

HORIZON BANCORP /IN/  
Form 10-Q  
August 12, 2011

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**HORIZON BANCORP  
FORM 10-Q  
United States  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended June 30, 2011**

**Commission file number 0-10792**

**HORIZON BANCORP**

(Exact name of registrant as specified in its charter)

**Indiana**

**35-1562417**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**515 Franklin Square, Michigan City, Indiana**

**46360**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(219) 879-0211**

Former name, former address and former fiscal year, if changed since last report: **N/A**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer   
Do not check if smaller reporting company

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 3,329,576 shares of Common Stock, \$.2222 par value, at August 12, 2011.

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(Dollar Amounts in Thousands)

	<b>June 30 2011 (Unaudited)</b>	<b>December 31 2010</b>
<b>Assets</b>		
Cash and due from banks	\$ 20,832	\$ 15,683
Investment securities, available for sale	449,817	382,344
Investment securities, held to maturity	10,632	9,595
Loans held for sale	4,343	18,833
Loans, net of allowance for loan losses of \$18,586 and \$19,064	820,684	863,813
Premises and equipment	33,255	34,194
Federal Reserve and Federal Home Loan Bank stock	12,390	13,664
Goodwill	5,910	5,910
Other intangible assets	2,515	2,741
Interest receivable	6,778	6,519
Cash value life insurance	27,611	27,195
Other assets	18,970	20,428
<b>Total assets</b>	<b>\$ 1,413,737</b>	<b>\$ 1,400,919</b>
<b>Liabilities</b>		
Deposits		
Non-interest bearing	\$ 113,747	\$ 107,606
Interest bearing	906,529	877,892
<b>Total deposits</b>	<b>1,020,276</b>	<b>985,498</b>
Borrowings	230,141	260,741
Subordinated debentures	30,630	30,584
Interest payable	705	781
Other liabilities	10,478	11,032
<b>Total liabilities</b>	<b>1,292,230</b>	<b>1,288,636</b>
<b>Commitments and contingent liabilities</b>		
<b>Stockholders Equity</b>		
Preferred stock, no par value, \$1,000 liquidation value Authorized, 1,000,000 shares Issued 18,750 shares	18,301	18,217
Common stock, \$.2222 stated value Authorized, 22,500,000 shares Issued, 3,329,576 and 3,300,659 shares	1,139	1,122
Additional paid-in capital	10,471	10,356
Retained earnings	84,417	80,240
Accumulated other comprehensive income	7,179	2,348
<b>Total stockholders equity</b>	<b>121,507</b>	<b>112,283</b>

Total liabilities and stockholders' equity	<b>\$ 1,413,737</b>	\$ 1,400,919
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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)

	<b>Three Months Ended</b>		<b>Six Months Ended June 30</b>	
	<b>June 30</b>			
	<b>2011</b>	2010	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
<b>Interest Income</b>				
Loans receivable	<b>\$ 11,891</b>	\$ 13,212	<b>\$ 23,779</b>	\$ 25,817
Investment securities				
Taxable	<b>2,786</b>	2,517	<b>5,286</b>	4,963
Tax exempt	<b>1,035</b>	1,078	<b>2,078</b>	2,159
Total interest income	<b>15,712</b>	16,807	<b>31,143</b>	32,939
<b>Interest Expense</b>				
Deposits	<b>2,195</b>	2,706	<b>4,532</b>	5,469
Borrowed funds	<b>1,600</b>	2,338	<b>3,177</b>	4,781
Subordinated debentures	<b>454</b>	395	<b>904</b>	768
Total interest expense	<b>4,249</b>	5,439	<b>8,613</b>	11,018
<b>Net Interest Income</b>	<b>11,463</b>	11,368	<b>22,530</b>	21,921
Provision for loan losses	<b>1,332</b>	3,000	<b>2,880</b>	6,233
<b>Net Interest Income after Provision for Loan Losses</b>	<b>10,131</b>	8,368	<b>19,650</b>	15,688
<b>Other Income</b>				
Service charges on deposit accounts	<b>825</b>	964	<b>1,620</b>	1,829
Wire transfer fees	<b>137</b>	185	<b>245</b>	325
Interchange fees	<b>639</b>	560	<b>1,184</b>	1,014
Fiduciary activities	<b>932</b>	1,007	<b>1,895</b>	2,002
Gain on sale of securities	<b>365</b>	131	<b>639</b>	131
Gain on sale of mortgage loans	<b>1,308</b>	1,674	<b>1,841</b>	3,056
Mortgage servicing income net of impairment	<b>99</b>	(97)	<b>863</b>	(32)
Increase in cash surrender value of bank owned life insurance	<b>211</b>	197	<b>416</b>	353
Other income	<b>(68)</b>	302	<b>59</b>	619
Total other income	<b>4,448</b>	4,923	<b>8,762</b>	9,297
<b>Other Expenses</b>				
Salaries and employee benefits	<b>5,470</b>	5,190	<b>10,831</b>	9,988
Net occupancy expenses	<b>1,039</b>	979	<b>2,120</b>	2,041
Data processing	<b>494</b>	570	<b>901</b>	972
Professional fees	<b>331</b>	530	<b>680</b>	1,001

