HORIZON BANCORP /IN/
Form 10-Q
August 11, 2005

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HORIZON BANCORP
FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
450 5th Street N.W.
Washington, D.C. 20549
QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2005
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**
Securities registered pursuant to Section 12(b) of the Act:
NONE
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, no par value
(Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:
3,111,512 at August 5, 2005

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PART 1 FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2005 (Unaudited)	December 31, 2004
Assets		
Cash and due from banks	$ 36,612	$ 18,253
Interest-bearing demand deposits	232	1
Cash and cash equivalents	36,844	18,254
Interest-bearing deposits	1,960	985
Investment securities, available for sale	301,185	281,282
Loans held for sale	4,317	3,836
Loans, net of allowance for loan losses of $8,202 and $7,193	684,612	556,849
Premises and equipment	22,243	17,561
Federal Reserve and Federal Home Loan Bank stock	12,499	11,279
Goodwill	5,787	158
Other intangibles	2,969	58
Interest receivable	5,383	4,688
Other assets	20,832	18,881
Total assets	$1,098,631	$913,831
Liabilities		
Deposits		
Noninterest bearing	$ 75,242	$ 58,015
Interest bearing	729,586	554,202
Total deposits	804,828	612,217
Short-term borrowings	72,712	82,281
Long-term borrowings	132,680	139,705
Subordinated debentures	27,837	22,682
Interest payable	1,547	1,024
Other liabilities	6,196	5,490
Total liabilities	1,045,800	863,399
Stockholders Equity		
Preferred stock, no par value Authorized, 1,000,000 shares No shares issued		
Common stock, $.2222 stated value Authorized, 22,500,000 shares Issued, 4,852,751 and 4,778,608 shares	1,078	1,062
Additional paid-in capital	23,810	22,729
Retained earnings	45,267	43,092

Restricted stock, unearned compensation	**(866)**	(972)
Accumulated other comprehensive income	**180**	894
Less treasury stock, at cost, 1,741,239 and 1,732,486 shares	**(16,638)**	(16,373)
Total stockholders equity	**52,831**	50,432
Total liabilities and stockholders equity	**$1,098,631**	$913,831

See notes to condensed consolidated financial statements

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

	Three Months Ended June 30		Six Months Ended June 30	
	2005 (Unaudited)	**2004 (Unaudited)**	**2005 (Unaudited)**	**2004 (Unaudited)**
Interest Income				
Loans receivable	**$10,171**	$ 8,505	**$19,054**	$15,927
Investment securities				
Taxable	**2,485**	1,709	**4,826**	3,545
Tax exempt	**579**	560	**1,150**	1,133
Total interest income	**13,235**	10,774	**25,030**	20,605
Interest Expense				
Deposits	**3,656**	2,602	**6,613**	5,209
Federal funds purchased and short-term borrowings	**654**	106	**827**	180
Long-term borrowings	**1,309**	1,416	**2,897**	2,819
Subordinated debentures	**357**	139	**661**	297
Total interest expense	**5,976**	4,263	**10,998**	8,505
Net Interest Income	**7,259**	6,511	**14,032**	12,100
Provision for loan losses	**381**	228	**711**	474
Net Interest Income after Provision for Loan Losses	**6,878**	6,283	**13,321**	11,626
Other Income				
Service charges on deposit accounts	**583**	745	**1,121**	1,501
Wire transfer fees	**117**	152	**206**	296
Fiduciary activities	**692**	697	**1,319**	1,335
Commission income from insurance agency	**-0-**	86	**46**	273
Gain on sale of loans	**478**	395	**867**	943
Increase in cash surrender value of Bank owned life insurance	**122**	125	**236**	247
Gain on sale of available-for-sale securities, net	**4**	-0-	**4**	-0-
Other income	**475**	270	**952**	570
Total other income	**2,471**	2,470	**4,751**	5,165
Other Expenses				
Salaries and employee benefits	**4,100**	3,557	**8,250**	6,935

