HORIZON BANCORP /IN/
Form 10-Q
August 13, 2008

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, 2008
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 o No þ

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 o	Accelerated Filer o	Non-accelerated Filer o (Do not check if smaller reporting company)	Smaller Reporting Company 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: 3,254,482 at August 8, 2008.

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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, 2008 (Unaudited)	December 31, 2007
Assets		
Cash and due from banks	**$ 18,700**	$ 19,714
Interest-bearing demand deposits	**1**	1
Federal funds sold	**-0-**	35,314
Cash and cash equivalents	**18,701**	55,029
Interest-bearing deposits	**1,378**	249
Investment securities, available for sale	**251,976**	234,675
Investment securities, held to maturity	**815**	
Loans held for sale	**10,033**	8,413
Loans, net of allowance for loan losses of $9,812 and $9,791	**828,602**	879,061
Premises and equipment	**25,575**	24,607
Federal Reserve and Federal Home Loan Bank stock	**12,625**	12,625
Goodwill	**5,787**	5,787
Other intangible assets	**1,908**	2,068
Interest receivable	**5,888**	5,897
Cash value life insurance	**22,953**	22,931
Deferred tax asset	**2,783**	2,187
Other assets	**5,423**	5,345
Total assets	**$1,194,447**	$1,258,874
Liabilities		
Deposits		
Non-interest bearing	**$ 81,212**	$ 84,097
Interest bearing	**711,044**	809,567
Total deposits	**792,256**	893,664
Borrowings	**293,423**	258,852
Subordinated debentures	**27,837**	27,837
Interest payable	**1,966**	2,439
Other liabilities	**5,352**	5,437
Total liabilities	**1,120,834**	1,188,229

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, 5,013,906 and 5,011,656 shares	**1,114**	1,114
Additional paid-in capital	**25,816**	25,638
Retained earnings	**65,460**	60,982
Accumulated other comprehensive income	**(1,625)**	63
Less treasury stock, at cost, 1,759,424 shares	**(17,152)**	(17,152)
Total stockholders equity	**73,613**	70,645
Total liabilities and stockholders equity	**$1,194,447**	$1,258,874

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 30		**Six Months Ended June 30**	
	2008 (Unaudited)	**2007 (Unaudited)**	**2008 (Unaudited)**	**2007 (Unaudited)**
Interest Income				
Loans receivable	**$14,194**	$15,774	**$29,561**	$30,758
Investment securities				
Taxable	**2,214**	1,935	**4,762**	4,038
Tax exempt	**862**	857	**1,699**	1,718
Total interest income	**17,270**	18,566	**36,022**	36,514
Interest Expense				
Deposits	**4,697**	7,087	**11,291**	14,381
Borrowed funds	**2,846**	2,925	**5,674**	5,177
Subordinated debentures	**392**	512	**799**	1,278
Total interest expense	**7,935**	10,524	**17,764**	20,836
Net Interest Income	**9,335**	8,042	**18,258**	15,678
Provision for loan losses	**1,490**	365	**2,268**	590
Net Interest Income after Provision for Loan Losses	**7,845**	7,677	**15,990**	15,088
Other Income				
Service charges on deposit accounts	**989**	841	**1,910**	1,619
Wire transfer fees	**122**	91	**227**	185
Fiduciary activities	**1,021**	891	**1,906**	1,695
Gain on sale of loans	**661**	600	**1,465**	1,150
Increase in cash surrender value of Bank owned life insurance	**221**	231	**449**	463
Death benefit officer life insurance	**538**		**538**	
Loss on sale of securities	**(15)**		**(15)**	
Other income	**361**	334	**631**	741
Total other income	**3,898**	2,988	**7,111**	5,853
Other Expenses				

