HORIZON BANCORP /IN/
Form 10-Q
May 15, 2007

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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 March 31, 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**
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 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:
3,201,982 as of May 14, 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)

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and due from banks	$ 20,857	$ 52,311
Interest-bearing demand deposits	1	1
Federal funds sold	0	6,500
Cash and cash equivalents	20,858	58,812
Interest-bearing deposits	1,277	898
Investment securities, available for sale	234,823	243,078
Loans held for sale	16,171	13,103
Loans, net of allowance for loan losses of $8,620 and $8,738	799,688	835,096
Premises and equipment	23,513	23,394
Federal Reserve and Federal Home Loan Bank stock	12,136	12,136
Goodwill	5,787	5,787
Other intangible assets	2,323	2,412
Interest receivable	5,759	6,094
Other assets	29,551	21,620
Total assets	$1,151,886	$1,222,430
Liabilities		
Deposits		
Non-interest bearing	$ 87,341	$ 81,949
Interest bearing	742,403	832,024
Total deposits	829,744	913,973
Short-term borrowings	62,279	83,842
Long-term borrowings	160,940	115,951
Subordinated debentures	27,837	40,209
Interest payable	1,719	1,771
Other liabilities	4,874	4,807
Total liabilities	1,087,393	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, 5,001,506 and 4,998,106 shares	**1,112**	1,111
Additional paid-in capital	**25,347**	25,229
Retained earnings	**56,149**	54,196
Accumulated other comprehensive loss	**(963)**	(1,507)
Less treasury stock, at cost, 1,759,424 shares	**(17,152)**	(17,152)
Total stockholders equity	**64,493**	61,877
Total liabilities and stockholders equity	**$1,151,886**	$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 March 31	
	2007 (Unaudited)	**2006 (Unaudited)**
Interest Income		
Loans receivable	**$14,984**	$12,773
Investment securities:		
Taxable	**2,103**	2,167
Tax exempt	**861**	723
Total interest income	**17,948**	15,663
Interest Expense		
Deposits	**7,294**	5,293
Federal funds purchased and short-term borrowings	**837**	398
Long-term borrowings	**1,415**	1,650
Subordinated debentures	**766**	512
Total interest expense	**10,312**	7,853
Net Interest Income	**7,636**	7,810
Provision for loan losses	**225**	380
Net Interest Income after Provision for Loan Losses	**7,411**	7,430
Other Income		
Service charges on deposit accounts	**778**	686
Wire transfer fees	**94**	86
Fiduciary activities	**804**	663
Gain on sale of loans	**550**	303
Increase in cash surrender value of Bank owned life insurance	**232**	108
Loss on sale of securities	**0**	(158)
Other income	**407**	343
Total other income	**2,865**	2,031
Other Expenses		
Salaries and employee benefits	**4,369**	4,234
Net occupancy expenses	**617**	618

Data processing and equipment expenses	**637**	640
Professional fees	**369**	241
Outside services and consultants	**259**	283
Loan expense	**272**	225
Other expenses	**1,333**	1,273
Total other expenses	**7,856**	7,514
Income Before Income Tax	**2,420**	1,947
Income tax expense	**576**	498
Net income	**$ 1,844**	$ 1,449
Basic Earnings Per Share	**$ .58**	$ .46
Diluted Earnings Per Share	**$ .57**	$ .45

See notes to condensed consolidated financial statements

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Horizon Bancorp and Subsidiaries
Consolidated Statement of Stockholders Equity
(Unaudited)
(Table Dollar Amounts in Thousands, 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			$ 1,844	1,844			1,844
Other comprehensive loss, net of tax, unrealized losses on securities			544		544		544
Comprehensive income			$ 2,388				
Amortization of unearned compensation		53					53
Exercise of stock options	1	28					29
Tax benefit related to stock options		22					22
Stock option expense		15					15
Cumulative effect of adoption of Financial Interpretation 48				563			563
Cash dividends ($.14 per share)				(454)			(454)
Balances, March 31, 2007	$ 1,112	$ 25,347		$ 56,149	$ (963)	$ (17,152)	$ 64,493