Net occupancy expenses	**486**	441	**1,007**	921
Data processing and equipment expenses	**525**	491	**1,032**	989
Other expenses	**1,862**	1,814	**3,662**	3,513
Total other expenses	**6,973**	6,303	**13,951**	12,358
Income Before Income Tax	**2,376**	2,450	**4,121**	4,433
Income tax expense	**696**	647	**1,138**	1,113
Net Income	**$ 1,680**	$ 1,803	**$ 2,983**	$ 3,320
Basic Earnings Per Share	**$ .55**	$ .60	**$ .98**	$ 1.11
Diluted Earnings Per Share	**$ .53**	$ .58	**$ .95**	$ 1.06

See notes to condensed consolidated financial statements.

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Horizon Bancorp and Subsidiaries
Consolidated Statement of Stockholders Equity
(Unaudited)
(Table Dollar Amounts in Thousands)

	Common Stock	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Restricted Stock, Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balances, December 31, 2004	$1,062	$ 22,729		$43,092	$ (972)	$ 894	$ (16,373)	$50,432
Net income			$ 2,983	2,983				2,983
Other comprehensive loss, net of tax, unrealized losses on securities			(714)			(714)		(714)
Comprehensive income			$ 2,269					
Exercise of stock options	16	759						775
Tax benefit related to stock options		322						322
Purchase treasury stock							(265)	(265)
Amortization of unearned compensation					106			106
Cash dividends ($.26 per share)				(808)				(808)
Balances, June 30, 2005	$1,078	$ 23,810		$45,267	$ (866)	$ 180	$ (16,638)	$52,831

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30 2005 (Unaudited)	2004 (Unaudited)
Operating Activities		
Net income	$ 2,983	$ 3,320
Items not requiring (providing) cash		
Provision for loan losses	711	474
Depreciation and amortization	979	728
Federal Home Loan Bank stock dividend	(251)	(236)
Mortgage servicing rights recovery	(141)	(53)
Deferred income tax	892	726
Investment securities amortization, net	199	260
Gain on sale of loans	(867)	(943)
Proceeds from sales of loans	45,273	55,265
Loans originated for sale	(44,887)	(48,019)
Gain on sale of other real estate owned	(19)	(2)
Loss on sale of fixed assets	11	3
Increase in cash surrender value of life insurance	(236)	(247)
Net change in:		
Interest receivable	(166)	73
Interest payable	381	(1)
Other assets	(1,152)	351
Other liabilities	(719)	(902)
Net cash provided by operating activities	2,991	10,797
Investing Activities		
Net change in interest-bearing deposits	3,727	7,135
Purchases of securities available for sale	(32,500)	(69,638)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	34,567	60,519
Net change in loans	(42,245)	(70,320)
Proceeds from sale of fixed assets	27	42
Recoveries on loans previously charged-off	218	168
Proceeds from sale of other real estate owned	256	17
Purchases of premises and equipment	(570)	(1,045)
Purchase of bank owned life insurance	-0-	(12,000)
Acquisition, net of cash	(2,901)	-0-
Net cash used in investing activities	(39,421)	(85,122)
Financing Activities		

Net change in Deposits	**75,475**	**46,771**
Short-term borrowings	**(11,454)**	**16,667**
Proceeds from long-term borrowings	**47,000**	**48,300**
Repayment of long-term borrowings	**(56,025)**	**(61,068)**
Proceeds from issuance of stock	**1,097**	**597**
Purchase of treasury stock	**(265)**	**(848)**
Dividends paid	**(808)**	**(715)**
Net cash provided by financing activities	**55,020**	**49,704**
Net Change in Cash and Cash Equivalents	**18,590**	(24,621)
Cash and Cash Equivalents, Beginning of Period	**18,254**	**45,464**
Cash and Cash Equivalents, End of Period	**$ 36,844**	**$ 20,843**
Additional Cash Flows Information		
Interest paid	**$ 10,475**	**$ 8,506**
Income tax paid	**300**	**150**