Salaries and employee benefits	**4,220**	4,501	**8,495**	8,870
Net occupancy expenses	**617**	554	**1,289**	1,171
Data processing and equipment expenses	**650**	628	**1,283**	1,265
Professional fees	**291**	372	**540**	741
Outside services and consultants	**260**	217	**534**	476
Loan expense	**719**	493	**1,319**	948
Other expenses	**1,482**	1,208	**2,806**	2,358
Total other expenses	**8,239**	7,973	**16,266**	15,829
Income Before Income Tax	**3,504**	2,692	**6,835**	5,112
Income tax expense	**514**	676	**1,317**	1,252
Net Income	**$ 2,990**	$ 2,016	**$ 5,518**	$ 3,860
Basic Earnings Per Share	**$ .93**	$ .63	**$ 1.72**	$ 1.21
Diluted Earnings Per Share	**$ .92**	$ .62	**$ 1.70**	$ 1.19

See notes to condensed consolidated financial statements

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, 2007	**$1,114**	**$ 25,638**		**$60,982**	**$ 63**	**$ (17,152)**	**$70,645**
Net income			**$ 5,518**	**5,518**			**5,518**
Other comprehensive income (loss), net of tax:							
unrealized gain on securities			**(1,699)**		**(1,699)**		**(1,699)**
Unrealized loss on derivative instruments			**11**		**11**		**11**
Comprehensive income			**$ 3,830**				
Amortization of unearned compensation		**116**					**116**
Exercise of stock options		**35**					**35**
Tax benefit related to stock options		**8**					**8**
Stock option expense		**19**					**19**
Cash dividends ($.32 per share)				**(1,040)**			**(1,040)**
Balances, June 30, 2008	**$1,114**	**$ 25,816**		**$65,460**	**$ (1,625)**	**$ (17,152)**	**$73,613**

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30 2008 (Unaudited)	Six Months Ended June 30 2007 (Unaudited)
Operating Activities		
Net income	**$ 5,518**	$ 3,860
Items not requiring (providing) cash		
Provision for loan losses	**2,268**	590
Loss on sale of investment securities	**15**	
Depreciation and amortization	**1,164**	1,126
Share based compensation	**19**	30
Mortgage servicing rights impairment	**7**	1
Deferred income tax	**(596)**	(469)
Premium amortization on securities available for sale, net	**147**	(61)
Gain on sale of loans	**(1,272)**	(1,150)
Proceeds from sales of loans	**72,071**	87,733
Loans originated for sale	**(72,419)**	(89,713)
Increase in cash surrender value of life insurance	**(22)**	(463)
Tax benefit of options exercised	**(8)**	(46)
Net change in		
Interest receivable	**9**	(40)
Interest payable	**(473)**	14
Other assets	**851**	517
Other liabilities	**(85)**	1,758
Net cash provided by operating activities	**7,194**	3,687
Investing Activities		
Net change in interest-bearing deposits	**(1,129)**	(3,509)
Purchases of securities available for sale	**(33,159)**	(9,970)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	**13,080**	24,888
Purchase of securities held to maturity	**(815)**	
Net change in loans	**10,245**	(6,589)
Redemption of Federal Reserve bank stock		49
Recoveries on loans previously charged-off	**444**	349
Purchases of premises and equipment	**(1,856)**	(1,376)
Proceeds from sale of loans transferred to held for sale	**37,695**	
Gain on sale of loans transferred to held for sale	**(193)**	
Purchase of bank owned life insurance		(8,000)
Net cash provided by (used in) investing activities	**24,312**	(4,158)

Financing Activities		
Net change in		
Deposits	**(101,408)**	(93,029)
Borrowings	**34,571**	72,760
Redemption of trust preferred securities		(12,372)
Proceeds from issuance of stock	**35**	89
Tax benefit of options exercised	**8**	46
Dividends paid	**(1,040)**	(941)
Net cash used in financing activities	**(67,834)**	(32,447)
Net Change in Cash and Cash Equivalent	**(36,328)**	(33,918)
Cash and Cash Equivalents, Beginning of Period	**55,029**	58,812
Cash and Cash Equivalents, End of Period	**$ 18,701**	$ 24,894
Additional Cash Flows Information		
Interest paid	**$ 18,237**	$ 20,822
Income taxes paid	**1,050**	1,080

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 subsidiaries, Horizon Bank, N.A. (Bank). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended June 30, 2008 and June 30, 2007 are not necessarily indicative of the operating results for the full year of 2008 or 2007. 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 2007 filed with the Securities and Exchange Commission. The consolidated balance sheet of Horizon as of December 31, 2007 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 June 30, 2008	**Three months ended June 30, 2007**	**Six months ended June 30, 2008**	**Six months ended June 30, 2007**
Basic	3,208,419	3,200,259	3,207,825	3,197,300
Diluted	3,238,331	3,243,537	3,241,656	3,241,524

At June 30, 2008 and 2007 there were 27,190 shares and 4,934 shares respectively that were not included in the computation of diluted earnings per share because they were non-dilutive.

