HORIZON BANCORP /IN/
Form 10-Q
November 13, 2007

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HORIZON BANCORP
FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2007
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**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

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

Yes o No þ

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

3,250,732 at November 6, 2007

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PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HORIZON BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollar Amounts in Thousands)

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and due from banks	**$ 19,785**	$ 52,311
Interest-bearing demand deposits	**3**	1
Federal funds sold		6,500
Cash and cash equivalents	**19,788**	58,812
Interest-bearing deposits	**120**	898
Investment securities, available for sale	**230,631**	243,078
Loans held for sale	**17,931**	13,103
Loans, net of allowance for loan losses of $8,823 and $8,738	**844,486**	835,096
Premises and equipment	**24,232**	23,394
Federal Reserve and Federal Home Loan Bank stock	**12,625**	12,136
Goodwill	**5,787**	5,787
Other intangible assets	**2,150**	2,412
Interest receivable	**6,354**	6,094
Other assets	**30,142**	21,620
Total assets	**$1,194,246**	$1,222,430
Liabilities		
Deposits		
Noninterest bearing	**$ 79,034**	$ 81,949
Interest bearing	**716,810**	832,024
Total deposits	**795,844**	913,973
Short-term borrowings	**78,661**	83,842
Long-term borrowings	**215,802**	115,951
Subordinated debentures	**27,837**	40,209
Interest payable	**2,409**	1,771
Other liabilities	**6,027**	4,807
Total liabilities	**1,126,580**	1,160,553

Commitments and Contingent Liabilities

Stockholders Equity

Preferred stock, no par value		
Authorized, 1,000,000 shares		
No shares issued		
Common stock, $.2222 stated value		
Authorized, 22,500,000 shares		
Issued, 5,010,406 and 4,998,106 shares	**1,113**	1,111
Additional paid-in capital	**25,521**	25,229
Retained earnings	**59,460**	54,196
Accumulated other comprehensive loss	**(1,276)**	(1,507)
Less treasury stock, at cost, 1,759,424 shares	**(17,152)**	(17,152)
Total stockholders equity	**67,666**	61,877
Total liabilities and stockholders equity	**$1,194,246**	$1,222,430

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollar Amounts in Thousands, Except Per Share Data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007 (Unaudited)	2006 (Unaudited)	**2007 (Unaudited)**	2006 (Unaudited)
Interest Income				
Loans receivable	**$16,330**	$15,010	**$47,088**	$41,612
Investment securities				
Taxable	**1,979**	1,870	**6,017**	6,096
Tax exempt	**864**	878	**2,582**	2,363
Total interest income	**19,173**	17,758	**55,687**	50,071
Interest Expense				
Deposits	**7,296**	7,003	**21,677**	18,273
Federal funds purchased and short-term borrowings	**684**	594	**2,319**	1,584
Long-term borrowings	**2,412**	1,766	**5,954**	5,113
Subordinated debentures	**522**	583	**1,800**	1,643
Total interest expense	**10,914**	9,946	**31,750**	26,613
Net Interest Income	**8,259**	7,812	**23,937**	23,458
Provision for loan losses	**550**	120	**1,140**	725
Net Interest Income after Provision for Loan Losses	**7,709**	7,692	**22,797**	22,733
Other Income				
Service charges on deposit accounts	**896**	833	**2,515**	2,297
Wire transfer fees	**81**	101	**266**	290
Fiduciary activities	**905**	758	**2,600**	2,231
Gain on sale of loans	**658**	459	**1,808**	1,087
Gain on sale of mortgage servicing rights		656		656
Increase in cash surrender value of Bank owned life insurance	**233**	122	**696**	348
Loss on sale of securities		(515)		(764)
Other income	**357**	448	**1,098**	1,127
Total other income	**3,130**	2,862	**8,983**	7,272

Other Expenses				
Salaries and employee benefits	**4,277**	4,228	**13,147**	12,524
Net occupancy expenses	**606**	577	**1,777**	1,756
Data processing and equipment expenses	**648**	725	**1,913**	2,024
Professional fees	**214**	416	**955**	961
Outside services and consultants	**254**	294	**730**	832
Loan expense	**273**	281	**820**	769
Other expenses	**1,471**	1,331	**4,230**	3,925
Total other expenses	**7,743**	7,852	**23,572**	22,791
Income Before Income Tax	**3,096**	2,702	**8,208**	7,214
Income tax expense	**826**	734	**2,078**	1,963
Net Income	**$ 2,270**	$ 1,968	**$ 6,130**	$ 5,251
Basic Earnings Per Share	**$ .71**	$ .62	**$ 1.92**	$ 1.66
Diluted Earnings Per Share	**$ .70**	$ .61	**$ 1.89**	$ 1.64

