Alphatec Holdings, Inc.
Form 8-K
September 14, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 12, 2007

ALPHATEC HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	000-52024	20-2463898
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

2051 Palomar Airport Road

Carlsbad, CA 92011

(Address of principal executive offices and zip code)

Registrant s telephone number, including area code: (760) 431-9286

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events

In another case initiated by DePuy Spine, Inc. (DePuy Spine) involving the alleged infringement of U.S. Patent No. 5,207,678 (the 678 Patent) by a spine company, the United States District Court for the Central District of California issued an order dated August 31, 2007 that invalidated five of the seven claims of the 678 Patent. The two claims of the 678 Patent that were not invalidated, Claim 2 and Claim 7, both require locking nuts on either side of the screw body. As previously disclosed, a subsidiary of Alphatec Holdings, Inc., Alphatec Spine, Inc. (Alphatec Spine), is the defendant in a suit initiated by DePuy Spine that alleges infringement of the 678 Patent. Alphatec Spine believes that all of its products are outside the scope of both of the non-invalidated claims as none of Alphatec Spine s products have locking nuts on either side of the screw body. Alphatec Spine is evaluating its position with respect to its litigation with DePuy Spine involving the 678 Patent. DePuy Spine has the right to appeal this order by filing an appeal with the United States Court of Appeals for the Federal Circuit.

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 hereunto duly authorized.

ALPHATEC HOLDINGS, INC.

Dated: September 13, 2007

/s/ Ebun S. Garner, Esq.
Ebun S. Garner, Esq.
General Counsel and Vice President, Compliance

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PART 1 FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

HORIZON BANCORP AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Dollar Amounts in Thousands)

	March 31 2010 (Unaudited)	December 31 2009
Assets		
Cash and due from banks	**$ 25,829**	$ 68,702
Investment securities, available for sale	**351,630**	333,132
Investment securities, held to maturity	**17,122**	11,657
Loans held for sale	**8,682**	5,703
Loans, net of allowance for loan losses of $16,120 and $16,015	**793,300**	870,302
Premises and equipment	**30,628**	30,534
Federal Reserve and Federal Home Loan Bank stock	**13,189**	13,189
Goodwill	**5,787**	5,787
Other intangible assets	**1,372**	1,447
Interest receivable	**6,206**	5,986
Cash value life insurance	**23,295**	23,139
Other assets	**24,620**	17,442
Total assets	**$ 1,301,660**	$ 1,387,020
Liabilities		
Deposits		
Non-interest bearing	**$ 91,482**	$ 84,357
Interest bearing	**782,040**	867,351
Total deposits	**873,522**	951,708
Borrowings	**273,235**	284,016
Subordinated debentures	**27,837**	27,837
Interest payable	**1,038**	1,135
Other liabilities	**10,312**	7,719
Total liabilities	**1,185,944**	1,272,415
Commitments and contingent liabilities		
Stockholders Equity		
Preferred stock, no par value, $1,000 liquidation value		
Authorized, 1,000,000 shares		
Issued 25,000 shares	**24,345**	24,306
Common stock, $.2222 stated value		
Authorized, 22,500,000 shares		
Issued, 3,295,953 and 3,273,881 shares	**1,122**	1,119
Additional paid-in capital	**10,211**	10,030
Retained earnings	**74,310**	73,431

Accumulated other comprehensive income	**5,728**	5,719
Total stockholders equity	**115,716**	114,605
Total liabilities and stockholders equity	**$ 1,301,660**	$ 1,387,020

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 March 31	
	(Unaudited) 2010	**(Unaudited) 2009**
Interest Income		
Loans receivable	**$ 12,605**	$ 14,905
Investment securities		
Taxable	**2,446**	2,849
Tax exempt	**1,081**	920
Total interest income	**16,132**	18,674
Interest Expense		
Deposits	**2,763**	3,996
Borrowed funds	**2,443**	2,892
Subordinated debentures	**373**	370
Total interest expense	**5,579**	7,258
Net Interest Income	**10,553**	11,416
Provision for loan losses	**3,233**	3,197
Net Interest Income after Provision for Loan Losses	**7,320**	8,219
Other Income		
Service charges on deposit accounts	**865**	934
Wire transfer fees	**140**	247
Interchange fees	**454**	388
Fiduciary activities	**995**	917
Gain on sale of mortgage loans	**1,382**	1,913
Mortgage servicing net of impairment	**65**	(134)
Increase in cash surrender value of bank owned life insurance	**156**	156
Other income	**317**	73
Total other income	**4,374**	4,494
Other Expenses		
Salaries and employee benefits	**4,798**	4,831
Net occupancy expenses	**1,062**	1,032
Data processing	**402**	379
Professional fees	**471**	395
Outside services and consultants	**365**	326
Loan expense	**750**	566
FDIC insurance expense	**388**	292

Other losses		**27**		385
Other expenses		**1,291**		1,191
Total other expenses		**9,554**		9,397
Income Before Income Tax		**2,140**		3,316
Income tax expense		**349**		681
Net Income		**1,791**		2,635
Preferred stock dividend and discount accretion		**(352)**		(350)
Net Income Available to Common Shareholders	**$**	**1,439**	$	2,285
Basic Earnings Per Share	**$**	**0.44**	$	0.71
Diluted Earnings Per Share		**0.44**		0.70

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)

	Preferred Stock	**Common Stock**	**Additional Paid-in Capital**	**Comprehensive Income**	**Retained Earnings**	**Accumulated Other Comprehensive Income (loss)**	**Total**
Balances, January 1, 2010	**$ 24,306**	**$ 1,119**	**$ 10,030**		**$ 73,431**	**$ 5,719**	**$ 114,605**
Net income				$ 1,791	1,791		1,791
Other comprehensive income, net of tax:							
Unrealized gain on securities				282		282	282
Unrealized loss on derivative instruments				(273)		(273)	(273)
Comprehensive income				$ 1,800			
Amortization of unearned compensation			17				17
Exercise of stock options		3	97				100
Tax benefit related to stock options			62				62
Stock option expense			5				5
Cash dividends on preferred stock (5.00%)					(313)		(313)
Cash dividends on common stock ($.17 per share)					(560)		(560)
Accretion of discount on preferred stock	39				(39)		
Balances, March 31, 2010	**$ 24,345**	**$ 1,122**	**$ 10,211**		**$ 74,310**	**$ 5,728**	**$ 115,716**

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)

	Three Months Ended March 31	
	2009 (Unaudited)	**2008 (Unaudited)**
Operating Activities		
Net income	**$ 1,791**	$ 2,635
Items not requiring (providing) cash		
Provision for loan losses	**3,233**	3,197
Depreciation and amortization	**546**	580
Share based compensation	**5**	9
Mortgage servicing rights impairment	**(55)**	129
Deferred income tax	**(276)**	249
Premium amortization on securities available for sale, net	**325**	91
Gain on sale of mortgage loans	**(1,382)**	(1,913)
Proceeds from sales of loans	**50,150**	99,449
Loans originated for sale	**(48,996)**	(100,369)
Increase in cash surrender value of life insurance	**(156)**	(156)
(Gain) Loss on sale of other real estate owned	**(48)**	27
Net change in		
Interest receivable	**(220)**	(330)
Interest payable	**(97)**	(61)
Other assets	**(5,653)**	30
Other liabilities	**1,673**	(270)
Net cash provided by operating activities	**840**	3,297
Investing Activities		
Purchases of securities available for sale	**(37,161)**	(37,929)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	**18,569**	16,057
Purchase of securities held to maturity	**(5,665)**	(440)
Proceeds from maturities of securities held to maturity	**403**	
Net change in loans	**69,213**	(55,064)
Proceeds on sale of OREO and repossessed assets	**875**	290
Recoveries on loans previously charged-off	**279**	
Purchases of premises and equipment	**(548)**	(1,713)
Net cash provided by (used in) investing activities	**45,965**	(78,799)
Financing Activities		
Net change in		
Deposits	**(78,186)**	136,320
Borrowings	**(10,781)**	(3,427)
Proceeds from issuance of stock	**100**	

