

HORIZON BANCORP /IN/
Form 10-Q
August 11, 2006

HORIZON BANCORP
SECURITIES AND EXCHANGE COMMISSION
450 5th Street N.W.
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006
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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

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

3,230,782 at August 8, 2006

PART 1 FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Cash and due from banks	\$ 23,407	\$ 39,163
Interest-bearing demand deposits	1	87
Cash and cash equivalents	23,408	39,250
Interest-bearing deposits	1,698	15,735
Investment securities, available for sale	242,262	275,177
Loans held for sale	4,754	2,440
Loans, net of allowance for loan losses of \$8,843 and \$8,368	786,201	724,366
Premises and equipment	22,550	21,425
Federal Reserve and Federal Home Loan Bank stock	13,014	12,983
Goodwill	5,787	5,787
Other intangible assets	2,594	2,780
Interest receivable	5,365	5,813
Other assets	23,508	22,119
Total assets	\$1,131,141	\$1,127,875
Liabilities		
Deposits		
Noninterest bearing	\$ 86,427	\$ 148,127
Interest bearing	753,688	707,439
Total deposits	840,115	855,566
Short-term borrowings	72,988	50,024
Long-term borrowings	129,027	133,609
Subordinated debentures	27,837	27,837
Interest payable	1,442	1,663
Other liabilities	5,105	5,646
Total liabilities	1,076,514	1,074,345
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, 4,990,206 and 4,852,751 shares	1,109	1,092

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Additional paid-in capital	24,970	24,552
Retained earnings	50,902	48,523
Restricted stock, unearned compensation		(760)
Accumulated other comprehensive loss	(5,202)	(2,853)
Less treasury stock, at cost, 1,759,424 and 1,741,239 shares	(17,152)	(17,024)
Total stockholders' equity	54,627	53,530
Total liabilities and stockholders' equity	\$1,131,141	\$1,127,875

See notes to condensed consolidated financial statements

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

	Three Months Ended June		Six Months Ended June 30	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest Income				
Loans receivable	\$13,829	\$10,171	\$26,602	\$19,054
Investment securities				
Taxable	2,059	2,485	4,226	4,826
Tax exempt	762	579	1,485	1,150
Total interest income	16,650	13,235	32,313	25,030
Interest Expense				
Deposits	5,977	3,656	11,270	6,613
Federal funds purchased and short-term borrowings	592	654	990	827
Long-term borrowings	1,697	1,309	3,347	2,897
Subordinated debentures	548	337	1,060	641
Total interest expense	8,814	5,956	16,667	10,978
Net Interest Income	7,836	7,279	15,646	14,052
Provision for loan losses	225	381	605	711
Net Interest Income after Provision for Loan Losses	7,611	6,898	15,041	13,341
Other Income				
Service charges on deposit accounts	778	583	1,464	1,121
Wire transfer fees	103	117	189	206
Fiduciary activities	810	692	1,473	1,319
Commission income from insurance agency				46
Gain on sale of loans	325	478	628	867
Increase in cash surrender value of bank owned life insurance	118	122	226	236
Loss on sale of securities	(91)		(249)	
Other income	336	493	679	970
Total other income	2,379	2,485	4,410	4,765

Other Expenses

Salaries and employee benefits	4,062	4,100	8,296	8,250
Net occupancy expenses	561	486	1,179	1,007
Data processing and equipment expenses	659	525	1,299	1,032
Other expenses	2,143	1,896	4,165	3,696
Total other expenses	7,425	7,007	14,939	13,985
Income Before Income Tax	2,565	2,376	4,512	4,121
Income tax expense	731	696	1,229	1,138
Net Income	\$ 1,834	\$ 1,680	\$ 3,283	\$ 2,983
Basic Earnings Per Share	\$.58	\$.55	\$ 1.04	\$.98
Diluted Earnings Per Share	\$.57	\$.53	\$ 1.02	\$.95