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(UNAUDITED)
(Table Dollar Amounts in Thousands, Except Per Share Data)

	Common Stock	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balances, December 31, 2006	$ 1,111	$ 25,229		$ 54,196	$ (1,507)	$ (17,152)	$ 61,877
Net income			$ 6,130	6,130			6,130
Other comprehensive loss, net of tax, unrealized losses on securities			231		231		231
Comprehensive income			$ 6,361				
Amortization of unearned compensation		182					182
Issuance of restricted stock	2	(2)					
Reversal of compensation expense for forfeiture of non-vested shares	(2)	(79)					(81)
Exercise of stock options	2	102					104
Tax benefit related to stock options		47					47
Stock option expense		42					42
Adjustment to accrued income taxes upon adoption of financial Interpretation 48				563			563
Cash dividends ($.44 per share)				(1,429)			(1,429)

Balances, September 30, 2007	$ 1,113	$	25,521		$ 59,460	$	(1,276)	$	(17,152)	$ 67,666

See notes to condensed consolidated financial statements.

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HORIZON BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar Amounts in Thousands)

	Nine Months Ended September 30	
	2007 (Unaudited)	2006 (Unaudited)
Operating Activities		
Net income	**$ 6,130**	$ 5,251
Items not requiring (providing) cash		
Provision for loan losses	**1,140**	725
Depreciation and amortization	**1,711**	1,841
Share based compensation	**42**	29
Mortgage servicing rights recovery		(40)
Deferred income tax	**(359)**	967
Investment securities amortization, net	**(29)**	193
Loss on sale of securities		764
Gain on sale of loans	**(1,808)**	(1,087)
Gain on sale of mortgage servicing rights		(656)
Proceeds from sales of loans	**143,296**	80,225
Loans originated for sale	**(146,316)**	(82,867)
(Gain) loss on sale of other real estate owned	**(17)**	4
Loss on sale of fixed assets	**11**	11
Increase in cash surrender value of life insurance	**(695)**	(348)
Tax benefit of options exercised	**(47)**	(460)
Net change in:		
Interest receivable	**(260)**	158
Interest payable	**638**	241
Other assets	**385**	(682)
Other liabilities	**1,236**	(489)
Net cash provided by operating activities	**5,058**	3,780
Investing Activities		
Net change in interest-bearing deposits	**778**	15,607
Purchases of securities available for sale	**(17,171)**	(77,796)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	**30,001**	113,431
Net change in loans	**(10,546)**	(96,673)
Purchase Federal Reserve Bank stock	**(539)**	(31)
Proceeds from sale of mortgage servicing rights		1,273
Proceeds from sale of Federal Home Loan Bank Stock	**50**	557
Proceeds from sale of fixed assets		1
Proceeds from sale of other real estate owned		25
Purchases of premises and equipment	**(2,197)**	(2,899)
Purchase of bank owned life insurance	**(8,000)**	

Net cash used in investing activities	**(7,624)**	(46,505)
Financing Activities		
Net change in		
Deposits	**(118,129)**	(40,380)
Short-term borrowings	**(5,181)**	70,555
Increase (decrease) of long-term borrowings	**99,851**	(4,640)
Redemption of trust preferred securities	**(12,372)**	
Proceeds from issuance of stock	**192**	742
Purchase of treasury stock		(128)
Tax benefit of options exercised	**47**	460
Cumulative effect of change in accounting principle	**563**	
Dividends paid	**(1,429)**	(1,357)
Net cash provided by (used in) financing activities	**(36,458)**	25,252
Net Change in Cash and Cash Equivalents	**(39,024)**	(17,473)
Cash and Cash Equivalents, Beginning of Period	**58,812**	39,250
Cash and Cash Equivalents, End of Period	**$ 19,788**	$ 21,777
Additional Cash Flows Information		
Interest paid	**$ 31,112**	$ 26,372
Income tax paid	**1,755**	990

See notes to condensed consolidated financial statements.