Tax benefit from issuance of stock		**62**		
Dividends paid on preferred shares		**(313)**		(195)
Dividends paid on common shares		**(560)**		(553)
Net cash provided by (used in) financing activities		**(89,678)**		132,145
Net Change in Cash and Cash Equivalent		**(42,873)**		56,643
Cash and Cash Equivalents, Beginning of Period		**68,702**		36,001
Cash and Cash Equivalents, End of Period	**$**	**25,829**	$	92,644
Additional Cash Flows Information				
Interest paid	**$**	**5,676**		7,319
Income taxes paid				125
Transfer of loans to other real estate owned		**1,939**		1,498

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 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 March 31, 2010 and March 31, 2009 are not necessarily indicative of the operating results for the full year of 2010 or 2009. 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 2009 filed with the Securities and Exchange Commission. The consolidated balance sheet of Horizon as of December 31, 2009 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. The following table shows computation of basic and diluted earnings per share.

	Three months ended March 31 2010 (Unaudited)	2009 (Unaudited)
Basic earnings per share		
Net income	$ 1,791	$ 2,635
Less: Preferred stock dividends and accretion of discount	352	350
Net income available to common shareholders	$ 1,439	$ 2,285
Weighted average common shares outstanding	3,270,217	3,209,482
Basic earnings per share	$ 0.44	$ 0.71
Diluted earnings per share		
Net income available to common shareholders	$ 1,439	$ 2,285
Weighted average common shares outstanding	3,270,217	3,209,482
Effect of dilutive securities:		
Restricted stock	18,893	35,216
Stock options	4,082	5,726
Weighted average shares outstanding	3,293,192	3,250,424
Diluted earnings per share	$ 0.44	$ 0.70

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HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

At March 31, 2010 and 2009 there were 29,000 shares and 30,800 shares 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, 2009 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the 2009 consolidated financial statements to be comparable to 2010. These reclassifications had no effect on net income.

Note 2 Securities

The fair value of securities is as follows:

March 31, 2010 (Unaudited)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
U.S. Treasury and federal agencies	$ 25,817	$ 706	$ (17)	$ 26,506
State and municipal	109,228	2,700	(322)	111,606
Federal agency collateralized mortgage obligations	101,925	1,385	(221)	103,089
Federal agency mortgage-backed pools	105,380	4,602	(16)	109,966
Corporate notes	475		(12)	463
Total available for sale investment securities	$ 342,825	$ 9,393	$ (588)	$ 351,630
Held to maturity, State and Municipal	$ 17,122	$	$	$ 17,122

December 31, 2009	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
U.S. Treasury and federal agencies	$ 19,612	$ 473	$	$ 20,085
State and municipal	107,160	2,402	(413)	109,149
Federal agency collateralized mortgage obligations	84,001	1,121	(227)	84,895
Federal agency mortgage-backed pools	113,633	5,028		118,661
Corporate notes	355		(13)	342
Total available for sale investment securities	$ 324,761	$ 9,024	$ (653)	$ 333,132
Held to maturity, State and Municipal	$ 11,657	$ 30	$	$ 11,687

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information, and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. While these securities are held in the available for sale portfolio, Horizon intends and has the ability to hold them until the earlier of a recovery in fair value or maturity.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. At March 31, 2010, no individual investment security had an unrealized loss that was determined to be other-than-temporary.

The unrealized losses on the Company s investments in securities of state and municipal, federal agency collateralized mortgage obligations, and federal agency mortgage-backed pools were caused by interest rate increases and not a decline in credit quality. The contractual terms of those investments do not permit the

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HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

issuer to settle the securities at a price less than the amortized cost basis of the investments or the Company expects to recover the amortized cost basis over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company did not consider those investments to be other-than-temporarily impaired at March 31, 2010.

The amortized cost and fair value of securities available for sale and held to maturity at March 31, 2010 and December 31, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2010 (Unaudited)		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
Within one year	$ 2,774	$ 2,790	$ 2,658	$ 2,691
One to five years	11,619	11,792	5,449	5,682
Five to ten years	42,264	43,478	40,557	41,400
After ten years	78,862	80,514	78,463	79,803
	135,519	138,574	127,127	129,576
Federal agency collateralized mortgage obligations	101,925	103,089	84,001	84,895
Federal agency mortgage-backed pools	105,380	109,967	113,633	118,661
Total available for sale investment securities	$ 342,824	$ 351,630	$ 324,761	$ 333,132
Held to maturity				
Within one year	$ 16,927	$ 16,927	$ 11,462	$ 11,484
One to five years	195	195	195	203
Total held to maturity investment securities	$ 17,122	$ 17,122	$ 11,657	$ 11,687

The following table shows investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

	Less than 12 Months		12 Months or More		Total	
March 31, 2010 (Unaudited)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Treasury and federal agencies	$ 3,981	$ (17)	$	$	$ 3,981	$ (17)
State and municipal	14,512	(204)	4,730	(118)	19,242	(322)
Federal agency collateralized mortgage obligations	15,653	(146)	3,140	(75)	18,793	(221)
Federal agency mortgage-backed pools	4,144	(16)	40		4,184	(16)

Corporate notes	20	(12)			20	(12)
Total temporarily impaired securities	$ 38,310	$ (395)	$ 7,910	$ (193)	$ 46,220	$ (588)

	Less than 12 Months		12 Months or More		Total	
December 31, 2009	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
State and municipal	$ 14,757	$ (216)	$ 3,791	$ (197)	$ 18,548	$ (413)
Federal agency collateralized mortgage obligations	12,369	(122)	1,756	(105)	14,125	(227)
Federal agency mortgage-backed pools			42		42	
Corporate notes	9	(13)			9	(13)
Total temporarily impaired securities	$ 27,135	$ (351)	$ 5,589	$ (302)	$ 32,724	$ (653)

There were no investment security sales or related gains or losses in three month period ending March 31, 2010 or 2009.

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HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

Note 3 Loans

	March 31 2010 (Unaudited)	December 31 2009
Real estate loans		
1 4 family	$ 130,176	$ 128,373
Other	5,300	5,519
Total	135,476	133,892
Commercial loans		
Working capital and equipment	166,169	167,149
Real estate, including agriculture	133,019	135,639
Tax exempt	3,928	3,247
Other	7,547	8,482
Total	310,663	314,517
Consumer loans		
Auto	140,199	146,270
Recreation	5,442	5,321
Real estate/home improvement	31,497	32,009
Home equity	85,389	83,412
Unsecured	2,381	2,222
Other	2,046	1,976
Total	266,954	271,210
Mortgage warehouse loans		
Prime	96,327	166,698
Sub-prime		
Total	96,327	166,698
Total loans	809,420	886,317
Allowance for loan losses	(16,120)	(16,015)
Loans, net	$ 793,300	$ 870,302

Note 4 Allowance for Loan Losses

	Three Months Ended	
	March 31	March 31

	2010 (Unaudited)	2009 (Unaudited)
Balances, beginning of period	$ 16,015	$ 11,410
Provision for losses	3,233	3,197
Recoveries on loans	279	258
Loans charged off	(3,407)	(3,276)
Balances, end of period	$ 16,120	$ 11,589

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HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

Note 5 Non-performing Assets

The following table shows non-performing loans including loans more than 90 days past due, on non-accrual, and trouble debt restructuring along with other real estate owned and repossessed collateral.