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)

	Three Months Ended March 31	
	2007 (Unaudited)	**2006 (Unaudited)**
Operating Activities		
Net income	$ 1,844	$ 1,449
Items not requiring (providing) cash		
Provision for loan losses	225	380
Depreciation and amortization	599	647
Share based compensation	15	11
Mortgage servicing rights impairment (recovery)		16
Deferred income tax	(373)	441
Investment securities amortization, net	(93)	64
Loss on sale of securities available for sale		158
Gain on sale of loans	(550)	(303)
Proceeds from sales of loans	42,157	22,071
Loans originated for sale	(44,675)	(21,698)
(Gain) loss on sale of fixed assets	11	(1)
Increase in cash surrender value of life insurance	(232)	(108)
Tax benefit of options exercised	(22)	(434)
Net change in		
Interest receivable	335	495
Interest payable	(52)	(348)
Other assets	895	(320)
Other liabilities	83	(695)
Net cash provided by operating activities	167	1,825
Investing Activities		
Net change in interest-bearing deposits	(379)	14,747
Purchases of securities available for sale	(6,894)	(26,026)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	16,112	50,215
Net change in loans	34,998	(3,653)
Proceeds from sale of fixed assets		1
Recoveries on loans previously charged-off	169	118
Purchases of premises and equipment	(586)	(858)
Purchase of bank owned life insurance	(8,000)	
Net cash provided by investing activities	35,420	34,544
Financing Activities		

Net change in		
Deposits	(84,229)	(77,656)
Short-term borrowings	(21,563)	26,730
Increase (decrease) of long-term borrowings	44,989	(4,511)
Redemption of trust preferred securities	(12,372)	
Proceeds from issuance of stock	66	1,072
Purchase of treasury stock		(128)
Tax benefit of options exercised	22	434
Cumulative effect of change in accounting principle	563	
Dividends paid	(454)	(448)
Net cash used in financing activities	(73,541)	(54,507)
Net Change in Cash and Cash Equivalent	(37,954)	(18,138)
Cash and Cash Equivalents, Beginning of Period	58,812	39,250
Cash and Cash Equivalents, End of Period	$ 20,858	$ 21,112
Additional Cash Flows Information		
Interest paid	$ 10,364	$ 8,201
Income taxes paid	550	

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 subsidiaries, Horizon Bank, N.A. (Bank). All intercompany balances and transactions have been eliminated. The results of operations for the periods ended March 31, 2007 and March 31, 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 number of shares used in the computation of basic earnings per share is 3,194,309 and 3,142,219 for the three-month period ended March 31, 2007 and 2006. The number of shares used in the computation of diluted earnings per share is 3,239,479 and 3,203,206 for the three month period ended March 31, 2007 and 2006. At March 31, 2007 there were 5,000 shares that were not included in the computation of diluted earnings per share because they were anti-dilutive. There were no anti-dilutive shares at March 31, 2006.

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in the December 31, 2006 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 and $9 thousand in compensation expense relating to vesting of stock options less estimated forfeitures for the three month periods ended March 31, 2007 and March 31, 2006 respectively. Certain disclosures required by SFAS 123(R) have been omitted due to their immaterial nature.

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

Note 2 Investment Securities

	2007			
March 31	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
U. S. Treasury and federal agencies	$ 46,461	$ 260	$ 131	$ 46,590
State and municipal	81,355	849	334	81,870
Federal agency collateralized mortgage obligations	10,899	26	160	10,765
Federal agency mortgage backed pools	96,957	63	2,072	94,948
Corporate Notes	632	18		650
Total investment securities	$236,304	$1,216	$2,697	$234,823

	2006			
December 31	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
U. S. Treasury and federal agencies	$ 58,595	$ 58	$ 208	$ 58,445
State and Municipal	81,363	806	369	81,800
Federal agency collateralized mortgage obligations	11,215	19	224	11,010
Federal agency mortgage backed pools	93,591	54	2,471	91,174
Corporate notes	632	17		649
Total investment securities	$245,396	$954	$3,272	$243,078

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

The amortized cost and fair value of securities available for sale at March 31, 2007, 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	$ 8,085	$ 8,013
One to five years	10,694	10,706
Five to ten years	29,404	29,521
After ten years	80,264	80,870
	128,447	129,110
Federal agency collateralized mortgage obligations	10,899	10,765
Federal agency mortgage backed pools	96,957	94,948
	$236,304	$234,823

There were no sales of securities available for sale during the three months ended March 31, 2007. Proceeds from sales of securities available for sale during the three months ended March 31, 2006, were $45,028,000. Gross gains of $690,000 and gross losses of $848,000 were recognized on these sales.