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HORIZON BANCORP AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Table Dollar Amounts in Thousands, Except Per Share Data)

NOTE 1 ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Horizon Bancorp (Horizon) and its wholly-owned subsidiary, Horizon Bank, N.A. (Bank). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended September 30, 2007 and September 30, 2006, are not necessarily indicative of the operating results for the full year of 2007 or 2006. The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of Horizon s management, necessary to fairly present the financial position, results of operations and cash flows of Horizon for the periods presented. Those adjustments consist only of normal recurring adjustments.

Certain information and note disclosures normally included in Horizon s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Horizon s Form 10-K annual report for 2006 filed with the Securities and Exchange Commission. The consolidated balance sheet of Horizon as of December 31, 2006, has been derived from the audited balance sheet of Horizon as of that date.

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

	Three months Ended September 30, 2007	**Three months Ended September 30, 2006**	**Nine months Ended September 30, 2007**	**Nine months Ended September 30. 2006**
Basic	3,202,341	3,189,004	3,198,999	3,171,869
Diluted	3,243,266	3,211,777	3,242,107	3,209,940

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

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HORIZON BANCORP AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 CHANGE IN ACCOUNTING PRINCIPLE

Horizon files income tax returns in the U.S. Federal, Indiana, and Michigan jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal, state and local examinations by tax authorities for years before 2005. The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FIN 48, no material liabilities for uncertain tax positions have been recorded, however, the Company reduced its liabilities for certain tax positions by $563,000. This reduction was recorded as a cumulative effect adjustment to equity. The following financial statement line items for 2007 were affected by the change in accounting principle.

	2007 As Computed Pre-FIN 48	As Reported Under FIN 48	Effect of Change
Balance Sheet			
Other assets	$29,579	$ 30,142	$(563)
Retained earnings	$58,897	$ 59,460	$(563)

NOTE 3 FUTURE ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

HORIZON BANCORP AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2007

Forward Looking Statements

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

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

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

Introduction

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

Overview

Net income for the third quarter and the nine months ended September 30, 2007 increased from the same periods of 2006. The major factor causing the improved performance from the prior year was an increase in non-interest income. Approximately 82% of new conforming residential mortgage loans are being sold compared to approximately 45% in 2006. This caused a 66% increase in the gain on sale of loans during the nine months ended September 30, 2007. Fiduciary income has increased due to an increase in assets under administration, additional income from the ESOP line of business and an increase in fees implemented in January of 2007.

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HORIZON BANCORP AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2007

Critical Accounting Policies

The notes to the consolidated financial statements included in Item 8 on Form 10-K contain a summary of the Company s significant accounting policies and are presented on pages 44-50 of Form 10-K for 2006. 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. Please refer to Horizon s 2006 10-K for a detailed discussion of what Horizon considers to be its critical accounting policies.

Financial Condition

Liquidity

The Bank maintains a stable base of core deposits provided by long standing relationships with consumers and local businesses. These deposits are the principal source of liquidity for Horizon. Other sources of liquidity for Horizon include earnings, loan repayment, investment security sales and maturities, sale of real estate loans and borrowing relationships with correspondent banks, including the Federal Home Loan Bank (FHLB). During the nine months ended September 30, 2007, cash and cash equivalents decreased by approximately $39 million. At September 30, 2007, in addition to liquidity provided from the normal operating, funding, and investing activities of Horizon, the Bank has available approximately $138 million in unused credit lines with various money center banks including the FHLB.

There have been no other material changes in the liquidity of Horizon from December 31, 2006 to September 30, 2007.

Capital Resources

Stockholders equity totaled $67.666 million as of September 30, 2007 compared to $61.877 million as of December 31, 2006. The increase in stockholders equity during the nine months ended September 30, 2007 is primarily the result of net income, net of dividends declared, and improvement in the market value of Horizon s investment securities available for sale. At September 30, 2007, the ratio of stockholders equity to assets was 5.67% compared to 5.06% at December 31, 2006.