	March 31 2010 (Unaudited)	December 31 2009
Non-performing loans		
Commercial		
More than 90 days past due	$	$ 1,086
Non-accrual	7,024	8,143
Trouble debt restructuring		
Residential mortgage		
More than 90 days past due	94	296
Non-accrual	4,976	1,257
Trouble debt restructuring	1,147	3,266
Mortgage warehouse		
More than 90 days past due		
Non-accrual		
Trouble debt restructuring		
Installment		
More than 90 days past due	251	376
Non-accrual	2,861	2,515
Trouble debt restructuring	37	206
Total non-performing loans	16,390	17,145
Other real estate owned and repossessed collateral		
Commercial	494	544
Residential mortgage	1,581	1,186
Mortgage warehouse		
Installment	101	23
Total other real estate owned and repossessed collateral	2,176	1,753
Total non-performing assets	$ 18,566	$ 18,898

Note 6 Derivative financial instruments

Cash Flow Hedges

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flow due to interest rate fluctuations, the Company entered into interest rate swap agreements for a portion of its floating rate debt. The agreements provide for the Company to receive interest from the counterparty at three month LIBOR and to pay interest to the counterparty at a weighted average fixed rate of 5.53% on a notional amount of $27.0 million at March 31, 2010. Under the agreements, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of the other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and

HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. At March 31, 2010 the Company s cash flow hedge was effective and is not expected to have a significant impact the Company s net income over the next 12 months.

Fair Value Hedges

Fair value hedges are intended to reduce the interest rate risk associated with the underlying hedged item. The Company 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, the Company has entered into interest rate swap agreements on individual loans, converting the fixed rate loans to a variable rate. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings. At March 31, 2010 the Company s fair value hedges were effective and are not expected to have a significant impact the Company s net income over the next 12 months.

The change in fair value of both the hedge instruments and the underlying loan agreements are recorded as gains or losses in interest income. The fair value hedges are considered to be highly effective and any hedge ineffectiveness was deemed not material. The notional amounts of the loan agreements being hedged were $37.8 million at March 31, 2010.

Other Derivative Instruments

The Company enters into non-hedging derivatives in the form of mortgage loan forward sale commitments with investors and commitments to originate mortgage loans as part of its mortgage banking business. At March 31, 2010 the Company s fair value of these derivatives were recorded and over the next 12 months are not expected to have a significant impact the Company s net income.

The change in fair value of both the forward sale commitments and commitments to originate mortgage loans were recorded and the net gains or losses included in the Company s gain on sale of loans.

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HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

The following tables summarize the fair value of derivative financial instruments utilized by Horizon Bancorp:

	Asset Derivative March 31, 2010 (Unaudited)		Liability Derivatives March 31, 2010 (Unaudited)	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts	Loans	$ 1,545	Other liabilities	$ 1,545
Interest rate contracts	Other Assets	633	Other liabilities	627
Total derivatives designated as hedging instruments		2,178		2,172
Derivatives not designated as hedging instruments				
Mortgage loan contracts	Other assets	406	Other liabilities	38
Total derivatives not designated as hedging instruments		406		38
Total derivatives		$ 2,584		$ 2,210

	Asset Derivative December 31, 2009		Liability Derivatives December 31, 2009	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts	Other Assets	$ 1,038	Other liabilities	$ 611
Total derivatives designated as hedging instruments		2,179		1,752
Derivatives not designated as hedging instruments				
Mortgage loan contracts	Other assets	265	Other liabilities	135
		265		135

Total derivatives not designated as hedging instruments		
Total derivatives	$ 2,444	$ 1,887

The effect of the derivative instruments on the consolidated statement of income for the three month period ended is as follows:

	Amount of Loss Recognized in Other Comprehensive Income on Derivative (Effective Portion)	
Derivative in cash flow hedging relationship	**Three Months Ended March 31, 2010 (Unaudited)**	**Three Months Ended March 31, 2009 (Unaudited)**
Interest rate contracts	$ (273)	$ (47)
Total	$ (273)	$ (47)

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HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

FASB Accounting Standards Codification (ASC) Topic 820-10-20 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820-10-55 establishes a fair value hierarchy that emphasizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

		Amount of Gain (Loss) Recognized on Derivative	
Derivative in fair value hedging relationship	**Location of gain (loss) recognized on derivative**	**Three Months Ended March 31, 2010 (Unaudited)**	**Three Months Ended March 31, 2009 (Unaudited)**
Interest rate contracts	Interest income - loans	$ 403	$ 24
Interest rate contracts	Interest income - loans	(403)	(24)
Total		$	$

Derivative not designated as hedging relationship	**Location of Gain (Loss) Recognized on Derivative**	**Three Months Ended March 31, 2010 (Unaudited)**	**Three Months Ended March 31, 2009 (Unaudited)**
Mortgage contracts	Other income - gain on sale of loans	$ 237	$ 32
Total		$ 237	$ 32

Note 7 Disclosures about fair value of assets and liabilities

The Fair Value Measurements topic of the FASB ASC defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. There are 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. 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, U.S. Treasury and federal agency securities, state and municipal securities, federal agency mortgage obligations and mortgage-backed pools, and corporate notes. Level 2 securities are valued by a third party pricing service commonly used in the banking industry utilizing observable inputs. Observable inputs include

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dealer quotes, market spreads, cash flow analysis, the U.S. Treasury yield curve, trade execution data, market consensus prepayment spreads and available credit information and the bond s terms and conditions. The pricing provider utilizes evaluated pricing models that vary based on asset class. These models incorporate available market information including quoted prices of securities with similar characteristics and, because many fixed-income securities do not trade on a daily basis, apply available information through processes such as benchmark curves, benchmarking of like securities, sector grouping, and matrix pricing. In addition, model processes, such as an option adjusted spread model is used to develop prepayment and interest rate scenarios for securities with prepayment features.

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.

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 FASB ASC fair value hierarchy in which the fair value measurements fall at the following:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2010 (Unaudited)				
Available-for-sale securities				
U.S. Treasury and federal agencies	$ 26,506	$	$ 26,506	$
State and municipal	111,606		111,606	
Federal agency collateralized mortgage obligations	103,089		103,089	
Federal agency mortgage-backed pools	109,966		109,966	
Corporate notes	463	443	20	
Total available-for-sale securities	351,630	443	351,187	
Hedged loans	39,331			39,331
Forward sale commitments	406			406
Interest rate swap agreements	(1,538)			(1,538)
Commitments to originate loans	(38)			(38)
December 31, 2009				

Available-for-sale securities				
U.S. Treasury and federal agencies	$ 20,085	$	$ 20,085	$
State and municipal	109,149		109,149	
Federal agency collateralized mortgage obligations	84,895		84,895	
Federal agency mortgage-backed pools	118,661		118,661	
Corporate notes	342	323	19	
Total available-for-sale securities	333,132	323	332,809	
Hedged loans	31,153			31,153
Forward sale commitments	265			265
Interest rate swap agreements	(715)			(715)
Commitments to originate loans	(135)			(135)

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The following is 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 (Unaudited):