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 Share and Per Share Data)

Accounting Policies

The accompanying consolidated financial statements include the accounts of Horizon Bancorp (Horizon) and its wholly-owned subsidiaries, Horizon Bank, N.A. (Bank) and HBC Insurance Group, Inc. (Insurance Company). The Insurance Company was liquidated in 2004. All intercompany balances and transactions have been eliminated. The results of operations for the periods ended June 30, 2005 and June 30, 2004 are not necessarily indicative of the operating results for the full year of 2005 and 2004. The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of Horizon s management, necessary to fairly present the financial position, results of operations and cash flows of Horizon for the periods presented. Those adjustments consist only of normal recurring adjustments.

Certain information and note disclosures normally included in Horizon s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Horizon s Form 10-K annual report for 2004 filed with the Securities and Exchange Commission. The consolidated balance sheet of Horizon as of December 31, 2004 has been derived from the audited balance sheet of Horizon as of that date.

Basic earnings per share is computed by dividing net income by the weighted-average number of shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The weighted average number of shares used in the computation of earnings per share is as follows:

Three Months Ended June 30	**2005**	**2004**
Basic	3,066,512	2,983,976
Diluted	3,157,731	3,123,636

Six Months Ended June 30	**2005**	**2004**
Basic	3,041,698	2,987,483
Diluted	3,149,164	3,119,636

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.

Horizon accounts for stock-based compensation plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if Horizon had applied the fair value provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

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

Note 1 Accounting Policies (continued)

Three Months Ended June 30	**2005**	**2004**
Net income, as reported	$1,680	$1,803
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(10)	(34)
Pro forma net income	$1,670	$1,769
Earnings per share		
Basic as reported	$ .55	$ .60
Basic pro forma	.54	.59
Diluted as reported	.53	.58
Diluted pro forma	.53	.57

Six Months Ended June 30	**2005**	**2004**
Net income, as reported	$2,983	$3,320
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(20)	(90)
Pro forma net income	$2,963	$3,230
Earnings per share		
Basic as reported	$ .98	$ 1.11
Basic pro forma	.97	1.08
Diluted as reported	.95	1.06
Diluted pro forma	.94	1.04

Note 2 Investment Securities

		2005		
June 30	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
U. S. Treasury and federal agencies	$ 79,291	$	$(1,117)	$ 78,174
State and municipal	65,958	2,673	(36)	68,595
Federal agency collateralized mortgage obligations	14,301		(177)	14,124
Federal agency mortgage backed pools	133,479	433	(1,502)	132,410

Private collateralized mortgage obligations	7,247		(49)	7,198
Corporate Notes	632	52		684
Total investment securities	$300,908	$3,158	$(2,881)	$301,185

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Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands)

Note 2 Investment Securities (continued)

	2004			
December 31	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
U. S. Treasury and federal agencies	$ 86,348	$ 12	$ (734)	$ 85,626
State and Municipal	54,881	2,493	(47)	57,327
Federal agency collateralized mortgage obligations	13,380	14	(56)	13,338
Federal agency mortgage backed pools	124,666	639	(997)	124,308
Corporate notes	632	51		683
Total investment securities	$279,907	$3,209	$(1,834)	$281,282

The amortized cost and fair value of securities available for sale at June 30, 2005, 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.