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Outside services and consultants	<b>386</b>	424	<b>767</b>	789
Loan expense	<b>694</b>	771	<b>1,456</b>	1,521
FDIC insurance expense	<b>303</b>	408	<b>690</b>	796
Other losses	<b>246</b>	10	<b>277</b>	37
Other expenses	<b>1,524</b>	1,302	<b>3,023</b>	2,593
<b>Total other expenses</b>	<b>10,487</b>	10,184	<b>20,745</b>	19,738
<b>Income Before Income Tax</b>	<b>4,092</b>	3,107	<b>7,667</b>	5,247
Income tax expense	<b>999</b>	592	<b>1,809</b>	941
<b>Net Income</b>	<b>3,093</b>	2,515	<b>5,858</b>	4,306
Preferred stock dividend and discount accretion	<b>(277)</b>	(352)	<b>(553)</b>	(704)
<b>Net Income Available to Common Shareholders</b>	<b>\$ 2,816</b>	\$ 2,163	<b>\$ 5,305</b>	\$ 3,602
<b>Basic Earnings Per Share</b>	<b>\$ 0.86</b>	\$ 0.66	<b>\$ 1.61</b>	\$ 1.10
<b>Diluted Earnings Per Share</b>	<b>0.83</b>	0.65	<b>1.57</b>	1.09
See notes to condensed consolidated financial statements				

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**Horizon Bancorp and Subsidiaries**  
**Condensed Consolidated Statement of Stockholders Equity (Unaudited)**  
(Table Dollar Amounts in Thousands, Except Per Share Data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Total
<b>Balances, December 31, 2010</b>	<b>\$ 18,217</b>	<b>\$ 1,122</b>	<b>\$ 10,356</b>		<b>\$ 80,240</b>	<b>\$ 2,348</b>	<b>\$ 112,283</b>
Net income				\$ 5,858	5,858		5,858
Other comprehensive income, net of tax:							
Unrealized gain on securities				5,148		5,148	5,148
Unrealized gain on derivative instruments				(317)		(317)	(317)
Comprehensive income				\$ 10,689			
Amortization of unearned compensation			49				49
Issuance of restricted shares		16	(16)				
Exercise of stock options		1	54				55
Tax benefit related to stock options			8				8
Stock option expense			20				20
Cash dividends on preferred stock (5.00%)					(469)		(469)
Cash dividends on common stock (\$.34 per share)					(1,128)		(1,128)
Accretion of discount on preferred stock	84				(84)		
<b>Balances, June 30, 2011</b>	<b>\$ 18,301</b>	<b>\$ 1,139</b>	<b>\$ 10,471</b>		<b>\$ 84,417</b>	<b>\$ 7,179</b>	<b>\$ 121,507</b>

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)

	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Operating Activities</b>		
Net income	\$ 5,858	\$ 4,306
Items not requiring (providing) cash		
Provision for loan losses	2,880	6,233
Depreciation and amortization	1,227	1,112
Share based compensation	20	12
Mortgage servicing rights impairment	(728)	59
Deferred income tax		5
Premium amortization on securities available for sale, net	1,026	764
Gain on sale of investment securities	(639)	(131)
Gain on sale of mortgage loans	(1,841)	(3,056)
Proceeds from sales of loans	109,902	104,014
Loans originated for sale	(108,061)	(101,447)
Increase in cash surrender value of life insurance	(416)	(353)
(Gain) loss on sale of other real estate owned	86	(183)
Net change in		
Interest receivable	(259)	(58)
Interest payable	(76)	(120)
Other assets	1,977	655
Other liabilities	(812)	(680)
Net cash provided by operating activities	<b>10,144</b>	11,132
<b>Investing Activities</b>		
Purchases of securities available for sale	(108,989)	(92,230)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	49,049	68,839
Purchase of securities held to maturity	(2,437)	(15,332)
Proceeds from maturities of securities held to maturity	1,400	13,032
Proceeds from the sale of Federal Home Loan Bank stock	1,274	
Net change in loans	50,962	4,929
Proceeds on the sale of OREO and repossessed assets	1,069	3,392
Purchases of premises and equipment	(13)	(1,733)
Purchases and assumption of ATSB		3,406
Net cash used in investing activities	<b>(7,685)</b>	(15,697)
<b>Financing Activities</b>		
Net change in		
Deposits	34,778	(26,731)
Borrowings	(30,554)	(10,628)

