HORIZON BANCORP /IN/
Form 10-Q
November 14, 2005

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SECURITIES AND EXCHANGE COMMISSION
450 5th Street N.W.
Washington, D.C. 20549
HORIZON BANCORP
FORM 10-Q

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

For the quarterly period ended September 30, 2005

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**

Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, no par value
(Title of class)

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes o No 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:

3,156,583 at November 3, 2005

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PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2005 (Unaudited)	December 31, 2004
Assets		
Cash and due from banks	**$ 19,129**	$ 18,253
Interest-bearing demand deposits	**660**	1
Cash and cash equivalents	**19,789**	18,254
Interest-bearing deposits	**985**	985
Investment securities, available for sale	**282,884**	281,282
Loans held for sale	**5,468**	3,836
Loans, net of allowance for loan losses of $8,390 and $7,193	**705,269**	556,849
Premises and equipment	**21,946**	17,561
Federal Reserve and Federal Home Loan Bank stock	**12,499**	11,279
Goodwill	**5,787**	158
Other intangible assets	**2,875**	58
Interest receivable	**5,678**	4,688
Other assets	**21,139**	18,881
Total assets	**$ 1,084,319**	$ 913,831
Liabilities		
Deposits		
Noninterest bearing	**$ 86,311**	$ 58,015
Interest bearing	**698,773**	554,202
Total deposits	**785,084**	612,227
Short-term borrowings	**72,108**	82,281
Long-term borrowings	**137,626**	139,705
Subordinated debentures	**27,837**	22,682
Interest payable	**1,729**	1,024
Other liabilities	**5,781**	5,490
Total liabilities	**1,030,165**	863,399
Commitments and Contingencies		
Stockholders Equity		

Preferred stock, no par value		
Authorized, 1,000,000 shares		
No shares issued		
Common stock, $.2222 stated value		
Authorized, 22,500,000 shares		
Issued, 4,911,741 and 4,778,608 shares	**1,092**	1,062
Additional paid-in capital	**24,714**	22,729
Retained earnings	**46,882**	43,092
Restricted stock, unearned compensation	**(813)**	(972)
Accumulated other comprehensive income	**(697)**	894
Less treasury stock, at cost, 1,755,158 and 1,732,486 shares	**(17,024)**	(16,373)
Total stockholders equity	**54,154**	50,432
Total liabilities and stockholders equity	**$ 1,084,319**	$ 913,831

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005 (Unaudited)	**2004 (Unaudited)**	**2005 (Unaudited)**	**2004 (Unaudited)**
Interest Income				
Loans receivable	**$ 12,662**	$ 8,411	**$ 31,716**	$ 24,338
Investment securities				
Taxable	**2,502**	1,641	**7,328**	5,195
Tax exempt	**610**	566	**1,760**	1,699
Total interest income	**15,774**	10,618	**40,804**	31,232
Interest Expense				
Deposits	**4,735**	2,609	**11,348**	7,817
Federal funds purchased and short-term borrowings	**578**	94	**1,405**	274
Federal Home Loan Bank advances	**1,465**	1,358	**4,362**	4,177
Subordinated debentures	**448**	156	**1,109**	462
Total interest expense	**7,226**	4,217	**18,224**	12,730
Net Interest Income	**8,548**	6,401	**22,580**	18,502
Provision for loan losses	**360**	207	**1,071**	681
Net Interest Income after Provision for Loan Losses	**8,188**	6,194	**21,509**	17,821
Other Income				
Service charges on deposit accounts	**766**	807	**1,887**	2,308
Fiduciary activities	**645**	595	**1,964**	1,930
Commission income from insurance agency		56	**46**	343
Wire transfer fees	**120**	206	**326**	412
Gain on sale of loans	**474**	770	**1,341**	1,713
Increase in cash surrender value of Bank owned life insurance	**125**	141	**361**	377
Other income	**373**	286	**1,329**	943