	Available for Sale	
	Amortized Cost	**Fair Value**
Within one year	2,002	2,004
One to five years	80,458	79,538
Five to ten years	20,058	20,397
After ten years	43,363	45,514
	145,881	147,453
Federal agency collateralized mortgage obligations	14,301	14,124
Private collateralized mortgage obligations	7,247	7,198
Federal agency mortgage backed pools	133,479	132,410
	$300,908	$301,185

Note 3 Loans

	June 30, 2005	**December 31, 2004**
Commercial loans	$262,003	$203,966

Mortgage warehouse loans	115,120	127,992
Real estate loans	131,959	89,139
Installment loans	183,732	142,945
	692,814	564,042
Allowance for loan losses	(8,202)	(7,193)
Total loans	$684,612	$556,849

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Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands)

Note 4 Allowance for Loan Losses

	June 30, 2005	June 30, 2004
Allowance for loan losses		
Balances, beginning of period	$7,193	$6,909
Allowance acquired in acquisition	557	
Provision for losses, operations	711	474
Recoveries on loans	218	168
Loans charged off	(477)	(575)
Balances, end of period	$8,202	$6,976

Note 5 Nonperforming Assets

	June 30, 2005	December 31 2004
Nonperforming loans	$1,996	$ 1,358
Other real estate owned	336	276
Total nonperforming assets	$2,332	$ 1,634

Note 6 Acquisition

On June 10, 2005, Horizon acquired Alliance Financial Corporation and its wholly-owned bank subsidiary, Alliance Banking Company (collectively referred to as Alliance). Horizon purchased the outstanding shares of Alliance for $42.50 per share in cash. The total cost of the transaction, including legal, accounting and investment fees was $13.348 million. The assets and liabilities of Alliance were recorded on the balance sheet at their fair value as of the acquisition date. The results of Alliance s operations have been included in Horizon s consolidated statement of income from the date of acquisition. The acquisition resulted in $5.629 million of goodwill and $2.952 million of core deposit intangible being recorded.

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Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands)

Note 6 Acquisition (continued)

The following table summarizes the estimated fair values of the net assets acquired as of the June 10, 2005 acquisition date:

Assets	
Cash and cash equivalents	$ 10,447
Investment securities	28,922
Loans, net of allowance for loan losses	86,447
Premises and equipment	4,983
Goodwill and other intangibles	8,581
Other assets	1,711
Total Assets	141,091
Liabilities	
Deposits	117,137
Borrowings	9,040
Other liabilities	1,566
Total Liabilities	127,743
Net Assets Acquired	$ 13,348

The following proforma disclosures, including the effect of the purchase accounting adjustments, depict the results of operations as though the merger had taken place January 1, 2005:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net interest income	$ 8,114	$ 16,039
Net income	670	2,051
Per share combined:		
Basic net income	.22	.67
Diluted net income	.21	.65

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

Horizon Bancorp and Subsidiaries
Management s Discussion and Analysis of Financial Condition
and Results of Operations
For the Three and Six Months Ended June 30, 2005

Forward Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to Horizon Bancorp (Horizon or Company), Horizon Bank, N.A. (Bank), and HBC Insurance Group, Inc. Horizon intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and is including this statement for the purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of Horizon, are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project or similar expressions. Horizon s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on Horizon s future activities and operating results include, but are not limited to, changes in: interest rates, general economic conditions, legislative and regulatory changes, U.S. monetary and fiscal policies, demand for products and services, deposit flows, competition and accounting policies, principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Introduction

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

Critical Accounting Policies

The notes to the consolidated financial statements included in Item 8 on Form 10-K contain a summary of the Company s significant accounting policies; refer to pages 39-43 of Form 10-K for 2004. 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 as a critical accounting policy.

An allowance for loan losses is maintained to absorb 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 estimated losses inherent in the loan portfolio. Horizon s methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowances for identified problem loans, and the unallocated allowance.

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The formula allowance is calculated by applying loss factors to outstanding loans and certain unused commitments. Loss factors are based on historical loss experience and may be adjusted for significant factors that, in management s judgment, affect the collectibility of the portfolio as of the evaluation date. Specific allowances are established in cases where management has identified significant conditions or circumstances related to a credit that management believes indicate the probability that a loss has been incurred in excess of the amount determined by the application of the formula allowance.