See notes to condensed consolidated financial statements

Horizon Bancorp and Subsidiaries
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	Restricted Stock, Unearned Compensation	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balances, December 31, 2005	\$ 1,092	\$ 24,552		\$ 48,523	\$ (760)	\$ (2,853)	\$ (17,024)	\$ 53,530
Net income			\$ 3,283	3,283				3,283
Other comprehensive loss, net of tax, unrealized losses on securities								
				(2,349)		(2,349)		(2,349)
Comprehensive income			\$ 934					
Reclassification of restricted stock, unearned compensation to paid-in capital upon adoption of SFAS 123 (R)		(760)			760			
Amortization of unearned compensation								106
Exercise of stock options	17	619						636
Tax benefit related to stock options								438
Stock option expense		15						15
Purchase treasury stock							(128)	(128)
Cash dividends (\$.28 per share)				(904)				(904)
	\$ 1,109	\$ 24,970		\$ 50,902	\$ 0	\$ (5,202)	\$ (17,152)	\$ 54,627

**Balances,
June 30, 2006**

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	
	2006	2005
	(Unaudited)	(Unaudited)
Operating Activities		
Net income	\$ 3,283	\$ 2,983
Items not requiring (providing) cash		
Provision for loan losses	605	711
Depreciation and amortization	1,262	979
Share based compensation	15	
Federal Home Loan Bank stock dividend		(251)
Mortgage servicing rights (recovery) impairment	22	(141)
Deferred income tax	1,036	892
Investment securities amortization, net	130	199
Loss on sale of securities	249	
Gain on sale of loans	(628)	(867)
Proceeds from sales of loans	46,974	45,273
Loans originated for sale	(48,660)	(44,887)
(Gain) loss on sale of other real estate owned	4	(19)
Loss on sale of fixed assets		11
Increase in cash surrender value of life insurance	(226)	(236)
Net change in:		
Interest receivable	448	(166)
Interest payable	(221)	381
Other assets	(1,042)	(1,152)
Other liabilities	(541)	(719)
Net cash provided by operating activities	2,710	2,991
Investing Activities		
Net change in deposits	14,037	3,727
Purchases of securities available for sale	(52,639)	(32,500)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	81,564	34,567
Net change in loans	(62,680)	(42,245)
Purchase Federal Reserve Bank stock	(31)	
Proceeds from sale of fixed assets	1	27
Recoveries on loans previously charged-off	294	218
Proceeds from sale of other real estate owned	25	256
Purchases of premises and equipment	(2,096)	(570)
Acquisition, net of cash		(2,901)
Net cash used in investing activities	(21,525)	(39,421)

Financing Activities

Net change in		
Deposits	(15,451)	75,475
Short-term borrowings	22,964	(11,454)
Proceeds from long-term borrowings		47,000
Repayment of long-term borrowings	(4,582)	(56,025)
Proceeds from issuance of stock	636	1,097
Purchase of treasury stock	(128)	(265)
Tax benefit of options exercised	438	
Dividends paid	(904)	(808)
Net cash provided by financing activities	2,973	55,020
Net Change in Cash and Cash Equivalents	(15,842)	18,590
Cash and Cash Equivalents, Beginning of Period	39,250	18,254
Cash and Cash Equivalents, End of Period	\$ 23,408	\$ 36,844

Additional Cash Flows Information

Interest paid	\$ 16,888	\$ 10,475
Income tax paid	250	300

See notes to condensed consolidated financial statements.

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

Note 1 Accounting Policies

The accompanying consolidated financial statements include the accounts of Horizon Bancorp (Horizon) and its wholly-owned subsidiary, Horizon Bank, N.A. (Bank). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended June 30, 2006 and June 30, 2005, are not necessarily indicative of the operating results for the full year of 2006 or 2005. 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 2005 filed with the Securities and Exchange Commission. The consolidated balance sheet of Horizon as of December 31, 2005, 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 number of shares used in the computation of basic earnings per share is 3,183,870 and 3,066,512 for the three-month period ended June 30, 2006 and 2005. The number of shares used in the computation of diluted earnings per share is 3,209,294 and 3,157,731 for the three-month period ended June 30, 2006 and 2005. The number shares used in the computation of basic earnings per share is 3,163,159 and 3,041,698 for the six-month period ended June 30, 2006 and 2005. The number of shares used in the computation of diluted earnings per share is 3,205,780 and 3,149,164 for the six-month period ended June 30, 2006 and 2005.