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 March 31, 2007 and December 31, 2006, was $136,337,000 and $150,402,000, respectively, which is approximately 58% and 62% of Horizon s available-for-sale investment portfolio. 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 March 31, 2007 and December 31, 2006.

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
March 31, 2007						
U. S. Treasury and federal agencies			$ 13,446	$ (131)	$ 13,446	$ (131)
State and municipal	$18,593	$ (96)	11,748	(239)	30,341	(335)
Federal agency collateralized mortgage obligations			8,950	(160)	8,950	(160)
Federal agency mortgage backed pools	3,472	(79)	80,128	(1,992)	83,600	(2,071)
Total temporarily impaired securities	$22,065	$(175)	$114,272	$(2,522)	$136,337	$(2,697)

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
December 31, 2006						
U. S. Treasury and Federal agencies	$10,804	$ 30	$ 10,899	$ 178	$ 21,703	$ 208
State and municipal	22,354	121	10,615	248	32,969	369
Federal agency collateralized mortgage obligations			9,203	224	9,203	224
Federal agency mortgage-backed pools	1,742	10	84,785	2,461	86,527	2,471
Total temporarily impaired securities	$34,900	$161	$115,502	$3,111	$150,402	$3,272

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

Note 3 Loans

	March 31, 2007	December 31, 2006
Commercial loans	$276,732	$271,457
Mortgage warehouse loans	79,504	112,267
Real estate loans	219,305	222,235
Installment loans	232,767	237,875
	808,308	843,834
Allowance for loan losses	(8,620)	(8,738)
Total loans	$799,688	$835,096

Note 4 Allowance for Loan Losses

	March 31, 2007	March 31, 2006
Allowance for loan losses		
Balances, beginning of period	$8,738	$8,368
Provision for losses	225	380
Recoveries on loans	169	118
Loans charged off	(512)	(195)
Balances, end of period	$8,620	$8,671

Note 5 Nonperforming Assets

	March 31, 2007	December 31, 2006
Nonperforming loans	$3,106	$ 2,625
Other real estate owned	90	75
Total nonperforming assets	$3,196	$ 2,700

Note 6 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 2004.

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

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	$28,988	$29,551	$(563)
Retained earnings	$55,586	$56,149	$(563)

Note 7 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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Horizon Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. SFAS 159 allows companies to report selected financial assets and liabilities at fair value. The changes in fair value are recognized in earnings and the assets and liabilities measured under this methodology are required to be displayed separately in the balance sheet. The main intent of the Statement is to mitigate the difficulty in determining reported earnings caused by a mixed-attribute model (or reporting some assets at fair value and others using a different valuation attribute such as amortized cost). The project is separated into two phases. This first phase addresses the creation of a fair value option for financial assets and liabilities. A second phase will address creating a fair value option for selected non-financial items. SFAS 159 is effective for all financial statements issued for fiscal years beginning after November 15th, 2007. The Company is currently evaluating the impact of this Statement on its financial statements.

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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 Months Ended March 31, 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 increased from the first quarter of 2006, but declined from the fourth quarter of 2006. With continued decline in net interest margin, the emphasis was placed on non-interest income. All areas of non-interest income increased over the same quarter of the prior year. Non-interest income increased 41% from the first quarter of 2006 and was level with the fourth quarter of 2006. Non-interest expense was held to normal inflationary increases; 4.5% from the first quarter of 2006 and 2.5% from the prior quarter. Net interest margin continued to decline as the cost of funds continues to outpace the yield on earning assets. An increase of average earning assets of $88 million or 8.8% from the same quarter of the prior year helped offset the margin decline.