The unallocated allowance is based upon management s evaluation of various conditions, the effects of which are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific credits. The conditions evaluated in connection with the unallocated allowance may include factors such as local, regional, and national economic conditions and forecasts; and adequacy of loan policies and internal controls; the experience of the lending staff; bank regulatory examination results; and changes in the composition of the portfolio.

Horizon considers the allowance for loan losses of $8.202 million adequate to cover losses inherent in the loan portfolio as of June 30, 2005. However, no assurance can be given that Horizon will not, in any particular period, sustain loan losses that are significant in relation to the amount reserved, or that subsequent evaluations of the loan portfolio, in light of factors then prevailing, including economic conditions and management s ongoing quarterly assessments of the portfolio, will not require increases in the allowance for loan losses.

Acquisition

On June 10, 2005, Horizon acquired Alliance Financial Corporation and its wholly-owned bank subsidiary, Alliance Banking Company (collectively referred to as Alliance). Horizon purchased the outstanding shares of Alliance for $42.50 per share in cash. The total cost of the transaction, including legal, accounting and investment fees was $13.348 million. The assets and liabilities of Alliance were recorded on the balance sheet at their fair value as of the acquisition date. The results of Alliance s operations have been included in Horizon s consolidated statement of income from the date of acquisition. The acquisition resulted in $5.629 million of goodwill and $2.952 million of core deposit intangible being recorded.

The integration of business operations and data processing, formerly carried on by Alliance, was completed on the weekend of July 16th and 17th 2005. This acquisition is not considered to be a significant acquisition as defined by regulations.

Prior to the acquisition, Horizon operated ten offices throughout Northern Indiana and two offices in St. Joseph, Michigan. Alliance operated three offices in Southwest Michigan in the towns of Harbert, New Buffalo, and Three Oaks and one office in Michigan City, Indiana. The acquisition of Alliance expanded Horizon s geographical presence in its market area.

Alliance offered banking products with similar terms and features as those offered by Horizon.

Financial Condition

Overview

Total assets increased $185 million from December 31, 2004 to June 30, 2005, with the acquisition of Alliance representing $132 million of the increase. The most significant changes in assets were increases in cash and cash equivalents, investment securities, and loans. For the funding side of the balance sheet, deposits and subordinated debentures increased while borrowings decreased.

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Cash and Cash Equivalents

During the first six months of 2005, cash and cash equivalents increased $18.6 million. The increase in cash and cash equivalents is due to significant public funds deposits received at or just prior to June 30, 2005. Cash and cash equivalents returned to typical levels shortly thereafter.

Investment Securities

Investment securities increased $19.9 million from December 31, 2004 to June 30, 2005. Included in this increase is $28.9 million of investments acquired through the Alliance transaction. The investments acquired were similar in type and quality to those previously held by Horizon. During the three months ended June 30, 2005, Horizon sold $7.2 of securities available for sale to provide funds for the Alliance acquisition.

Loans

Gross loans increased $128.8 million from December 31, 2004 to June 30, 2005. The Alliance acquisition contributed to $86.4 million of this increase. In addition to the acquisition, Horizon experienced continued loan growth in commercial, real estate, and installment loans totaling $55.3 million while the mortgage warehouse loan portfolio decreased $12.9 million.

Commercial loans increased as a result of Horizon penetrating new market areas, primarily Berrien County, Michigan and St. Joseph and Elkhart counties in Indiana. Horizon has experienced an increase in real estate loans as borrowers opt for adjustable rate mortgage loans over fixed rate loans. Horizon retains adjustable rate mortgage loans while substantially all long-term fixed rate mortgages are sold into the secondary market. Installment loans increased primarily due to increases in indirect loans; Horizon has continued to concentrate on indirect loan products. Mortgage warehouse loans fluctuate depending on the activity of the underlying network of originators; this line of business is volatile and is affected by economic conditions.