	Hedged Loans	Forward Sale Commitments	Interest Rate Swaps	Commitments to Originate Loans
Beginning balance December 31, 2009	$ 31,153	$ 265	$ (715)	$ (135)
Total realized and unrealized gains and losses				
Included in net income	403	141	(403)	97
Included in other comprehensive income, gross			(420)	
Purchases, issuances, and settlements	7,991			
Principal payments	(216)			
Ending balance March 31, 2010	39,331	406	(1,538)	(38)

	Hedged Loans	Forward Sale Commitments	Interest Rate Swaps	Commitments to Originate Loans
Beginning balance December 31, 2008	$ 25,033	$ 670	$ (2,557)	$ (438)
Total realized and unrealized gains and losses				
Included in net income	24	(226)	(24)	258
Included in other comprehensive income, gross			(73)	
Purchases, issuances, and settlements	2,901			
Principal payments	(167)			
Ending balance March 31, 2009	27,791	444	(2,654)	(180)

Realized gains and losses included in net income for the periods are reported in the condensed consolidated statements of income as follows:

	Period Ended March 31	
Non Interest Income (Unaudited)	**2010**	**2009**
Total gains and losses from:		
Hedged loans	$ 403	$ 24
Fair value interest rate swap agreements	(403)	(24)
Derivative loan commitments	237	32
	$ 237	$ 32

Certain other assets are measured at fair value on a nonrecurring basis in the course of business and are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2010 (Unaudited)				
Impaired loans	$ 7,163	$	$	$ 7,163
December 31, 2009				
Impaired loans	$11,398	$	$	$11,398

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Impaired (collateral dependent): Fair value adjustments for impaired and non-accrual loans typically occur when there is evidence of impairment. Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. The Company measures fair value based on the value of the collateral securing the loans. Collateral may be in the form of real estate or personal property including equipment and inventory. The value of the collateral is determined based on internal estimates as well as third party appraisals or non-binding broker quotes. These measurements were classified as Level 3. The fair value of the Company s other real estate owned is determined using Level 3 inputs, which include current and prior appraisals and estimated costs to sell.

Note 8 Fair Value of Financial Instruments

The estimated fair value amounts were determined using available market information, current pricing information applicable to Horizon and various valuation methodologies. Where market quotations were not available, considerable management judgment was involved in the determination of estimated fair values. Therefore, the estimated fair value of financial instruments shown below may not be representative of the amounts at which they could be exchanged in a current or future transaction. Due to the inherent uncertainties of expected cash flows of financial instruments, the use of alternate valuation assumptions and methods could have a significant effect on the derived estimated fair value amounts.

The estimated fair values of financial instruments, as shown below, are not intended to reflect the estimated liquidation or market value of Horizon taken as a whole. The disclosed fair value estimates are limited to Horizon s significant financial instruments at March 31, 2010 and December 31, 2009. These include financial instruments recognized as assets and liabilities on the consolidated balance sheet as well as certain off-balance sheet financial instruments. The estimated fair values shown below do not include any valuation of assets and liabilities, which are not financial instruments as defined by the FASB ASC fair value hierarchy.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Due from Banks The carrying amounts approximate fair value.

Interest-Bearing Deposits The carrying amounts approximate fair value.

Held-to-Maturity Securities For debt securities held to maturity, fair values are based on quoted market prices or dealer quotes. For those securities where a quoted market price is not available, carrying amount is a reasonable estimate of fair value based upon comparison with similar securities.

Loans Held for Sale The carrying amounts approximate fair value.

Net Loans The fair value of portfolio loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The carrying amounts of loans held for sale approximate fair value.

FHLB and FRB Stock Fair value of FHLB and FRB stock is based on the price at which it may be resold to the FHLB and FRB.

Interest Receivable/Payable The carrying amounts approximate fair value.

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Deposits The fair value of demand deposits, savings accounts, interest-bearing checking accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturity.

Borrowings Rates currently available to Horizon for debt with similar terms and remaining maturities are used to estimate fair values of existing borrowings.

Subordinated Debentures Rates currently available for debentures with similar terms and remaining maturities are used to estimate fair values of existing debentures.

Commitments to Extend Credit and Standby Letter of Credit The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. Due to the short-term nature of these agreements, carrying amounts approximate fair value.

The estimated fair values of Horizon s financial instruments are as follows:

	March 31, 2010 (Unaudited)		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and due from banks	$ 25,829	$ 25,829	$ 68,702	$ 68,702
Investment securities available for sale	351,630	351,630	333,132	333,132
Investment securities held to maturity	17,122	17,122	11,657	11,687
Loans held for sale	8,682	8,682	5,703	5,703
Loans, net	793,300	810,704	870,302	885,625
Stock in FHLB and FRB	13,189	13,189	13,189	13,189
Interest receivable	6,206	6,206	5,986	5,986
Liabilities				
Non-interest bearing deposits	$ 91,482	$ 91,482	$ 84,357	$ 84,357
Interest-bearing deposits	782,040	756,350	867,351	830,621
Borrowings	273,235	293,019	284,016	304,000
Subordinated debentures	27,837	27,729	27,837	27,817
Interest payable	1,038	1,038	1,135	1,135

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Note 9 Other Comprehensive Income

	March 31, 2010 (Unaudited)	March 31, 2009 (Unaudited)
Unrealized gains on securities:		
Unrealized holding gains arising during the period	$ 434	$ 1,706
Less: reclassification adjustment for losses realized in net income		(15)
	434	1,721
Unrealized loss on derivative instruments	(420)	(851)
Net unrealized gains	14	870
Tax expense	(5)	(305)
Other comprehensive income	$ 9	$ 565

The components of accumulated other comprehensive income included in capital are as follows:

	March 31, 2010 (Unaudited)	December 31, 2009
Unrealized holding gain on securities available for sale	$ 5,724	$ 5,441
Unrealized loss on derivative instruments	4	278
Total other comprehensive income	$ 5,728	$ 5,719

Note 10 Future accounting matters

FASB ASC Topic 860-10, Accounting for Transfers of Financial Assets (SFAS 166), and No. 167, Amendments to FASB ASC 810-10 (*SFAS 167*). In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC Topic 860-10 and FASB ASC 810-10, which change the way entities account for securitizations and special-purpose entities, and will have a material effect on how banking organizations account for off-balance sheet vehicles. The new standards amend Statement of FASB ASC 860-10, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and FASB ASC 810-10, Consolidation of Variable Interest Entities. Both FASB ASC Topic 860-10 and FASB ASC Topic 810-10 were effective January 1, 2010 for companies reporting earnings on a calendar-year basis.

On January 21, 2010, the Board of Governors of the Federal Reserve System issued final risk-based capital rules related to the adoption of these accounting standards by financial institutions. FAS 166 and FAS 167 make substantive changes to how banking organizations account for many items, including securitized assets, that had been previously excluded from their balance sheets. Banking organizations affected by FAS 166 and FAS 167 generally will be subject to higher risk-based regulatory capital requirements intended to better align risk-based capital requirements with the actual risks of certain exposures.

The Corporation has adopted these standards, and takes into account in our internal capital planning processes the impact of these standards.

FASB ASU 2010-09, Subsequent Event Amendments to Certain Recognition and Disclosure Requirements. On February 24, 2010, FASB issued Accounting Standards Update (ASU) 2010-09, *Subsequent Event Amendments to Certain Recognition and Disclosure Requirements*. The ASU establishes separate subsequent event recognition criteria and disclosure requirements for U.S. Securities and Exchange Commission (SEC) filers. Effective with the release date, the financial statements of SEC filers will no longer disclose either the date through which subsequent events were reviewed or that subsequent events were evaluated through the date financial statements were issued. The requirement to evaluate subsequent events through the date of issuance is still in place. Only the disclosure is affected.