Total other income		**2,503**		2,861		**7,254**		8,026
Other Expenses								
Salaries and employee benefits		**4,221**		3,903		**12,471**		10,838
Net occupancy expenses		**605**		461		**1,612**		1,382
Data processing and equipment expenses		**704**		498		**1,736**		1,487
Other expenses		**2,258**		1,777		**5,920**		5,290
Total other expenses		**7,788**		6,639		**21,739**		18,997
Income Before Income Tax		**2,903**		2,416		**7,024**		6,850
Income tax expense		**875**		654		**2,013**		1,767
Net Income	**$**	**2,028**	$	1,762	**$**	**5,011**	$	5,083
Basic Earnings Per Share	**$**	**.66**	$	.59	**$**	**1.64**	$	1.70
Diluted Earnings Per Share	**$**	**.64**	$	.56	**$**	**1.59**	$	1.63

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	Restricted Stock, Unearned Compensation	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balances, December 31, 2004	$ 1,062	$ 22,729		$ 43,092	$ (972)	$ 894	$ (16,373)	$ 50,432
Net income			$ 5,011	5,011				5,011
Other comprehensive income, net of tax, unrealized losses on securities			(1,591)			(1,591)		(1,591)
Comprehensive income			$ 3,420					
Exercise of stock options	30	1,534						1,564
Tax benefit related to stock options		451						451
Purchase treasury stock							(651)	(651)
Amortization of unearned compensation					159			159
Cash dividends ($.39 per share)				(1,221)				(1,221)
Balances, September 30, 2005	$ 1,092	$ 24,714		$ 46,882	$ (813)	$ (697)	$ (17,024)	$ 54,154

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30	
	2005 (Unaudited)	**2004 (Unaudited)**
Operating Activities		
Net income	**$ 5,011**	$ 5,083
Items not requiring (providing) cash		
Provision for loan losses	**1,071**	681
Depreciation and amortization	**1,633**	1,132
Federal Home Loan Bank stock dividend	**(251)**	(349)
Mortgage servicing rights (recovery) impairment	**(141)**	(138)
Deferred income tax	**293**	594
Investment securities amortization, net	**205**	364
Gain on sale of loans	**(1,341)**	(1,713)
Proceeds from sales of loans	**73,032**	96,788
Loans originated for sale	**(73,323)**	(88,673)
Gain on sale of other real estate owned	**(45)**	(12)
Loss on sale of fixed assets	**7**	3
Increase in cash surrender value of life insurance	**(361)**	(414)
Net change in		
Interest receivable	**(461)**	(260)
Interest payable	**563**	(20)
Other assets	**(485)**	82
Other liabilities	**(1,134)**	(722)
Net cash provided by operating activities	**4,273**	12,426
Investing Activities		
Net change in interest-bearing deposits	**4,702**	(17,983)
Purchases of securities available for sale	**(35,111)**	(79,753)
Proceeds from maturities, calls, and principal repayments of securities available for sale	**54,144**	88,674
Net change in loans	**(63,386)**	(57,653)
Proceeds from sale of fixed assets	**116**	43
Charge-offs on loans	**342**	253
Proceeds from sale of other real estate owned	**484**	77
Purchases of premises and equipment	**(865)**	(2,073)
Purchase of bank owned life insurance		(12,000)
Acquisition, net of cash	**(2,901)**	
Net cash used in investing activities	**(42,475)**	(80,415)

Financing Activities		
Net change in		
Deposits	**55,731**	64,950
Short-term borrowings	**(12,058)**	3,639
Proceeds from long-term borrowings	**72,000**	63,300
Repayment of long-term borrowings	**(76,079)**	(76,117)
Issuance of stock	**2,015**	696
Purchase of treasury stock	**(651)**	(848)
Dividends paid	**(1,221)**	(1,084)
Net cash provided by financing activities	**39,737**	54,536
Net Change in Cash and Cash Equivalents	**1,535**	(13,453)
Cash and Cash Equivalents, Beginning of Period	**18,254**	45,464
Cash and Cash Equivalents, End of Period	**$ 19,789**	$ 32,011
Additional Cash Flows Information		
Interest paid	**$ 17,486**	$ 12,736
Income tax paid	**1,050**	903