Allowance for Loan Losses

At June 30, 2005, the total allowance for loan losses was $8.2 million as compared to $7.2 million at December 31, 2004. The allowance for loan losses to total loans was 1.18% at June 30, 2005 compared to 1.28% at December 31, 2004. The increase of $1.0 million for the six months was due in part to the allowance covering certain loan pools acquired in the Alliance transaction totaling $557 thousand. The remaining increase was due to the provision for loan losses of $711 thousand exceeding net charge-offs of $259 thousand.

Horizon analyzes the adequacy of the allowance for loan losses on a bank-wide basis. While historical factors related to Horizon and Alliance are considered in the analysis, the overall methodology used in analyzing the adequacy of the allowance is consistent for loans originated by Horizon and those acquired in the Alliance transaction.

There have been no significant changes in loan delinquencies, nonaccrual, or nonperforming loans since December 31, 2004. Horizon considers the allowance for loan losses to be adequate to cover losses inherent in the loan portfolio at June 30, 2005.

Deposits

Deposits increased $192.6 million during the first six months of 2005; the Alliance acquisition contributed to $117.1 million of this increase. The remaining deposit increase is largely attributable to increases in public funds and brokered deposits.

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Subordinated Debentures and Borrowings

Subordinated debentures increased $5.2 million as Horizon assumed the subordinated debentures previously issued by Alliance. The terms of the Alliance subordinated debentures are similar to those issued by Horizon.

Short-term borrowings consist of overnight funds from the Federal Home Loan Bank and repo lines of credit. Long-term borrowings are primarily advances from the Federal Home Loan Bank. Short-term and long-term borrowings decreased in total by $16.6 million primarily due to a shift in funding sources between deposits and borrowings.

Stockholders Equity

Stockholders equity totaled $52.8 million at June 30, 2005 compared to $50.4 million at December 31, 2004. The increase in stockholders equity during the six months ended June 30, 2005 was the result of net income and the issuance of new shares for the exercise of stock options, offset by dividends declared, a decrease in the market value of investment securities available for sale, and the purchase of treasury stock.

At June 30, 2005, the ratio of stockholders equity to assets was 4.81% compared to 5.52% at December 31, 2004. The decrease in the ratio was the result of the Alliance transaction which was acquired using cash rather than issuing stock.

Liquidity and Capital Resources

During the six months ended June 30, 2005, cash and cash equivalents increased by $18.6 million. The increase was attributed to cash provided by operations of $3.0 million, uses of cash for investing activities of $39.4 million, and cash provided by financing activities of $55.0 million. Mortgage banking activities, consisting of originating and selling loans, is the most significant operating activity that impacts cash. For the six months ended June 30, 2005, Horizon had loan originations of $44.9 million and proceeds from sale of loans of $45.3 million.

Proceeds from sales, maturities, calls, and principal repayments of available for sale securities provided cash of $34.6 million for the six months ended June 30, 2005. The purchase of investment securities totaling $32.5 million and the net increase in loans totaling $42.2 million for the same period were the significant uses of cash from an investing perspective. The Alliance acquisition resulted in a net use of cash of $2.9 million after considering cash of $10.4 million which was acquired in the transaction.

The net increase in deposits provided Horizon with $75.5 million for the six months ended June 30, 2005. The activity on short-term and long-term borrowings resulted in a use of cash of $20.5 million for the same period. As previously discussed, there was a shift in funding sources between deposits and borrowings during the six months ended June 30, 2005.

Sources of liquidity for Horizon include earnings, new deposits, loan repayment, investment security sales and maturities, sale of real estate loans and borrowing relationships with correspondent banks, including the Federal Home Loan Bank (FHLB). At June 30, 2005, the Bank has available $137 million in unused credit lines with various money center banks and the FHLB.