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The ASU also removes the requirement to make those disclosures in financial statements revised for either a correction of an error or a retrospective application of an accounting change. SEC filers are defined in the update as entities required to file or to furnish their financial statements with either the SEC or another appropriate agency (such as the Federal Deposit Insurance Corporation) under Section 12(i) of the *Securities and Exchange Act of 1934*, as amended.

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

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 the Company) and Horizon Bank, N.A. (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 actual effect of future plans or strategies is inherently uncertain. Factors that 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 the Company s 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;

Operational risk**:** the risk of loss resulting from fraud, inadequate or failed internal processes, people and systems, or external events;

Economic risk**:** the risk that the economy in the Company s markets could decline further resulting in increased unemployment, decreased real estate values and increased loan charge-offs; and

Compliance risk**:** the risk of additional action by Horizon s regulators or additional regulation could hinder the Company s ability to do business profitably.

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

Overview

Horizon is a registered bank holding company incorporated in Indiana and headquartered in Michigan City, Indiana. Horizon provides a broad range of banking services in Northwestern Indiana and Southwestern Michigan through its bank subsidiary. Horizon operates as a single segment, which is commercial banking. Horizon s Common Stock is traded on the Nasdaq Global Market under the symbol HBNC. The Bank was chartered as a national banking association in 1873 and has operated continuously since that time. The Bank is a full-service commercial bank offering commercial and retail banking services, corporate and individual trust and agency services, and other services incident to banking.

Horizon continues to operate in a challenging and uncertain economic environment. Within the Company s primary market areas of Northwest Indiana and Southwest Michigan unemployment rates increased during 2009 and have remained at high levels. This rise in unemployment has been driven by factors including slowdowns in the steel and recreational vehicle industries as well as a continued slowdown in the housing industry. Like numerous other parts of the country, Northwest Indiana and Southwest Michigan are experiencing a rise in mortgage delinquencies and bankruptcy filings as a result of increased unemployment rates. Despite these economic factors, Horizon continued to post positive results through the first three months of 2010.

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Following are some highlights of Horizons financial performance through the first quarter of 2010:

First quarter net income was $1.8 million or $0.44 diluted earnings per share.

Lower volume in mortgage warehouse lending reduced average loans outstanding during the quarter, decreasing interest income.

Horizon continued to experience steady residential mortgage loan activity through the first quarter with $1.4 million from the gain on sale of mortgage loans.

Horizon continues to build loan loss reserves.

Horizon s quarterly provision to the allowance for loan loss reserve decreased by approximately $467,000 from the fourth quarter of 2009. However the ratio of allowance for loan losses to total loans increased to 1.97% from 1.80% at December 31, 2009.

Horizon s net loans charged off during the first quarter were $3.1 million compared to $1.6 million for the fourth quarter of 2009.

Horizon s balance of Other Real Estate Owned (OREO) increased approximately $345,000 during the first quarter primarily due to the addition of one commercial property.

Horizon s non-performing loans decreased approximately $755,000 from December 31, 2009 to March 31, 2010.

Horizon s non-performing loans to total loans ratio as of March 31, 2010 was 2.00%, which is lower than the National and State of Indiana peer averages[1] of 4.66% and 2.71%, respectively, of total loans as of December 31, 2009.

Horizon s capital ratios continue to be above the regulatory standards for well-capitalized banks.

Critical Accounting Policies

The notes to the consolidated financial statements included in Item 8 of the Company s Annual Report on Form 10-K for 2009 contain a summary of the Company s significant accounting policies. 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 Losses

An allowance for loan losses is maintained to absorb probable incurred loan losses inherent in the loan portfolio. The determination of the allowance for loan losses is a critical accounting policy that involves management s ongoing quarterly assessments of the probable incurred losses inherent in the loan portfolio. The identification of loans that have probable incurred losses is subjective, therefore, a general reserve is maintained to cover all probable losses within the entire loan portfolio. Horizon utilizes a loan grading system that helps identify, monitor and address asset quality problems in an adequate and timely manner. Each quarter, various factors affecting the quality of the loan portfolio are reviewed. Large credits are reviewed on an individual basis for loss potential. Other loans are reviewed as a group based upon previous trends of loss experience. Horizon also reviews the current and anticipated economic conditions of its lending market as well as transaction risk to determine the effect they may have on the loss experience of the loan portfolio.

[1] National peer group: Consists of all insured commercial banks having assets between $1 Billion and $10 Billion as reported by the Uniform Bank Performance Report as of December 31, 2009. Indiana peer group: Consists of 18 publicly traded banks all headquartered in the State of Indiana as reported by the Uniform Bank Performance Reports as of December 31, 2009.

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Goodwill and Intangible Assets

Management believes that the accounting for goodwill and other intangible assets also involves a higher degree of judgment than most other significant accounting policies. FASB ASC 350-10 establishes standards for the amortization of acquired intangible assets and impairment assessment of goodwill. At March 31, 2010, Horizon had core deposit intangibles of $1.4 million subject to amortization and $5.8 million of goodwill, which is not subject to amortization. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. Horizon s goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of Horizon to provide quality, cost effective banking services in a competitive marketplace. The goodwill value is supported by revenue that is in part driven by the volume of business transacted. A decrease in earnings resulting from a decline in the customer base or the inability to deliver cost effective services over sustained periods can lead to impairment of goodwill that could adversely affect earnings in future periods.

FASB ASC 350-10 requires an annual evaluation of goodwill for impairment. The evaluation of goodwill for impairment requires the use of estimates and assumptions. Market price at the close of business on March 31, 2010 was $19.30 per share compared to a book value of $27.88 per common share. Horizon reported record earnings for the tenth consecutive year in 2009 and believes the decline in market price relates to an overall decline in the financial industry sector and is not specific to Horizon. Horizon engaged a third party to perform an impairment test of its goodwill in 2009. The evaluation included an income approach using a discounted cash flow based on earnings capacity as a long term investment. The impairment test was performed as of November 30, 2009 and provided support that no impairment to the Company s goodwill was required based on its results.

The financial markets are currently reflecting significantly lower valuations for the stocks of financial institutions, when compared to historic valuation metrics, largely driven by the constriction in available credit and losses suffered related to residential mortgage markets. The Company s stock activity, as well as the price, has been affected by the economic conditions affecting the banking industry. Management believes this downturn has impacted the Company s stock and has concluded that the recent stock price is not indicative or reflective of fair value (per ASC Topic 820 Fair Value).

There were no significant changes in the Company s stock price, book value, or earnings as of March 31, 2010 that would change the results of the evaluation completed at the end of 2009. Horizon has concluded that, based on its own internal evaluation and the independent impairment test conducted by a third party, the recorded value of goodwill is not impaired.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through the sale of financial assets on a servicing-retained basis. Capitalized servicing rights are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated regularly for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying servicing rights by predominant characteristics, such as interest rates, original loan terms and whether the loans are fixed or adjustable rate mortgages. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. When the book value of an individual stratum exceeds its fair value, an impairment reserve is recognized so that each individual stratum is carried at the lower of its amortized book value or fair value. In periods of falling market interest rates, accelerated loan prepayment speeds can adversely affect the fair value of these mortgage-servicing rights relative to their book value. In the event that the fair value of these assets was to increase in the future, Horizon can recognize the increased fair value to the extent of the impairment allowance but cannot recognize an asset in excess of its amortized book value. Future changes in management s assessment of the impairment of these servicing assets, as a result of changes in observable market data relating to market

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interest rates, loan prepayment speeds, and other factors, could impact Horizon s financial condition and results of operations either positively or adversely.