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in the December 31, 2007 Annual Report to shareholders.

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

Note 2 Loans

	June 30, 2008 (Unaudited)	December 31, 2007
Commercial loans	**$303,179**	$307,535
Mortgage warehouse loans	**82,865**	78,225
Real estate loans	**168,940**	216,019
Installment loans	**283,430**	287,073
	838,414	888,852
Allowance for loan losses	**(9,812)**	(9,791)
Total loans	**$828,602**	$879,061

Note 3 Allowance for Loan Losses

	June 30, 2008 (Unaudited)	June 30, 2007
Allowance for loan losses		
Balances, beginning of period	**$ 9,791**	$ 8,738
Provision for losses	**2,268**	590
Recoveries on loans	**444**	349
Loans charged off	**(2,691)**	(1,012)
Balances, end of period	**$ 9,812**	$ 8,665
As percent of total loans	**1.17%**	0.97%

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

Note 4 Derivative financial instruments

In the normal course of business, the Company uses various derivative financial instruments to manage its interest rate risk and market risks in accommodating the needs of its customers. These instruments carry varying degrees of credit, interest rate, and market or liquidity risks. Derivative instruments are recognized as either assets or liabilities in the accompanying financial statements and are measured at fair value. Subsequent changes in the derivatives fair values are recognized in earnings unless specific hedge accounting criteria are met.

Horizon has established objectives and strategies that include interest-rate risk parameters for maximum fluctuations in net interest income and market value of portfolio equity. Interest rate risk is monitored via simulation modeling reports. The goal of Horizon s asset/liability management efforts is to maintain profitable financial leverage within established risk parameters. Horizon has entered into several financial arrangements using derivatives during 2008 to add stability to interest income and to manage its exposure to interest rate movements.

Fair Value Hedges

Horizon enters into fixed rate loan agreements as part of its lending policy. To mitigate the risk of changes in fair value based on fluctuations in interest rates, Horizon has entered into seven interest rate swap agreements on individual loans, converting the fixed rate loans to a variable rate. These agreements were entered into at the time that the individual loans were closed during 2008. The cumulative change in fair value of both the hedge instruments and the underlying loans is recorded in non-interest income. Since the critical terms of the hedged loans and the interest rate swap are identical, the fair value hedges are considered to be highly effective. At June 30, 2008 management has determined that there is no hedge ineffectiveness.

The notional amounts of the debt obligations being hedged was $16,510,149 at June 30, 2008 and the fair value of the interest rate swap asset at June 30, 2008 was $241,160.

Cash Flow Hedges

Through certain special purpose entities (see note 10 of item 8 in Horizon s 2007 Form 10-K) Horizon issued trust preferred debentures as part of its capital management strategy. These debentures are variable rate, which exposes Horizon to variability in cash flows. Given the characteristics of this debt, Horizon Bancorp is exposed to interest rate risk caused by the variability of expected future interest expense attributable to changes in 3-month LIBOR. To mitigate this exposure to fluctuations in cash flows resulting from changes in interest rates, Horizon entered into three pay-fixed interest rate swap agreements in January 2008.

Based on the evaluation performed at inception and through the current date, these derivative instruments qualify for cash flow hedge accounting. Therefore, the cumulative change in fair value of the interest rate swap, to the extent that it is expected to be offset by the cumulative change in anticipated interest cash flows from the hedged trust preferred debentures, will be deferred and reported as a component of other comprehensive income (OCI). Any hedge ineffectiveness will be charged to current earnings.