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 Share and 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), and HBC Insurance Group, Inc. (Insurance Company). The Insurance Company was liquidated in 2004. All intercompany balances and transactions have been eliminated. The results of operations for the periods ended September 30, 2005 and September 30, 2004 are not necessarily indicative of the operating results for the full year of 2005 or 2004. 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 2004 filed with the Securities and Exchange Commission. The consolidated balance sheet of Horizon as of December 31, 2004 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. The weighted average number of shares used in the computation of earnings per share is as follows:

Three Months Ended September 30	**2005**	**2004**
Basic	3,074,705	2,998,563
Diluted	3,165,847	3,121,286
Nine Months Ended September 30	**2005**	**2004**
Basic	3,052,821	2,991,203
Diluted	3,154,808	3,119,417

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.

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

Note 1: Accounting Policies (continued)

Horizon accounts for the stock option plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost related to the option plans is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date. Compensation cost related to restricted stock awards is reflected in net income. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to the stock option plans.

Three Months Ended September 30	**2005**	**2004**
Net income, as reported	$ 2,028	$ 1,762
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(7)	(16)
Pro forma net income	$ 2,021	$ 1,746
Earnings per share		
Basic as reported	$ .66	$ .59
Basic pro forma	.66	.58
Diluted as reported	.64	.56
Diluted pro forma	.64	.56

Nine Months Ended September 30	**2005**	**2004**
Net income, as reported	$ 5,011	$ 5,083
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(27)	(106)
Pro forma net income	$ 4,984	$ 4,977
Earnings per share		
Basic as reported	$ 1.64	$ 1.70
Basic pro forma	1.63	1.66
Diluted as reported	1.59	1.63
Diluted pro forma	1.58	1.59

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

Note 2: Investment Securities

	2005			
September 30	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
U. S. Treasury and federal agencies	$ 69,270	$	$ (1,306)	$ 67,964
State and municipal	64,895	2,286	(93)	67,088
Federal agency collateralized mortgage obligations	16,457		(202)	16,255
Federal agency mortgage backed pools	125,736	288	(1,979)	124,045
Private collateralized mortgage obligations	6,967		(115)	6,852
Corporate Notes	632	48		680
Total investment securities	$ 283,957	$ 2,622	$ (3,695)	$ 282,884

	2004			
December 31	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
U. S. Treasury and federal agencies	$ 86,348	$ 12	$ (734)	$ 85,626
State and Municipal	54,881	2,493	(47)	57,327
Federal agency collateralized mortgage obligations	13,380	14	(56)	13,338
Federal agency mortgage backed pools	124,666	639	(997)	124,308
Corporate notes	632	51		683
Total investment securities	$ 279,907	$ 3,209	$ (1,834)	$ 281,282

The amortized cost and fair value of securities available for sale at September 30, 2005, 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	$ 949	$ 948
One to five years	70,437	69,335
Five to ten years	20,051	20,254
After ten years	43,360	45,195
	134,797	135,732
Federal agency collateralized mortgage obligations	16,457	16,255
Private collateralized mortgage obligations	6,967	6,852
Federal agency mortgage backed pools	125,736	124,045
	$ 283,957	$ 282,884

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

Note 3: Loans

	September 30, 2005	December 31, 2004
Commercial loans	$ 267,369	$ 203,966
Mortgage warehouse loans	108,582	127,992
Real estate loans	140,643	89,139
Installment loans	197,065	142,945
	713,659	564,042
Allowance for loan losses	(8,390)	(7,193)
Total loans	$ 705,269	$ 556,849

Note 4: Allowance for Loan Losses

	September 30, 2005	September 30, 2004
Allowance for loan losses		
Balances, beginning of period	$ 7,193	$ 6,909
Allowance acquired in acquisition	557	
Provision for losses, operations	1,071	681
Recoveries on loans	342	253
Loans charged off	(773)	(812)
Balances, end of period	$ 8,390	$ 7,031

Note 5: Nonperforming Assets

	September 30, 2005	December 31 2004
Nonperforming loans	$ 2,408	$ 1,358
Other real estate owned	164	276