Generally, when market interest rates decline and other factors favorable to prepayments occur, there is a corresponding increase in prepayments as customers refinance existing mortgages under more favorable interest rate terms. When a mortgage loan is prepaid, the anticipated cash flows associated with servicing that loan are terminated, resulting in a reduction of the fair value of the capitalized mortgage servicing rights. To the extent that actual borrower prepayments do not react as anticipated by the prepayment model (i.e., the historical data observed in the model does not correspond to actual market activity), it is possible that the prepayment model could fail to accurately predict mortgage prepayments and could result in significant earnings volatility. To estimate prepayment speeds, Horizon utilizes a third-party prepayment model, which is based upon statistically derived data linked to certain key principal indicators involving historical borrower prepayment activity associated with mortgage loans in the secondary market, current market interest rates and other factors, including Horizon s own historical prepayment experience. For purposes of model valuation, estimates are made for each product type within the mortgage servicing rights portfolio on a monthly basis.

Derivative Instruments

As part of the Company s asset/liability management program, Horizon utilizes, from time-to-time, interest rate floors, caps or swaps to reduce the Company s sensitivity to interest rate fluctuations. These are derivative instruments, which are recorded as assets or liabilities in the consolidated balance sheets at fair value. Changes in the fair values of derivatives are reported in the consolidated income statements or other comprehensive income (OCI) depending on the use of the derivative and whether the instrument qualifies for hedge accounting. The key criterion for the hedge accounting is that the hedged relationship must be highly effective in achieving offsetting changes in those cash flows that are attributable to the hedged risk, both at inception of the hedge and on an ongoing basis.

Horizon s accounting policies related to derivatives reflect the guidance in FASB ASC 815-10. Derivatives that qualify for the hedge accounting treatment are designated as either: a hedge of the fair value of the recognized asset or liability or of an unrecognized firm commitment (a fair value hedge) or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (a cash flow hedge). For fair value hedges, the cumulative change in fair value of both the hedge instruments and the underlying loans is recorded in non-interest income. For cash flow hedges, changes in the fair values of the derivative instruments are reported in OCI to the extent the hedge is effective. The gains and losses on derivative instruments that are reported in OCI are reflected in the consolidated income statement in the periods in which the results of operations are impacted by the variability of the cash flows of the hedged item. Generally, net interest income is increased or decreased by amounts receivable or payable with respect to the derivatives, which qualify for hedge accounting. At inception of the hedge, Horizon establishes the method it uses for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. The ineffective portion of the hedge, if any, is recognized currently in the consolidated statements of income. Horizon excludes the time value expiration of the hedge when measuring ineffectiveness.

Valuation Measurements

Valuation methodologies often involve a significant degree of judgment, particularly when there are no observable active markets for the items being valued. Investment securities, residential mortgage loans held for sale and derivatives are carried at fair value, as defined in FASB ASC 820, which requires key judgments affecting how fair value for such assets and liabilities is determined. In addition, the outcomes of valuations have a direct bearing on the carrying amounts of goodwill, mortgage servicing rights, and pension and other post-retirement benefit obligations. To determine the values of these assets and liabilities, as well as the extent, to which related assets may be impaired, management makes assumptions and estimates related to discount rates, asset returns, prepayment speeds and other factors. The use of different discount rates or other valuation assumptions could produce significantly different results, which could affect Horizon s results of operations.

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Financial Condition

On March 31, 2010, Horizon s total assets were $1.3 billion, a decrease of $85.4 million from December 31, 2009. Total assets decreased as cash and cash equivalents and mortgage warehouse lending decreased but partially offset by an increase in investment securities and a decrease in deposits.

Excess cash and cash equivalents held at year end decreased as a result of excess municipal deposit balances decreasing during the quarter as the municipal accounts disbursed funds and the purchase of investment securities.

Investment securities were comprised of the following as of:

	March 31, 2010 (Unaudited)		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 25,817	$ 26,506	$ 19,612	$ 20,085
State and municipal	109,228	111,606	107,160	109,149
Federal agency collateralized mortgage obligations	101,925	103,089	84,001	84,895
Federal agency mortgage-backed pools	105,380	109,966	113,633	118,661
Corporate notes	475	463	355	342
Total available for sale investment securities	$ 342,825	$ 351,630	$ 324,761	$ 333,132
Held to maturity, State and Municipal	$ 17,122	$ 17,122	$ 11,657	$ 11,687

Investment securities increased by approximately $24.0 million compared to the end of 2009. This growth was the result of the Company deploying excess cash held during the quarter in cash and cash equivalents to investment securities.

Net loans decreased $77.0 million since December 31, 2009. This decrease was primarily the result of the reduction in mortgage warehouse lending during the quarter. This decrease was due to a reduction in the mortgage warehouse activity as mortgage loan refinancing declined. Residential mortgage loans increased slightly and both commercial and consumer loans decreased.

Total deposits decreased $78.2 million during the first three months of 2010 primarily due to the reduction in municipal deposit accounts as disbursements were made from collected property taxes.

The Company s borrowings decreased $10.8 million since December 31, 2009. The decrease in borrowings since the end of 2009 was primarily in Federal Home Loan Bank (FHLB) advances. As FHLB advances have matured, the Company has determined not to take additional advances and used long-term brokered certificates of deposit to replace any required long-term debt. This generates additional liquidity by not using available collateral to secure the borrowings.

Stockholders equity totaled $115.7 million at March 31, 2010 compared to $114.6 million at December 31, 2009. The increase in stockholders equity during the period was the result of generating net income and reduced by dividends declared. At March 31, 2010, the ratio of average stockholders equity to average assets was 8.73% compared to 8.64% at December 31, 2009. Book value per common share at March 31, 2010 increased to $27.88 compared to $27.67 at December 31, 2009.

HORIZON BANCORP AND SUBSIDIARIES
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Results of Operations

Overview

Consolidated net income for the three-month period ended March 31, 2010 was $1.8 million, a decrease of 32.0% from the $2.6 million for the same period in 2009. Earnings per common share for the three months ended March 31, 2010 decreased to $0.44 basic and $0.44 diluted, compared to $0.71 basic and $0.70 diluted for the same three-month period in 2009. Diluted earnings per share for both periods were reduced by $0.11 per share due to the preferred stock dividends and the accretion of the discount on preferred stock, which was issued in the fourth quarter of 2008.

Net Interest Income

The largest component of net income is net interest income. Net interest income is the difference between interest income, principally from loans and investment securities, and interest expense, principally on deposits and borrowings. Changes in the net interest income are the result of changes in volume and the net interest spread which affects the net interest margin. Volume refers to the average dollar levels of interest-earning assets and interest-bearing liabilities. Net interest spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin refers to net interest income divided by average interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

The on going low interest rate environment influenced the yields received on the Company s interest earning assets more than the costs paid on the Company s interest bearing liabilities during the first quarter of 2010 resulting in a decrease of the net interest margin. Management believes that the current level of interest rates is driven by external factors and therefore impacts the results of the Company s net interest margin. Management does not expect a rise in interest rates in the short term, but an increase in rates is expected at some time in the future due to the current historically low interest rate environment.