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Horizon Bancorp and Subsidiaries
Management s Discussion and Analysis of Financial Condition
and Results of Operations
For the Three Months Ended March 31, 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. Management has identified the allowance for loan losses as a critical accounting policy.

An allowance for loan losses is maintained to absorb loan losses inherent in the loan portfolio. The determination of the allowance for loan losses is a critical accounting policy that involves management s ongoing quarterly assessments of the probable estimated losses inherent in the loan portfolio. Horizon s methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowances for identified problem loans, and the unallocated allowance.

The formula allowance is calculated by applying loss factors to outstanding loans and certain unused commitments. Loss factors are based on historical loss experience and may be adjusted for significant factors that, in management s judgment, affect the collectibility of the portfolio as of the evaluation date.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a credit that management believes indicate the probability that a loss has been incurred in excess of the amount determined by the application of the formula allowance. The unallocated allowance is based upon management s evaluation of various conditions, the effects of which are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific credits. The conditions evaluated in connection with the unallocated allowance may include factors such as local, regional, and national economic conditions and forecasts, adequacy of loan policies and internal controls, the experience of the lending staff, concentrations of credit, and changes in the composition of the portfolio.

Horizon considers the allowance for loan losses of $8.62 million adequate to cover losses inherent in the loan portfolio as of March 31, 2007. 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.

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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Horizon Bancorp and Subsidiaries
Management s Discussion and Analysis of Financial Condition
and Results of Operations
For the Three Months Ended March 31, 2007

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 three months ended March 31, 2007, cash and cash equivalents decreased by approximately $38.0 million. At March 31, 2007, in addition to liquidity provided from the normal operating, funding, and investing activities of Horizon, the Bank has available approximately $163 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 March 31, 2007.

Capital Resources

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. The capital resources of Horizon and the Bank exceed the OCC required levels at March 31, 2007. Stockholders equity totaled $64.493 million as of March 31, 2007 compared to $61.877 million as of December 31, 2006. The increase in stockholders equity during the three months ended March 31, 2007 is primarily the result of capital raised through the exercise of stock options, net income, net of dividends declared and an increase in the market value of available for sale securities. Also affecting total equity was a reduction of Horizon s accrued tax liability for an uncertain tax position related to Horizon s investment subsidiary incorporated in Nevada. Horizon reduced its liability by $563 thousand under Financial Accounting Standards Board Interpretation 48 with a credit taken directly to retained earnings as a cumulative effect adjustment for a change in accounting principle. At March 31, 2007, the ratio of stockholders equity to assets was 5.60% compared to 5.06% at December 31, 2006.

During the course of a periodic examination by the Bank s regulators that commenced in February 2003, the examination personnel raised the issue of whether the Bank s mortgage warehouse loans should be treated as other loans rather than home mortgages for call report purposes. If these loans are treated as other loans for regulatory reporting purposes, it would change the calculations for risk-based capital and reduce the Bank s risk-based capital ratios. Management believes that it has properly characterized the loans in its mortgage warehouse loan portfolio for risk-based capital purposes, but there is no assurance that the regulators will concur with that determination. Should the call report classification of the loans be changed, Horizon and the Bank would still be categorized as well capitalized at March 31, 2007.

There have been no other material changes in Horizon s capital resources from December 31, 2006 to March 31, 2007.

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

During the first three months of 2007, investment securities decreased approximately $8.3 million and loans outstanding decreased approximately $35.4 million. Short term securities matured and the proceeds were used to fund the redemption of $12 million of trust preferred securities. The decline in loans came almost entirely in the mortgage warehouse area due to a general slow down in residential mortgage activity. There were minor fluctuations in the other lending categories.

Included in the mortgage warehouse totals are approximately $36 million of mortgage loans, which are classified as Alt A or subprime. These loans represent approximately 4.4% 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.

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 quarter of 2007 declined $15 million or 1.6% from the fourth quarter of 2006.