Proceeds from issuance of stock	55	110
Tax benefit from issuance of stock	8	70
Dividends paid on common shares	(1,128)	(1,117)
Dividends paid on preferred shares	(469)	(625)
Net cash provided by (used in) financing activities	2,690	(38,921)
<b>Net Change in Cash and Cash Equivalent</b>	<b>5,149</b>	<b>(43,486)</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>15,683</b>	<b>68,702</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 20,832</b>	<b>\$ 25,216</b>
<b>Additional Cash Flows Information</b>		
Interest paid	\$ 8,689	\$ 11,137
Income taxes paid	100	180
Transfer of loans to other real estate owned	3,717	4,137
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 condensed consolidated financial statements include the accounts of Horizon Bancorp ( Horizon or the Company ) and its wholly-owned subsidiaries, including Horizon Bank, N.A. ( Bank ). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended June 30, 2011 and June 30, 2010 are not necessarily indicative of the operating results for the full year of 2011 or 2010. 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 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Horizon s Annual Report on Form 10-K for 2010 filed with the Securities and Exchange Commission on March 11, 2011. The consolidated condensed balance sheet of Horizon as of December 31, 2010 has been derived from the audited balance sheet of Horizon as of that date.

Basic earnings per share is computed by dividing net income available to common shareholders (net income less dividend requirements for preferred stock and accretion of preferred stock discount) by the weighted-average number of common shares outstanding. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The following table shows computation of basic and diluted earnings per share.

	Three months ended		Six months ended	
	June 30		June 30	
	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Basic earnings per share</b>				
Net income	\$ 3,093	\$ 2,515	\$ 5,858	\$ 4,306
Less: Preferred stock dividends and accretion of discount	277	352	553	704
Net income available to common shareholders	\$ 2,816	\$ 2,163	\$ 5,305	\$ 3,602
Weighted average common shares outstanding	3,291,833	3,278,392	3,287,258	3,274,327
<b>Basic earnings per share</b>	\$ 0.86	\$ 0.66	\$ 1.61	\$ 1.10
<b>Diluted earnings per share</b>				
Net income available to common shareholders	\$ 2,816	\$ 2,163	\$ 5,305	\$ 3,602
Weighted average common shares outstanding	3,291,833	3,278,392	3,287,258	3,274,327
Effect of dilutive securities:				
Warrants	73,673	41,250	75,479	26,135
Restricted stock	4,759	12,738	9,806	12,220
Stock options	6,704	1,388	6,915	3,989

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Weighted average shares outstanding	<b>3,376,969</b>	3,333,768	<b>3,379,458</b>	3,316,671
<b>Diluted earnings per share</b>	<b>\$ 0.83</b>	\$ 0.65	<b>\$ 1.57</b>	\$ 1.09

At June 30, 2011 and 2010, there were 34,117 shares and 39,000 shares that were not included in the computation of diluted earnings per share because they were non-dilutive.

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

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in the December 31, 2010 Annual Report on Form 10-K.

**Reclassifications**

Certain reclassifications have been made to the 2010 consolidated financial statements to be comparable to 2011. These reclassifications had no effect on net income.

**Note 2 Securities**

The fair value of securities is as follows:

<b>June 30, 2011 (Unaudited)</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Available for sale</b>				
U.S. Treasury and federal agencies	\$ 19,468	\$ 311	\$ (9)	\$ 19,770
State and municipal	134,371	4,488	(225)	138,634
Federal agency collateralized mortgage obligations	130,406	3,300		133,706
Federal agency mortgage-backed pools	147,936	4,933	(11)	152,858
Private labeled mortgage-backed pools	4,157	126		4,283
Corporate notes	569	7	(10)	566
Total available for sale investment securities	\$ 436,907	\$ 13,165	\$ (255)	\$ 449,817
<b>Held to maturity, State and Municipal</b>	<b>\$ 10,632</b>	<b>\$</b>	<b>\$</b>	<b>\$ 10,632</b>
<b>December 31, 2010</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>