Net interest income during the three months ended March 31, 2010 was $10.6 million, a decrease of $863,000 million or 7.6% over the $11.4 million earned during the same period in 2009. Yields on the Company s interest-earning assets decreased by 75 basis points to 5.36% for the three months ended March 31, 2010, from 6.11% for the same period in 2009. Interest income decreased $2.6 million from $18.7 million for the three months ended March 31, 2009 to $16.1 million for the same period in 2010. This decrease was due to the lower earning assets, the reduction in the balance of mortgage warehouse lending, excess cash and cash equivalents carried at low yields, and the decrease in the yield on some new and repriced earning assets. However, the asset yields on loans receivable has not declined at the same pace as some market indices partially due to interest rate floors that are in place on approximately $306.4 million out of the $404.6 million of the Company s adjustable rate loans.

Rates paid on interest-bearing liabilities decreased by 55 basis points during the same period due to the lower interest rate environment. Interest expense decreased $1.7 million from $7.3 million for the three-months ended March 31, 2009 to $5.6 million for the same period in 2010. This decrease was due to the lower rates being paid on the Company s interest bearing liabilities offset by additional interest costs as the Company has extended certain liabilities as a strategic move in this historically low interest rate environment. Due to a more significant decrease in the yields on the Company s interest-earning assets compared to the decrease in the rates paid on the Company s interest-bearing liabilities, the decrease in the Company s earning assets, and the excess cash and cash equivalents carried at very low yields, the net interest margin decreased 23 basis points from 3.78% for the three months ended March 31, 2009 to 3.55% for the same period in 2010.

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The following are the average balance sheets for the three months ending:

	Three Months Ended March 31, 2010			Three Months Ended March 31, 2009		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets						
Federal funds sold	$ 68,209	$ 12	0.07%	$ 3,119	$ 2	0.26%
Interest-earning deposits	4,857	5	0.42%	4,550	5	0.45%
Investment securities taxable	253,848	2,429	3.88%	245,134	2,842	4.70%
Investment securities non-taxable (1)	112,275	1,081	5.28%	89,508	920	5.56%
Loans receivable (2)	811,350	12,605	6.31%	917,566	14,905	6.59%
Total interest-earning assets (1)	1,250,539	16,132	5.36%	1,259,877	18,674	6.11%
Noninterest-earning assets						
Cash and due from banks	13,852			23,119		
Allowance for loan losses	(16,001)			(11,387)		
Other assets	84,904			76,270		
	$ 1,333,294			$ 1,347,879		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing liabilities						
Interest-bearing deposits	$ 828,838	$ 2,763	1.35%	$ 784,791	$ 3,996	2.07%
Borrowings	269,349	2,443	3.68%	339,417	2,892	3.46%
Subordinated debentures	27,837	373	5.43%	27,837	370	5.39%
Total interest-bearing liabilities	1,126,024	5,579	2.01%	1,152,045	7,258	2.56%
Noninterest-bearing liabilities						
Demand deposits	82,659			79,785		
Accrued interest payable and other liabilities	8,156			8,991		
Shareholders equity	116,455			107,058		
	$ 1,333,294			$ 1,347,879		
Net interest income/spread		$ 10,553	3.35%		$ 11,416	3.55%

Net interest income as a percent of average interest earning assets (1)	3.55%	3.78%

(1) Securities balances represent daily average balances for the fair value of securities. The average rate is calculated based on the daily average balance for the amortized cost of securities. Interest income is presented on a tax equivalent basis.

(2) Includes fees on loans. The inclusion of loan fees does not have a material effect on the average interest rate.

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Provision for Loan Losses

Horizon assesses the adequacy of its Allowance for Loan and Lease Losses (ALLL) by regularly reviewing the performance of its loan portfolios. During the first quarter of 2010, a provision for loan losses of $3.2 million was required to adequately fund the ALLL compared to a provision of $3.2 million for the first quarter of 2009. The provision for the current quarter resulted from losses primarily in the commercial and installment loan portfolios due to current economic conditions and trends and the need for specific reserves due to non-performing loans. Commercial loan net charge-offs during the first quarter of 2010 were $1.8 million, residential mortgage loan net charge-offs were $309,000, and installment loans net charge-offs were $1.0 million.

Non-performing loans totaled $16.4 million on March 31, 2010, down from $17.1 million on December 31, 2009. As a percentage of total loans non-performing loans were 1.98% on March 31, 2010, up slightly from 1.92% on December 31, 2009 due primarily from the reduction in the balance of total loans during the first quarter. Non-performing loans also increased from $10.5 million on March 31, 2009 which was 1.11% of total loans. Horizon s non-performing loan statistics compare favorably to National and State of Indiana peer averages[1] of 4.66% and 2.71%, respectively, as of December 31, 2009.

The decrease of non-performing loans over the prior quarter was due to a decrease in commercial non-performing loans. Commercial non-performing loans were $7.0 million on March 31, 2010, down from $9.2 million on December 31, 2009, but up slightly from $6.5 million on March 31, 2009. The reduction during the quarter was primarily due to one loan becoming current, two loans being written off, and one loan relationship moving to OREO. A $1.0 million commercial loan that was over 90 days past maturity on December 31, 2009 was renewed in the first quarter. A loan secured by vacant land was written down by $780,000 based on a new appraisal received during the quarter. Also, a loan to a manufacturer that went out of business was written down by $700,000 during the first quarter of 2010. Four commercial loans totaling $685,000 on December 31, 2009 were moved to OREO during the quarter. These reductions were partially offset by four loans added to non-performing status during the quarter totaling $1.1 million. The slight increase in the Company s non-performing loans over the past year can be attributed to the continued national and local economic problems, including, continued high local unemployment causing lower business revenues and increased consumer bankruptcies.

Non-accrual loans totaled $14.9 million on March 31, 2010, down from $15.4 million on December 31, 2009, but up from $9.7 million on March 31, 2009. Nonaccrual loans to restaurant operators totaled $2.6 million on March 31, 2010, the same as the previous quarter. Nonaccrual loans to home builders and land developers totaled $2.1 million on March 31, 2010, down from $2.2 million on December 31, 2009. Mortgage loans on non-accrual totaled $4.9 million on March 31, 2010, up from $4.6 million on December 31, 2009. Consumer loans on non-accrual increased to $2.9 million from $2.7 million during the quarter.

Loans 90 days delinquent but still accruing interest totaled $345,000 on March 31, 2010, down from $1,758,000 on December 31, 2009 and $730,000 on March 31, 2009. The decline from December 31, 2009 was primarily due to the aforementioned $1.0 million commercial loan that was brought current. Horizon s policy is to place loans over 90 days delinquent on non-accrual unless they are in the process of collection and full recovery is expected.

OREO totaled $2.2 million on March 31, 2010, up from $1.7 million on December 31, 2009, but down from $2.5 million on March 31, 2009. During the first quarter two properties with a total book value of $654,000 on December 31, 2009 were sold. Another 14 properties with a book value of $1.2 million on December 31, 2009 were transferred into OREO status. On March 31, 2010, OREO was comprised of 43 properties.

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No mortgage warehouse loans were non-performing or OREO as of March 31, 2010, December 31, 2009, or March 31, 2009.