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Regulatory Capital

During the course of a periodic examination by the Bank s regulators in 2003, the examination personnel raised the issue of whether the Bank s mortgage warehouse loans should be treated as other loans rather than home mortgages for call report purposes. If these loans are treated as other loans for regulatory reporting purposes, it would change the calculations for risk-based capital and reduce the Bank s risk-based capital ratios. Management believes that it has properly characterized the loans in its mortgage warehouse loan portfolio for risk-based capital purposes, but there is no assurance that the regulators will concur with that determination. Should the call report classification of the loans be changed, Horizon and the Bank would still be categorized as well capitalized at June 30, 2005.

Material Changes in Results of Operations Six Months Ended June 30, 2005 Compared to the Six Months Ended June 30, 2004

Overview

During the six months ended June 30, 2005, net income totaled $2.983 million or $0.95 per diluted share compared to $3.320 million or $1.06 per diluted share for the same period in 2004.

The results of operations include the operations of Alliance since June 10, 2005, the date of acquisition. Due to the timing of acquisition, Alliance has not had a significant impact on the ongoing results of operations of Horizon through the second quarter of 2005.

Net Interest Income

Net interest income was $14.032 million for the six months ended June 30, 2005, compared to $12.100 million for the same period of 2004. The increase in net interest income was directly related to the increase in average earning assets from $742 million for the six months ended June 30, 2004 to $879 million for the first six months of 2005.

The average investment portfolio increased $64 million from the same period of the prior year. Average loans outstanding increased from $494 million for the six months ended June 30, 2004 to $574 million for the six months ended June 30, 2005. Increases were experienced in all significant loan categories with the exception of mortgage warehouse loans. Average mortgage warehouse loans decreased from $142 million for the first six months of 2004 to $99 million for the first six months of 2005.

The net interest margin declined slightly from 3.33% for the six months ended June 30, 2004 to 3.24% for the six months ended June 30, 2005. During this time, the yield on interest earning assets increased from 5.63% to 5.76%. The yield on the investment portfolio remained stable for the six months ended June 30, 2005 as compared to the same period in 2004 while the yields on Fed Funds sold and loans increased as the Fed increased short term interest rates. The cost of interest bearing liabilities increased during this period from 2.29% for the six months ended June 30, 2004 to 2.52% for the six months ended June 30, 2005.

Provision for Loan Losses

The provision for loan losses totaled $711 thousand for the six months ended June 30, 2005 compared to $474 thousand for the same period of the prior year. The provision for loan losses is determined based on the analysis described in the Critical Accounting Policies.

Noninterest Income

Total noninterest income was $4.751 million for the six months ended June 30, 2005 compared to $5.165 million for the same period in 2004. The net decrease of $400 thousand resulted from decreases in all significant components of noninterest income, primarily service charges on deposit accounts, wire transfer fees, commission income from the insurance agency, and gains on sale of loans. Other income increased during this period due primarily to recovery of impairments on mortgage servicing rights and increases in merchant discount charges and mortgage brokerage fees.

Service charges on deposit accounts have consistently decreased throughout the six months ended June 30, 2005 as compared to the same period in the prior year. This decrease is not related to any specific actions on the part of Horizon; rather, there appears to be a fundamental change in consumer spending habits which has affected the fee income. Wire transfer fees are down due to decreases mortgage warehouse loan volume.

The gain on sale of loans decreased due to a decline in overall mortgage lending activity. For the six months ended June 30, 2005, gross proceeds on the sale of mortgage loans were $45.3 million as compared to $55.3 million for the same period in the prior year. Horizon sold the retail property and casualty insurance lines of Horizon Insurance Services, Inc. earlier in 2005, thus there is no continued income from the insurance agency.

Noninterest Expense

Total noninterest expense was $13.951 million for the six months ended June 30, 2005 compared to $12.358 million for the same period in 2004. The net increase of $1.627 million was largely due to an increase of $1.315 million in salaries and employee benefits. This increase related to additional human resource costs to support Horizon s expansion in new and existing markets throughout northern Indiana and southwest Michigan. Since the prior year, Horizon added offices in St. Joseph, Michigan and South Bend, Indiana. Net occupancy costs, data processing and equipment expenses, and other expenses also increased mainly due to the expansion.