During the course of a periodic routine examination by the office of the Comptroller of the Currency (OCC) that commenced in February 2003, the examination personnel raised the issue of whether Horizon Bank s mortgage warehouse loans should be treated as other loans rather than home mortgage loans for call report purposes. The OCC has now determined that these loans must be treated as other loans. This will increase the risk-weighting of these loans from 50% to 100% and reduce Horizon Bank s risk-based capital ratios. Management believes its previous classification of the loans in its mortgage warehouse loan portfolio for risk-based capital purposes was accurate, and intends to formally challenge this decision by the OCC. After changing the classification of these loans, Horizon and Horizon Bank were still categorized as well capitalized at September 30, 2007.

As a condition of approval for the Alliance acquisition, the OCC required Horizon Bank to maintain regulatory capital ratios at 100 basis points above the well capitalized minimums. At September 30, 2007, due to the change in risk weighting of mortgage warehouse loans, Horizon Bank s ratio of risk based capital to risk weighted assets fell to 10.77 which is below

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HORIZON BANCORP AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2007

the required ratio (including the 100 basis point cushion). Horizon Bank has contacted the OCC and requested that the excess capital requirement be removed since classified loans, acquired in the Alliance acquisition, have decreased from approximately $10 million to approximately $2.0 million.

Material Changes in Financial Condition September 30, 2007 compared to December 31, 2006

During the first nine months of 2007, investment securities decreased approximately $12.4 million and loans outstanding increased approximately $9.5 million. Short term securities matured and the proceeds were used to fund the redemption of $12 million of trust preferred securities. The increase in loans is a combination of growth in commercial loans, primarily commercial real estate and installment loans (primarily indirect automobile loans). Also impacting installment loans was approximately $6.0 million of home equity loans originated and held for sale which were moved to the consumer loan permanent portfolio when the wholesale loan operation was discontinued. Mortgage warehouse loans have declined by approximately $61 million due to a general slowdown in residential mortgage activity.

Included in the mortgage warehouse totals are approximately $11.5 million of mortgage loans, which are classified as Alt A or subprime. These loans represent approximately 1.3% of Horizon s total loan portfolio. These loans are purchased from independent mortgage brokers, and held, normally for approximately two weeks, when they are sold to the final end investor. The majority of these loans have a firm end investor take out commitment in place when purchased by Horizon. All of these loans are current and secured by one to four family residential real estate.

Horizon s allowance for loan losses at September 30, 2007 was $8.8 million, or 1.03% of gross loans, compared to $8.7 million or 1.04% at December 31, 2006. Non-performing loans at September 30, 2007 were $2.3 million or 0.27% of gross loans compared to and $2.7 million, or 0.32% of gross loans, at December 31, 2006. Horizon considers the allowance for loan losses to be adequate to cover losses inherent in the loan portfolio as of September 30, 2007. Other real estate owned was $286 thousand and $75 thousand at September 30, 2007 and December 31, 2006 respectively.

Other assets increased due to the purchase of an additional $8 million of Bank Owned Life Insurance.

Deposits declined, as a large deposit made by a local municipality at year-end 2006 was withdrawn in their normal course of business in early January 2007. Total average deposits for the first nine months of 2007 have increased approximately $27.5 million from the same period of 2006. Long-term borrowings increased to reduce the reliance on short term funding and reduce interest expense as the borrowings are at rates that are below rates for many short term funding instruments such as negotiable certificates of deposit and Federal Funds purchased

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2007

Results of Operations

Material Changes in Results of Operations Three months ended September 30, 2007 compared to the three months ended September 30, 2006

During the three months ended September 30, 2007, net income totaled $2.270 million or $.70 per diluted share compared to $1.968 million or $.61 per diluted share for the same period in 2006.

Net interest income for the quarter ended September 30, 2007, was $8.259 million, an increase of $447 thousand or 5.7% over the same period of the prior year. This increase resulted from an increase in average earning assets of $17 million and an improvement of in net interest margin from 2.96% to 3.01%. Contributing to the improved margin was an increase in the yield on installment loans, a change in the mix of earning assets, increasing higher yielding installment and commercial loans while residential mortgage loans remained constant and a reduction in the cost of borrowed funds.

The provision for loan losses was $550 thousand for the third quarter of 2007 up from both the third quarter of 2006 and the second quarter of 2007. The third quarter of 2006 provision was $120 thousand and the second quarter of 2007 was $365 thousand. The increase was related to an increase in net loan charge-offs, which are at an annualized rate of 0.17% of total average loans, and additional risk related to consumer and commercial loans. Horizon will continue to evaluate the total allowance based on it s analysis of all categories of the loan portfolio.