Total nonperforming assets	$ 2,572	$ 1,634

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

Note 6: Acquisition

On June 10, 2005, Horizon acquired Alliance Financial Corporation and its wholly-owned bank subsidiary, Alliance Banking Company (collectively referred to as Alliance). Horizon purchased the outstanding shares of Alliance for $42.50 per share in cash. The cost of the transaction, including legal, accounting, and investment fees was $13.348 million. The assets and liabilities of Alliance were recorded on the balance sheet at their fair value as of the acquisition date. The results of Alliance s operations have been included in Horizon s consolidated statement of income from the date of acquisition. The acquisition resulted in $5.629 million of goodwill and $2.952 million of core deposit intangible being recorded. The following proforma disclosures, including the effect of the purchase accounting adjustments, depict the results of operations as through the merger had taken place January 1, 2005:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net interest income	$ 8,548	$ 24,587
Net Income	2,028	4,079
Per Share combined:		
Basic net income	$ .66	$ 1.33
Diluted net income	.64	1.29

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

Horizon Bancorp and Subsidiaries
Management s Discussion and Analysis of Financial Condition
and Results of Operations
For the Three and Nine Months Ended September 30, 2005

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) and Horizon s other subsidiaries. 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, changes in: interest rates, general economic conditions, legislative and regulatory changes, U.S. monetary and fiscal policies, demand for products and services, deposit flows, competition and accounting policies, principles and guidelines. 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.

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 39-43 of Form 10-K for 2004. 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; and adequacy of loan policies and internal controls; the experience of the lending staff; bank regulatory examination results; and changes in the composition of the portfolio.

Horizon considers the allowance for loan losses of $8.390 million adequate to cover losses inherent in the loan portfolio as of September 30, 2005. 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.

Acquisition

On June 10, 2005, Horizon acquired Alliance Financial Corporation and its wholly-owned bank subsidiary, Alliance Banking Company (collectively referred to as Alliance). Horizon purchased the outstanding shares of Alliance for $42.50 per share in cash. The total cost of the transaction, including legal, accounting and investment fees was $13.348 million. The results of Alliance s operations have been included in Horizon s consolidated statement of income from the date of acquisition. The acquisition resulted in $5.629 million of goodwill and $2.952 million of core deposit intangible being recorded. The acquisition is not considered to be a significant acquisition as defined by regulations. Prior to the acquisition, Horizon operated ten offices throughout Northern Indiana and two offices in St. Joseph, Michigan. Alliance operated three offices in Southwest Michigan in the towns of Harbert, New Buffalo, and Three Oaks and one office in Michigan City, Indiana. The Michigan City office was downsized to a drive-up facility only on July 16, 2005, due to its proximity to Horizon s main office, which has no drive-up. The acquisition of Alliance has expanded Horizon s geographical presence in its market area.

Alliance offered banking products with similar terms and features as those offered by Horizon.

Financial Condition

Overview

Total assets increased $170 million from December 31, 2004 to September 30, 2005, with the acquisition of Alliance representing a significant component of the increase. The most significant changes in assets were increases in loans, premise and equipment and goodwill. For the funding side of the balance sheet, deposits and subordinated debentures increased while borrowings decreased.

Cash and Cash Equivalents

During the first nine months of 2005, cash and cash equivalents increased $1.5 million. While the level of cash and cash equivalents remains relatively stable, it is common for significant fluctuations in carrying amounts due to large municipal deposit balances

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Investment Securities

Investment securities increased $1.6 million from December 31, 2004 to September 30, 2005. Included in this increase is $23.2 million of investments acquired through the Alliance transaction. Additionally, Horizon has purchased $35 million of securities during the nine month period ending September 30, 2005. These increases are offset by maturities, calls, and prepayments of securities of $54 million.

Loans

Gross loans increased $149.6 million from December 31, 2004 to September 30, 2005. The Alliance acquisition contributed to $87.5 million of this increase. In addition to the acquisition, Horizon experienced loan growth in commercial, real estate, and installment loans totaling $81.5 million while the mortgage warehouse loan portfolio decreased $19.4 million.