Long-term borrowings increased to reduce the company s exposure to fluctuations in short-term interest rates and to cover the loss of deposits since year-end. In addition, as previously announced in an 8-K filing with the SEC on March 27, 2007, Horizon redeemed $12 million of its trust-preferred securities on March 26, 2007. This redemption was funded with the proceeds from the issuance of $12 million in new floating rate trust preferred securities issued on December 15, 2006. Horizon estimates that the combined effect of the redemption and new issuance of these trust preferred securities will reduce interest expense by approximately $180 thousand in 2007 and by $234 thousand annually through 2011.

There have been no other material changes in the financial condition of Horizon from December 31, 2006 to March 31, 2007.

Results of Operations

Material Changes in Results of Operations Three months ended March 31, 2007 compared to the three months ended March 31, 2006

During the three months ended March 31, 2007, net income totaled $1.844 million or $.57 per diluted share compared to $1.449 million or $.45 per diluted share for the same period in 2006.

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Net interest income for the quarter ended March 31, 2007 was $7.636 million, a decrease of $174 thousand from the first quarter of 2006. The net interest margin declined 34 basis points from the first quarter of 2006 to 2.85%. Being liability sensitive, Horizon s cost of funds increased faster than the yield on earning assets. Although the Federal Reserve Board has not increased short term interest rates since June of 2006, the overall cost of certificates of deposit (CDs), Horizon s largest single source of funds, continues to increase as CDs renew at higher rates. The overall cost of consumer CDs has increased 68 basis points while the cost of negotiated CDs (normally those with balances in excess of $100 thousand and short maturities) have increased 88 basis points from the first quarter of 2006. Growth in earning assets of $88 million or 8.8% offset much of the decrease caused by the interest margin decline. Contributing to net interest income in the first quarter of 2006 was approximately $205 thousand of income from commercial loans that were acquired at a discount in the Alliance acquisition and were paid in full during that quarter. Without this income, the net interest margin for the first quarter of 2006 would have been 3.11% instead of 3.19%. There was no similar income during the first quarter of 2007.

The provision for loan losses decreased to $225 thousand for the first quarter of 2007 from $380 thousand for the first quarter of the prior year. Favorable loan loss experience and overall credit quality support the current quarterly provision. Non-performing loans at March 31, 2007 were 0.38% of total loans compared to 0.23% at March 31, 2006. This increase is due primarily to one residential developer and their related loans, which are all, secured by first mortgages on one to four family residential real estate. While showing an increase, this level is still below industry averages. Management feels the total allowance of $8.620 million or 1.07% of total loans is adequate to absorb losses contained in the loan portfolio.

Non-interest income increased $834 thousand or 41% from the first quarter of 2006. Increases occurred in all categories of non-interest income. The main contributing factors included: (a) NSF fees increased due to changes made to the overdraft protection program and an increase in the per item fee, (b) Fiduciary activity fees increased due to an increase in assets under administration and increased ESOP administration fees, (c) Gain on sale of loans increased as Horizon sold a higher percent of its mortgage loan production. During the first quarter of 2007 Horizon sold approximately $28 million of current mortgage production while in the first quarter of 2006 a total of $17 million was sold. (d) No gains or losses on the sale of securities were recorded during the first quarter of 2007 while a loss of $158 thousand was taken during the first quarter of 2006.

Non-interest expense increased $342 thousand or 4.5% from the first quarter of 2006. The increase in compensation relates to normal salary increases and the addition of a new product line known as wholesale mortgage lending and its related staff additions. The increase in professional fees relates to legal expense involved with the issuance of additional Bank Owned Life Insurance.

There have been no other material changes in the results of operations of Horizon for the three months ending March 31, 2007 compared to 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 March 31, 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 March 31, 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.

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For the Three Months Ended March 31, 2007

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

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ITEM 6. EXHIBITS

(a) Exhibits

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

May 14, 2007	/s/ Craig M. Dwight
Date:	BY: Craig M. Dwight President and Chief Executive Officer
May 14, 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	
11	Statement Regarding Computation of Per Share Earnings
31.1	Certification of Craig M. Dwight
31.2	Certification of James H. Foglesong
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.