Non-interest income increased $268 thousand or 9.4% from the third quarter of 2006. The main contributing factors were: (a) an increase in the gain on sale of loans as the company is now selling approximately 82 % of its conventional mortgage production compared to approximately 45% in the prior year; (b) fiduciary income has increased due to an increase in assets under administration, additional income from the ESOP business line and a fee increase implemented in January of 2007; (c) the increase in cash surrender value of life insurance related to additional insurance added during January of 2007; and (d) no securities losses or sale of mortgage servicing rights were recorded during 2007.

Non-interest expense decreased $109 thousand or 1.4% from the third quarter of 2006. During the third quarter, Horizon reduced staff by 12 employees from among its various business lines. Horizon has taken this cost cutting action based on current business conditions, the recommendations of external consultants and after a review of third party independent benchmarking data. A charge of approximately $94 thousand was taken in the third quarter of 2007 to cover severance costs related to this reduction in the work force. The ongoing annual cost savings from this reduction is estimated at $740 thousand. Also during the third quarter of 2007, Horizon discontinued its Illinois indirect lending operation. A charge of approximately $35 thousand was taken in the third quarter for severance benefits for the employees in this division. The ongoing annual cost reduction from this initiative is estimated to be approximately $264 thousand. Other fluctuations in non-interest expense relate to normal periodic fluctuations.

The reduction in annual compensation expense of the above items when combined with the closing of the mortgage wholesale operation during the second quarter will total approximately $1.5 million.

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HORIZON BANCORP AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2007

Material Changes in Results of Operations nine months ended September 30, 2007 compared to the Nine months ended September 30, 2006

For the nine months ended September 30, 2007, net income totaled $6.130 million or $1.89 per diluted share compared to $5.251 million or $1.64 per diluted share for the same period in 2006.

Net interest income for the nine-month period ended September 30, 2007, was $23.937 million, an increase of $479 thousand or 2.0% over the same period of the prior year. An increase of $55 million in average earning assets was offset by a decline in net interest margin from 3.08% for the first nine months of 2006 to 2.98% for the first nine months of 2007. Contributing to net interest income in the first half of 2006 was approximately $330 thousand of income, which related to commercial loans that were acquired at a discount in the Alliance acquisition and were paid in full during the quarter. Without this income the net interest margin would have been approximately 3.04% for the first half of 2006.

Non-interest income for the first nine months of 2007 increased by $1.7 million or 23.5%. The reasons for the increase for the nine-month period are primarily the same as those noted above for the three months period.

Non-interest expense increased $781 thousand or 3.4% from the first nine months of 2006. The increase in compensation relates to the severance payments mentioned above as well as the cost related to the Illinois indirect lending operation which began in the first quarter of 2007. The increase in other expenses relates to ATM and other fraud losses and external audit fees.

There have been no other material changes in the results of operations of Horizon for the nine months ending September 30, 2007 and 2006.

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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 2006 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 2006 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 September 30, 2007, 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 September 30, 2007, 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.

HORIZON BANCORP AND SUBSIDIARIES
PART II OTHER INFORMATION
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

ITEM 1. LEGAL PROCEEDINGS

Not Applicable

ITEM 1A. RISK FACTORS

No material changes from the factors included in the December 31, 2006 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit 3	Amended and Restated Articles of Incorporation of Horizon Bancorp (As Amended October 27, 2003) (Filed to correct various typographical errors.)
Exhibit 11	Statement Regarding Computation of Per Share Earnings
Exhibit 31.1	Certification of Craig M. Dwight
Exhibit 31.2	Certification of James H. Foglesong
Exhibit 32	Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

	HORIZON BANCORP	
November 9, 2007		/s/ Craig M. Dwight
Date:	BY:	Craig M. Dwight President and Chief Executive Officer
November 11, 2007		/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	Description	Location
3	Amended and Restated Articles of Incorporation of Horizon Bancorp (As Amended October 27, 2003) (Filed to correct various typographical errors.)	Attached
11	Statement Regarding Computation of Per Share Earnings	Attached
31.1	Certification of Craig M. Dwight	Attached
31.2	Certification of James H. Foglesong	Attached
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Attached