Commercial loans increased as a result of Horizon penetrating new market areas, primarily Berrien County, Michigan and St. Joseph and Elkhart counties in Indiana. The increase was primarily in loans secured by commercial real estate and commercial term loans with new customer relationships. Real estate loans increased due to adjustable rate mortgages held in the Bank s portfolio instead of being sold into the secondary market. Installment loan growth primarily related to home equity loans and indirect automobile loans. Mortgage warehouse loans fluctuate depending on the activity of the underlying network of originators; this line of business is volatile and is affected by economic conditions.

Allowance for Loan Losses

At September 30, 2005, the total allowance for loan losses was $8.4 million as compared to $7.2 million at December 31, 2004. The allowance for loan losses to total loans is 1.18% at September 30, 2005 compared to 1.28% at December 31, 2004. The increase of $1.2 million for the nine months was due in part to the allowance acquired in the Alliance transaction totaling $557 thousand; the remaining increase was due to the provision for loan losses of $1.071 million exceeding net charge-offs of $431 thousand.

Horizon analyzes the adequacy of the allowance for loan losses on a bank-wide basis. While historical factors related to Horizon and Alliance are considered in the analysis, the overall methodology used in analyzing the adequacy of the allowance is consistent for loans originated by Horizon and those acquired in the Alliance transaction.

Non-performing loans have increased from $1.357 million or .24% of total loans At December 31, 2004 to $2.407 million or .33% of total loans at September 30, 2005. The increase relates to commercial loans. Horizon considers the allowance for loan losses to be adequate to cover losses inherent in the loan portfolio as of September 30, 2005.

Deposits

Deposits increased $172.9 million during the first nine months of 2005 with the Alliance acquisition contributing to $117.1 million of this increase. The remaining deposit increase is largely attributable to increases in public funds and brokered deposits.

Subordinated Debentures and Borrowings

Subordinated debentures increased $5.2 million as Alliance had subordinated debentures outstanding at the time of acquisition. The terms of the Alliance subordinated debentures are similar to those previously issued by Horizon.

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Short-term borrowings consist of overnight funds from the Federal Home Loan Bank and repurchase agreement lines of credit. Long-term borrowings are primarily advances from the Federal Home Loan Bank. Short-term and long-term borrowings decreased in total by $12.3 million primarily due to a shift in funding sources between deposits and borrowings.

Stockholders Equity

Stockholders equity totaled $54.2 million as of September 30, 2005 compared to $50.4 million as of December 31, 2004. The change in stockholders equity during the nine months ended September 30, 2005 is the result of net income and the issuance of new shares for the exercise of stock options, offset by dividends declared, a decrease in the market value of investment securities available for sale, and the purchase of treasury stock.

At September 30, 2005, the ratio of stockholders equity to assets was 4.99% compared to 5.52% at December 31, 2004. The decrease in the ratio was the result of the Alliance transaction which was acquired using cash rather than issuing stock.

Liquidity and Capital Resources

During the nine months ended September 30, 2005, cash and cash equivalents increased by approximately $1.5 million. The increase was attributable to cash provided by operations of $4.3 million, uses of cash for investing activities of $42.7 million and cash provided by financing activities of $39.7 million. Mortgage banking activities, consisting of originating and selling loans, is the most significant operating activity that impacts cash. For the nine months ended September 30, 2005, Horizon had loan originations of held for sale loans of $73.3 million and proceeds from the sale of loans of $73.0 million.

Proceeds from the sales, maturities, calls and principle repayments of available for sale securities provided cash of $54.1 million for the nine months ended September 30, 2005. This was offset by uses of cash for investing activities through purchases of investments totaling $35.1 million and a net increase in loans of $63.4 million. The Alliance acquisition resulted in a net use of cash of $2.9 million after considering cash of $10.4 million which was acquired in the transaction.

The net increase in deposits provided Horizon with $55.7 million of cash for the nine months ended September 30, 2005. The activity on short-term and long-term borrowings resulted in a use of cash of $16.1 million for the same period. As previously discussed, there was a shift in funding sources between deposits and borrowings during the nine months ended September 30, 2005.