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

Since the floating index and reset dates are based on identical terms, management believes that the hedge relationship of the cumulative changes in expected future cash flow from the interest rate swap and the cumulative changes in expected interest cash flows from the trust preferred debentures will be highly effective. At June 30, 2008 management has determined that there is no hedge ineffectiveness.

The notional amounts of the debt obligations being hedged was $27,000,000 at June 30, 2008 and the fair value of the interest rate swap asset at June 30, 2008 was $16,984.

Note 5 Disclosures about fair value of assets and liabilities

Effective January 1, 2008 Horizon adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available for sale securities

When quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities and corporate notes. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include Federal agency securities, State and municipal securities, Federal agency collateralized mortgage obligations and Federal agency mortgage-backed pools.

Hedged loans

Certain fixed rate loans have been converted to variable rate loans through entering into interest rate swap agreements. Fair value of those fixed rate loans is based on discounting estimated cash flows using interest rates determined by a respective interest rate swap agreement. Loans are classified within Level 3 of the valuation hierarchy based on the unobservable inputs used.

Interest rate swap agreements

The fair value is estimated by a third party using inputs that are primarily unobservable and cannot be corroborated by observable market data and, therefore, are classified within Level 3 of the valuation hierarchy.

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

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2008:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$251,976	$ 1,464	$250,512	$
Hedged loans	16,269			16,269
Interest rate swap agreements	258			258

The following tables show a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying condensed consolidated balance sheet using significant unobservable (level 3) inputs:

	Hedged Loans	Interest Rate Swaps
Beginning balance January 1, 2008	$	$
Total realized and unrealized gains and losses		
Included in net income	(241)	241
Included in other comprehensive income		17
Purchases, issuances and settlements	16,603	
Principal payments	(93)	
Ending balance June 30, 2008	$16,269	$ 258

	Hedged Loans	Interest Rate Swaps
Beginning balance March 31, 2008	$11,601	$ (779)
Total realized and unrealized gains and losses		
Included in net income	(436)	436
Included in other comprehensive income		601

Purchases, issuances and settlements	**5,166**	
Principal payments	**(62)**	
Ending balance June 30, 2008	**$16,269**	**$ 258**

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

Realized gains and losses included in net income for the period from January 1, 2008 to June 30, 2008, are reported in the condensed consolidated statements of income as follows:

	Noninterest Income
Total gains and losses from:	
Hedged loans	$ (241)
Fair value interest rate swaps	241
	$

Note 6 Future accounting matters

Financial Accounting Standards Board Statement No. 141 (SFAS 141R), Business Combinations (Revised 2007), was issued in December 2007 and is effective January 1, 2009 and replaces SFAS 141 which applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual asset acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed. Under SFAS 141R, the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting. Instead, that contingency would be subject to the probable and estimable recognition criteria under SFAS 5, Accounting for Contingencies.

Financial Accounting Standards Board Statement No. 160 (SFAS 160), Non-controlling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51, was issued in December 2007 and establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as a minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that are attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company s financial statements.

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

Financial Accounting Standards Board Statement No. 161 (SFAS 161), Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133, was issued in March 2008 and amends and expands the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company s financial statements.

Note 7 - Subsequent event

On August 5, 2008, Maria Coto filed a putative class action complaint in the Porter County Superior Court, Porter County, Indiana, on behalf of herself and others who have had their vehicles repossessed by the Bank during the four years prior to the filing of the action. The complaint alleges that the Bank s post-repossession notice to defaulting borrowers does not comply with certain aspects of Indiana law. The plaintiff seeks statutory damages and costs. The Bank is investigating the allegations and intends to vigorously defend the action.

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 Month Periods Ended June 30, 2008

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

Horizon experienced record quarterly and six months net income during the periods ending June 30, 2008. The net interest margin improved by 40 basis points from the second quarter of 2007 and 28 basis points for the first six months of 2008 when compared to the same period of the prior year. Non-interest income increased in most areas, but also included a death benefit received on a bank owned life insurance policy. Non-performing and charge-off loans increased compared to the same period of the prior year, causing an increase in loan collection expense and the provision for loan losses.