Material Changes in Results of Operations Three Months Ended June 30, 2005 Compared to the Three Months Ended June 30, 2004

Overview

During the three months ended June 30, 2005, net income totaled $1.680 million or $.53 per diluted share compared to $1.803 million or $.58 per diluted share for the same period in 2004.

Net Interest Income

Net interest income was $7.259 million for the three months ended June 30, 2005, compared to $6.511 million for the same period 2004. The increase was the result of an increase in average earning assets from $771 million for the three months ended June 30, 2004 to $910 million for the three months ended June 30, 2005. This is partly offset by a decline in net interest margin from 3.45% for the three months ended June 30, 2004 compared to 3.22% for the same period of 2005. Similar to the results for the six month period ended June 30, 2005, the cost of liabilities increased by more than the yield on interest earning assets.

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Provision for Loan Losses

The provision for loan losses totaled $381 thousand for the three months ended June 30, 2005 compared to $228 thousand for the same period of the prior year. The provision for loan losses is determined based on the analysis described in the Critical Accounting Policies.

Noninterest Income

Total noninterest income was $2.471 million for the three months ended June 30, 2005, compared to $2.470 million for the same period in 2004. While the individual components within noninterest income fluctuated, the net totals remained relatively consistent between periods.

The changes for the three-month period are similar to those discussed above for the six month period. The only significant change in the three month results versus the six month results is that gain on sale of loans increased by $83 thousand for the three months ended June 30, 2005 as compared to the same period in the prior year. The volume of loan sales remained relatively consistent during these periods with $23.1 million of proceeds from sales of mortgage loans during the three months ended June 30, 2005 as compared to $25.6 million for the same period in the prior year. The increase in the gain is the result of improved pricing on loan sales as evidenced by the average gain on sale of loans of 2.07% for the three months ended June 30, 2005 as compared to 1.69% for the three months ended June 30, 2004.

Noninterest Expense

Total noninterest expense was $6.973 million for the three months ended June 30, 2005 compared to $6.303 million for the same period in 2004. The net increase of $704 thousand was largely due to an increase of $543 thousand in salaries and employee benefits. This increase, as well as the other significant changes, occurred for the same reasons as discussed above for the six month period.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Horizon currently does not engage in any derivative or hedging activity. Refer to Horizon s 2004 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 2004 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on an evaluation of disclosure controls and procedures as of June 30, 2005, 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)). 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 gathered, analyzed and disclosed with adequate timeliness, accuracy and completeness.

Changes In Internal Controls

Since the evaluation date, there have been no significant changes in Horizon s internal controls or in other factors that could significantly affect such controls.

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Horizon Bancorp And Subsidiaries
Part II Other Information
For the Six Months Ended June 30, 2004

ITEM 1. LEGAL PROCEEDINGS

Not Applicable

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

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

(a) The Company held its Annual Shareholders Meeting on May 5, 2005.

(b) The names of the Directors elected at the Annual Meeting were as follows:

Name	Votes For	Votes Withheld
Craig M. Dwight	2,319,976	12,371
James B. Dworkin	2,269,240	63,107
Daniel F. Hopp	2,274,677	57,670
Robert E. McBride	2,309,296	23,051

(c) Ratification of BKD, LLP as independent accountants.

Votes for	2,293,119
Votes against	335
Votes abstained	38,892

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

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

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SIGNATURES

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

	HORIZON BANCORP
8.10.2005	/s/ Craig M. Dwight
Date	BY: Craig M. Dwight President and Chief Executive Officer
Aug. 10, 2005	/s/ James H. Foglesong
Date	BY: James H. Foglesong Chief Financial Officer

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INDEX TO EXHIBITS

The following documents are included as Exhibits to this Report.

Exhibit	
31.1	Certification of Craig M. Dwight
31.2	Certification of James H. Foglesong
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.

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