Non-Interest Income

The following is a summary of changes in non-interest income:

	Three Months Ended Mar. 31, 2010	Mar. 31, 2009	Amount Change	Percent Change
Non-interest income				
Service charges on deposit accounts	**$ 865**	$ 934	$ (69)	-7.4%
Wire transfer fees	**140**	247	(107)	-43.3%
Interchange fees	**454**	388	66	17.0%
Fiduciary activities	**995**	917	78	8.5%
Gain on sale of mortgage loans	**1,382**	1,913	(531)	-27.8%
Mortgage servicing net of impairment	**65**	(134)	199	-148.5%
Increase in cash surrender value of bank owned life insurance	**156**	156		0.0%
Other income	**317**	73	244	334.2%
Total non-interest income	**$4,374**	$ 4,494	$(120)	-2.7%

Residential mortgage loan refinancing continued to generate strong volumes of loan sales during the first quarter but down compared to the same period in the prior year. The Company s residential mortgage loan division provided customers with the needed service to lower their mortgage interest rates along with an increase in first time home buyers due to the personal income tax incentives available. During the first quarter of 2010, the Company originated approximately $49.0 million of mortgage loans to be sold on the secondary market compared to $100.4 million for the same period last year. Wire transfer fee income decreased compared to the prior year as the Company s mortgage warehouse business line has had less activity due to decreased residential mortgage loan refinancing volume. The decrease in service charge income was the result of reduced overdraft fee income as the number of consumer overdrafts have gone down. These decreases were offset by increases in fiduciary activity from more fee income from the Bank s trust department, in mortgage servicing income as the Company s servicing asset has increased, and an increase in the interchange fees due to higher levels of activity in ATM and debit card transactions. Other income for the first quarter included $48,000 from the net gain on sale of OREO and $75,000 from a settled law suit.

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Non-Interest Expense

The following is a summary of changes in non-interest expense:

	Three Months Ended Mar. 31, 2010	Mar. 31, 2009	Amount Change	Percent Change
Non-interest expense				
Salaries and employee benefits	**$4,798**	$ 4,831	$ (33)	-0.7%
Net occupancy expenses	**1,062**	1,032	30	2.9%
Data processing	**402**	379	23	6.1%
Professional fees	**471**	395	76	19.2%
Outside services and consultants	**365**	326	39	12.0%
Loan expense	**750**	566	184	32.5%
FDIC deposit insurance	**388**	292	96	32.9%
Other (gains) losses	**27**	385	(358)	-93.0%
Other expenses	**1,291**	1,191	100	8.4%
Total non-interest expense	**$9,554**	$ 9,397	$ 157	1.7%

Loan expense increased during the first three months of 2010 compared to the same period in 2009 due to increased collection costs. Professional fees were higher compared to last year due to increasing rules and regulations requiring professional assistance from legal and accounting professionals and transaction costs from the upcoming close for the purchase and assumption of American Trust and Savings Bank. Included in the Company s non-interest expenses related to the upcoming close for the purchase and assumption of American Trust and Savings Bank during the first quarter of 2010 were $109,000 in non-interest expenses. The Company s FDIC expense has increased due to the higher assessment rates, including assessments imposed because of the Company s participation in the FDIC s Temporary Liquidity Guarantee Program (TLGP). Deposit insurance will remain higher during the year based on the FDIC s rate increases. All other categories of non-interest expense did not have a significant change from the prior year. Other losses in 2009 included a one-time charge of $210,000 for a wire transfer fraud perpetrated on the bank during the first quarter.

Income Taxes

Income tax expense for the first quarter of 2010 was $349,000 compared to $681,000 of tax expense for the third quarter of 2009. The effective tax rate for the first quarter of 2010 was 16.3% compared to 20.5% in 2009. Tax expense and the effective tax rate decreased during the first quarter of 2010 due to lower net taxable income.

Liquidity

The Bank maintains a stable base of core deposits provided by long standing relationships with individuals 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 residential mortgage loans, and borrowing relationships with correspondent banks, including the FHLB. During the three months ended March 31, 2010, cash and cash equivalents decreased by approximately $41.8 million. The decrease is primarily due to the growth in investment securities and reduction in deposits. At March 31, 2010, in addition to liquidity provided from the normal operating, funding, and investing activities of Horizon, the Bank had available approximately $324.5 million in unused credit lines with various money center banks, including the FHLB.

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Capital Resources

The capital resources of Horizon and the Bank exceed regulatory capital ratios for well capitalized banks at March 31, 2010. Stockholders equity totaled $115.7 million as of March 31, 2010, compared to $114.6 million as of December 31, 2009. For the three-months ended March 31, 2010, the ratio of average stockholders equity to average assets was 8.73% compared to 8.64% for quarter ending December 31, 2009. Horizon s capital increased during the three months as a result of increased earnings net of dividends declared and the amortization of unearned compensation.

Horizon declared dividends in the amount of $0.17 per share during the first three months of 2010 compared to $0.17 per share for the same period of 2009. The dividend payout ratio (dividends as a percent of net income) was 31.3% and 20.9% for the first three months of 2010 and 2009. Horizon is a participant in the Capital Purchase Program, which is a component program of the Troubled Assets Relief Program (TARP) established by the United States Department of the Treasury (the U.S. Treasury) pursuant to the Emergency Economic Stabilization Act of 2008 (EESA). Pursuant to the agreements Horizon entered into as part of the Capital Purchase Program, Horizon is not permitted to increase dividends on our common shares above the amount of the last quarterly cash dividend per common share declared prior to October 14, 2008 ($0.17 per common share) without the U.S. Treasury s approval until December 23, 2011, unless all of the Series A Preferred Shares have been redeemed or transferred by the U.S. Treasury to unaffiliated third parties. For additional information regarding dividend conditions, see Horizon s Annual Report on Form 10-K for 2009.

Recent Developments

On May 4, 2010, the Office of the Comptroller of the Currency approved the Bank s application to purchase substantially all of the assets and assume substantially all of the liabilities of American Trust& Savings Bank, Whiting, Indiana. In the acquisition, the Bank will acquire approximately $110.0 million in assets and assume approximately $112.0 million in liabilities comprised mostly of deposits. No additional regulatory approvals are required, and the Bank expects to complete the acquisition by the end of May 2010.

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HORIZON BANCORP AND SUBSIDIARIES
Quantitative and Qualitative Disclosures About Market Risk
For the Three Months Ended March 31, 2010

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to Horizon s 2009 Annual Report on Form 10-K for analysis of its interest rate sensitivity. Horizon believes there have been no significant changes in its interest rate sensitivity since it was reported in its 2009 Annual Report on Form 10-K.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures

Based on an evaluation of disclosure controls and procedures as of March 31, 2010, Horizon s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Horizon s disclosure controls (as defined in Exchange Act 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 March 31, 2010, 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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HORIZON BANCORP AND SUBSIDIARIES
Part II Other Information
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ITEM 1. LEGAL PROCEEDINGS

Horizon and its subsidiaries are involved in various legal proceedings incidental to the conduct of their business. Management does not expect that the outcome of any such proceedings will have a material adverse effect on our consolidated financial position or results of operations.

ITEM 1A. RISK FACTORS

No material changes from the factors included in the 2009 Annual Report on Form 10-K

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

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. (REMOVED AND RESERVED)

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

HORIZON BANCORP AND SUBSIDIARIES
Part II Other Information
For the Three Months Ended March 31, 2010

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit 31.1	Certification of Craig M. Dwight
Exhibit 31.2	Certification of Mark E. Secor
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
Dated: May 13, 2010	/s/ Craig M. Dwight Craig M. Dwight Chief Executive Officer
Dated: May 13, 2010	/s/ Mark E. Secor Mark E. Secor Chief Financial Officer

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INDEX TO EXHIBITS

The following documents are included as Exhibits to this Report.

Exhibit	
31.1	Certification of Craig M. Dwight
31.2	Certification of Mark E. Secor
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.