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in the December 31, 2005, Annual Report to Shareholders.

Effective January 1, 2006, Horizon adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123(R)). SFAS 123(R) addresses all forms of share-based payment awards, including shares under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS 123(R) requires all share-based payments to be recognized as expense, based upon their fair values, in the financial statements over the vesting period of the awards. Horizon has elected the modified prospective application and, as a result, has recorded approximately \$15 thousand in compensation expense relating to vesting of stock options less estimated forfeitures for the six month period ended June 30, 2006. Certain disclosures required by SFAS 123(R) have been omitted due to their immaterial nature. Prior to adoption of SFAS 123(R), unearned compensation related to restricted stock awards was classified as a separate component of stockholders' equity. Upon the adoption of SFAS 123(R) on January 1, 2006, the balance in unearned compensation was reclassified to additional paid-in capital.

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

Prior to the adoptions of SFAS 123(R), Horizon accounted for these 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 was reflected in net income, as all options granted under the plan 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 Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income, as reported	\$ 1,680	\$ 2,983
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(10)	(20)
 Pro forma net income	 \$ 1,670	 \$ 2,963
 Earnings per share:		
Basic as reported	.55	.98
Basic pro forma	.54	.97
Diluted as reported	.53	.95
Diluted pro forma	.53	.94

Note 2 Investment Securities

June 30	Amortized Cost	2006		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Available for sale				
U. S. Treasury and federal agencies	\$ 51,662	\$	\$(1,403)	\$ 50,259
State and municipal	81,656	427	(1,784)	80,299
Federal agency collateralized mortgage obligations	11,867		(476)	11,391
Federal agency mortgage backed pools	104,449	23	(4,813)	99,659
Corporate Notes	632	22		654

Total investment securities	\$250,266	\$ 472	\$(8,476)	\$242,262
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Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

December 31	2005			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for sale				
U. S. Treasury and federal agencies	\$ 72,153	\$	\$(1,786)	\$ 70,367
State and Municipal	64,608	1,794	(430)	65,972
Federal agency collateralized mortgage obligations	22,781		(628)	22,153
Federal agency mortgage backed pools	119,392	125	(3,497)	116,020
Corporate notes	632	33		665
Total investment securities	\$279,566	\$1,952	\$(6,341)	\$275,177

The amortized cost and fair value of securities available for sale at June 30, 2006, 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	\$ 11,145	\$ 11,003
One to five years	31,795	31,097
Five to ten years	31,646	30,685
After ten years	59,364	58,427
	133,950	131,212
Federal agency collateralized mortgage obligations	11,867	11,391
Federal agency mortgage backed pools	104,449	99,659
	\$250,266	\$242,262

Proceeds from sales of securities available for sale during the six months ended June 30, 2006, were \$70,197,000. Gross gains of \$1,167,000 and gross losses of \$1,416,000 were recognized on these sales. There were no sales of securities available for sale during the six months ending June 30, 2005.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2006 and December 31, 2005, was \$205,472,000 and \$226,292,000, respectively, which is approximately 85% and 82% of Horizon's available-for-sale investment portfolio. These declines primarily resulted from recent increases in market interest rates. 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. 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.

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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 table shows our 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 at June 30, 2006 and December 31, 2005.

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2006						
U. S. Treasury and federal agencies	\$12,246	\$ 216	\$38,013	\$1,187	\$50,259	\$1,403
State and municipal	38,579	1,395	7,460	389	46,039	1,784