Horizon Bancorp and Subsidiaries
Management s Discussion and Analysis of Financial Condition
and Results of Operations
For the Three and Six Month Periods Ended June 30, 2008

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 42-48 of Form 10-K for 2007. Certain of these policies are important to the portrayal of the Company s financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management has identified the allowance for loan losses, intangible assets and hedge accounting as critical accounting policies.

Allowance for loan losses

An allowance for loan losses is maintained to absorb loan losses inherent in the loan portfolio. The allowance is based on ongoing quarterly assessments of the probable losses inherent in the loan portfolio. The allowance is increased by the provision for credit losses, which is charged against current period operating results and decreased by the amount of charge offs, net of recoveries. Horizon s methodology for assessing the appropriateness of the allowance consists of several key elements, which include the general allowance, specific allowances for identified problem loans and the qualitative allowance.

The general allowance is calculated by applying loss factors to pools of outstanding loans. Loss factors are based on a 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 conditions or circumstances related to a credit that management believes indicate the probability that a loss will be incurred in excess of the amount determined by the application of the formula allowance.

The qualitative allowance is based upon management s evaluation of various conditions, the effects of which are not directly measured in the determination of the general 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 qualitative allowance may include factors such as local, regional and national economic conditions and forecasts, concentrations of credit and changes in the composition of the portfolio.

Horizon considers the allowance for loan losses of $9.812 million adequate to cover losses inherent in the loan portfolio as of June 30, 2008. 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.

Intangible assets

Horizon periodically assesses the impairment of its goodwill and the recoverability of its core deposit intangible. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. If actual external conditions and future operating results differ from Horizon s judgements, impairment and/or increased amortization charges may be necessary to reduce the carrying value of these assets to the appropriate value.

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Derivative Instruments

Horizon has entered into both fair value and cash flow derivative arrangements during the first six months of 2008. For both fair value and cash flow hedges, management s objective is to ensure that changes in the fair value of the hedged item will be offset by changes in the fair value of the hedging derivative. SFAS 133 requires that the method selected for assessing hedge effectiveness must be reasonable, be defined at the inception of the hedging relationship and be applied consistently throughout the hedging relationship. Horizon uses the dollar-offset method for assessing effectiveness of fair value hedges using the cumulative approach. Horizon performs effectiveness testing on a monthly basis and determined there was no hedge ineffectiveness at June 30, 2008.

Fair value hedges

For fair value hedges, the dollar-offset method compares the cumulative fair value of the hedging derivative with the cumulative fair value of the hedged items. The calculation of dollar offset is the change in clean fair value of hedging derivative, divided by the change in clean fair value of the hedged exposure attributable to changes in the LIBOR curve. To the extent that the cumulative change in fair value of the hedging derivative offsets from 80% to 125% of the cumulative change in fair value of the hedged exposure, the hedge is deemed effective.

Cash flow hedges

For cash flow hedges, Horizon measures the degree of hedge effectiveness by comparing the cumulative change in anticipated interest cash flows from the hedged exposure over the hedging period to the cumulative change in anticipated cash flows from the hedging derivative. Horizon utilizes the Hypothetical Derivative Method to compute the cumulative change in anticipated interest cash flows from the hedged exposure. To the extent that the cumulative change in anticipated cash flows from the hedging derivative offsets from 80% to 125% of the cumulative change in anticipated interest cash flows from the hedged exposure, the hedge is deemed effective.

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 six months ended June 30, 2008, cash and cash equivalents decreased by approximately $36.3 million. Federal funds sold declined to provide funding for additional investment securities and a decline in deposits. These proceeds from the liquidation of these short-term investments were used to redeem maturing certificates of deposit. At June 30, 2008, in addition to liquidity provided from the normal operating, funding, and investing activities of Horizon, the Bank has available approximately $180 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, 2007 to June 30, 2008.

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Fair Value Measurement

Horizon has Federal agency collateralized mortgage obligations totaling $13.650 million and Federal agency mortgage-backed pools totaling $105.204 million. These securities, which are classified as available for sale and are therefore carried at fair value in the financial statements, are secured by first mortgage residential loans and are guaranteed by various Government Sponsored Enterprises.

