Amounts in Thousands, Except Per Share Data)

At September 30, 2009 and 2008 there were 30,800 shares and 28,000 shares that were not included in the computation of diluted earnings per share because they were non-dilutive. Warrants to purchase 212,104 shares at September 30, 2009 were not included in the computation of diluted earnings per share because the effect would be non-dilutive.

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in the December 31, 2008 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the 2008 consolidated financial statements to be comparable to 2009.

These reclassifications had no effect on net income.

Note 2 Securities

The fair value of securities is as follows:

September 30, 2009 (Unaudited)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	\$ 19,722	\$ 571	\$	\$ 20,293
State and municipal	96,371	4,585	(233)	100,723
Federal agency collateralized mortgage obligations	49,608	625	(299)	49,934
Federal agency mortgage-backed pools	156,300	5,328	(1)	161,627
Corporate notes	710	6	(262)	454
Total available for sale investment securities	\$322,711	\$11,115	\$(795)	\$333,031
Held to maturity, State and Municipal	\$ 15,661	\$ 4	\$ (1)	\$ 15,664