Determinations of fair value are based on market data. Pricing models are used that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available, loan performance data. Because many fixed income securities do not trade on a daily basis, pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, model processes such as the Option Adjusted Spread are used to assess interest rate impact and develop prepayment scenarios. Market inputs normally used for evaluation of securities, listed in approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

For broker-quoted securities, quotes are obtained from market makers, broker dealers or closing prices on stock exchanges.

Capital Resources

The capital resources of Horizon and the Bank exceed regulatory capital ratios for well capitalized banks at June 30, 2008. Stockholders equity totaled $73.613 million as of June 30, 2008, compared to $70.645 million as of December 31, 2007. At June 30, 2008, the ratio of stockholders equity to assets was 6.16% compared to 5.61% for December 31, 2007. Horizon s capital increased during the quarter as a result of increased earnings, net of dividends declared and the amortization of unearned compensation. These increases were offset by an increase in unrealized loss on securities available for sale. The ratio improved due to a decline in assets and the increase in equity.

Horizon declared dividends in the amount of $.32 per share during the first six months of 2008, and $.29 per share for the same quarter of 2007. The dividend payout ratio (dividends as a percent of net income) was 19% and 24% for the first six months of 2008 and 2007 respectively. For additional information regarding dividend conditions, see pages 46 of Form 10-K for 2007.

There have been no other material changes in Horizon s capital resources from December 31, 2007 to June 30, 2008.

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Material Changes in Financial Condition June 30, 2008 compared to December 31, 2007

During the first six months of 2008, investment securities increased approximately $17.3 million. The increase relates to the purchase of approximately $20.5 million of callable Federal agency securities. These securities are anticipated to be short term as they have a high coupon compared to current rates giving a high probability that the these securities will be called by the issuer at the next opportunity. This increase was offset by a decline in fair value, maturities, calls and principal payments on mortgage backed securities.

Net loans decreased by $50.5 million during the first six months of 2008. The major portion of the decline related to the sale of approximately $38 million of adjustable rate mortgage loans. The loans were sold to reduce reliance on non-core funding. Mortgage and consumer loans decreased, as new volume was not sufficient to offset normal amortization in these portfolios.

The following is a summary of non-performing assets:

	June 30, 2008 (Unaudited)	December 31, 2007
Non-performing loans	**$5,703**	$ 2,949
Other real estate owned	**633**	238
Total	**$6,336**	$ 3,187
As a percent of total loans	**0.75%**	0.36%

Deposits declined from the end of the preceding year. Consumer certificates of deposit declined by approximately $50 million and negotiable certificates of deposit were reduced by $36 million during the first six months of 2008. The declines in both categories came in short term, high cost deposits, which matured during the period. This funding was replaced with the decline in loans and additional borrowings, which was a less expensive source of funding.

There have been no other material changes in the financial condition of Horizon from December 31, 2007 to June 30, 2008.

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Results of Operations

Material Changes in Results of Operations Three months ended June 30, 2008 compared to the three months ended June 30, 2007

During the three months ended June 30, 2008, net income totaled $2.990 million or $.92 per diluted share compared to $2.016 million or $.62 per diluted share for the same period in 2007.

Net interest income for the quarter ended June 30, 2008 was $9.335 million, an increase of $1.293 million from the second quarter of 2007. The net interest margin improved 40 basis points from the second quarter of 2007 to 3.40%. The improvement resulted primarily from reductions in funding costs that exceeded declines in yields on earning assets. Horizon s cost of funds has dropped approximately 100 basis points since the second quarter of 2007 while the yield on earning assets declined only 60 basis points. Horizon reduced rates on NOW and money market accounts in line with short-term rate decreases put in place by the Federal Open Market Committee. In addition, a large amount of Certificates of Deposit (CDs) matured during the quarter and were reinvested in lower rate CDs.

The provision for loan losses increased to $1.490 million for the second quarter of 2008 from $365 thousand for the second quarter of 2007. Net charge-offs for the quarter were $1.359 million compared to $320 thousand for the same quarter of 2007. Non-performing loans at June 30, 2008 totaled $5.7 million or 0.67% of total loans compared $2.4 million or 0.28% at June 30, 2007. Additionally, Horizon has $633 thousand of other real estate owned. The increase in non-performing loans relates primarily to two loan relationships, secured by commercial and residential real estate and other assets. The increase in charge-offs is the result of deterioration in the home equity and indirect automobile loan portfolios. This deterioration appears to be caused by a weak economy, which is contributing to higher unemployment and an increase in the number of personal bankruptcies in Horizon s lending area. Management feels that the total allowance of $9.812 million or 1.17% of total loans is adequate to absorb probable losses contained in the loan portfolio.

Non-interest income increased $910 thousand or 30% from the second quarter of 2007. The main contributing factors were: (a) an increase in service charges on deposit accounts primarily due to an increase in the charge for non-sufficient fund checks implemented in the first quarter of 2008, (b) an increase in fiduciary income due to additional revenue from Horizon s ESOP management line of business, and (c) a death benefit received on a bank owned life insurance policy.

Non-interest expense increased $266 thousand or 3.3% from the second quarter of 2007. Salaries and benefits decreased due to the staff reduction, which occurred during the third quarter of 2007. Loan expense increased from the prior year due to higher collection expense and lower deferred costs on new loans. The major cause of the increase in other expenses relates to increased FDIC insurance premiums. The one time credit granted by the FDIC in November of 2006 was fully utilized in the first quarter of 2008.

The effective tax rate declined to 14.7% for the second quarter of 2008 compared to 25.1% in the second quarter of 2007. Additional tax exempt income from bank owned life insurance of $538 thousand was recorded during the quarter. Also during the current quarter, Horizon realized $116 thousand from amended returns filed to claim additional enterprise zone tax credits and additional tax benefits related to Horizon s investment subsidiary.

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There have been no other material changes in the results of operations of Horizon for the three months ending June 30, 2008 compared to the same period of 2007.

Material Changes in Results of Operations-Six months ended June 30, 2008 compared to the six months ended June 30, 2007.

For the six months ended June 30, 2008, net income totaled $5.518 million or $1.70 per diluted share compared to $3.860 million or $1.19 per diluted share for the same period of 2007. An increase in net interest margin of 28 basis points to 3.25% for the period and a $60 million increase in average earning assets contributed to the increase.

Non-interest income for the first six months of 2008 increased by $1.258 million or 21.5%. The increase for the six-month period is primarily the same as those noted above for the three-month period.

Non-interest expense increased $437 thousand or 2.8% from the first six months of 2007. The increase relates to the same reasons mentioned above for the three months ended June 30, 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to Horizon s 2007 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 2007 Form 10-K.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls And Procedures

Based on an evaluation of disclosure controls and procedures as of June 30, 2008, 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 June 30, 2008, 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 Six Months Ended June 30, 2008

ITEM 1. LEGAL PROCEEDINGS

Not Applicable

ITEM 1A. RISK FACTORS

No material changes from the factors included in the December 31, 2007 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

(a) The Company held its Annual Shareholders Meeting on May 8, 2008.

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

Name	Votes For	Votes Withheld
Craig M. Dwight	2,241,414	332,180
James B. Dworkin	2,248,922	324,672
Daniel F. Hopp	2,248,794	324,800
Robert E. McBride	2,238,593	335,000

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

Votes for	2,530,593
Votes against	19,896
Votes abstained	22,135

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit 3	Horizon Bancorp Amended and Restated Bylaws (as amended through July15, 2008)
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

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
August 11, 2008	/s/ Craig M. Dwight
	BY:
Date:	Craig M. Dwight
	President and Chief Executive Officer
August 11, 2008	/s/ James H. Foglesong
	BY:
Date:	James H. Foglesong
	Chief Financial Officer

INDEX TO EXHIBITS

The following documents are included as Exhibits to this Report.

Exhibit		Location
3	Horizon Bancorp Amended and Restated Bylaws (as amended through July 15, 2008)	Incorporated by reference to Exhibit 3.1 to Registrant s Form 8-K filed on July 21, 2008
11	Horizon Bancorp Amended and Restated Bylaws (as amended through July 15, 2008)	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