Sources of liquidity for Horizon include earnings, new deposits, loan repayments, investment security sales and maturities, sales of real estate loans and borrowing relationships with correspondent banks, including the Federal Home Loan Bank (FHLB). At September 30,2005, the Bank has available $214 million in unused credit lines with various money center banks and the FHLB.

Regulatory Capital

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 September 30, 2005.

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There have been no other material changes in Horizon s capital resources from December 31, 2004 to September 30, 2005.

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Material Changes in Results of Operations Nine Months Ended September 30, 2005 Compared to the Nine Months Ended September 30, 2004

Overview

During the nine months ended September 30, 2005, net income totaled $5.011 million or $1.59 per diluted share compared to $5.083 million or $1.63 per diluted share for the same period in 2004.

The results of operations include operations of Alliance since June 10, 2005, the date of acquisition.

Net Interest income

Net interest income was $22.580 million for the nine months ended September 30, 2005 as compared to $18.502 million for the same period of 2004. Average earning assets increased to $794 million for the nine month period ended September 30, 2005 from $601 million for the same period of the prior year. Increases were experienced in all significant loan categories with the exception of mortgage warehouse loans. Average mortgage warehouse loans decreased $29 million from the nine-month period ended September 30, 2004 to the same period of 2005.

The net interest margin declined slightly from 3.37% for the nine months ended September 30, 2004 period to 3.28% for the nine months ended September 30, 2005. During this same time, the yield on interest earning assets increased from 5.64% to 5.91%, which is mostly attributable to an increase in the yield on loans from 5.85% to 6.33%. The cost of funds increased from 2.27% for the first nine months of 2004 to 2.635 for the first nine months of 2005. Cost increases came primarily in Money Market Accounts and negotiable Certificates of Deposit. The net interest margin was positively impacted by $200 thousand due to the payoff of certain loans acquired at a discount through the Alliance acquisition. The yield on interest earning assets, exclusive of this one time income, would have been 5.88%. Net interest margin would have been 3.25% for the nine month period ending September 30, 2005.

Provision for loan losses

The provision for loans losses totaled $1.071 million for the nine months ended September 30, 2005 compared to $681 thousand for the same period of the prior year. The provision for loan losses is determined based on the analysis described in the Critical Accounting Policies.

Non-interest Income

Total non-interest income was $7.254 million for the nine months ended September 30, 2005 compared to $8.026 million for the same period in 2004. The decrease of $772 thousand resulted from decreases in all significant components of non-interest income, primarily service charges on deposit accounts, wire transfer fees, commission income from the insurance agency, and gain on sale of loans. Partially offsetting the declines during this period, were a recovery of impairment on the mortgage servicing asset, increases in merchant discount charges, and mortgage brokerage fees. .

Non-interest expense

Total non-interest expense was $21.739 for the nine months ended September 30, 2005 compared to $18.997 million for the same period in 2004. The majority of the net increase of $2.742 million was due to additional human resource costs to support Horizon s expansion into new and existing markets and increased cost of employee benefits. Since the prior year, Horizon added offices in St. Joseph, Michigan and South Bend, Indiana. Net occupancy costs, data processing and equipment costs and other expenses also increased mainly due to the expansion.

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Material Changes in Results of Operations Three Months Ended September 30, 2005 Compared to the Three Months Ended September 30, 2004

Overview

During the three months ended September 30, 2005, net income totaled $2.028 million or $.64 per diluted share compared to $1.762 million or $.56 per diluted share for the same period in 2004.

Net Interest Income

Net interest income was $8.548 million for the three months ended September 30, 2005, compared to $6.401 million for the same period 2004. This increase was the result of an increase in average earning assets from $762 million for the three month period ended September 30, 2004 to $1.019 million for the three month period ended September 30, 2005. This increase in earning assets was partially offset by a decrease net interest margin from 3.59% in the third quarter of 2004 to 3.36% in the current quarter. Similar to the results for the nine month period ended September 30, 2005, the costs of liabilities increased by more than the yield on interest earning assets. As previously discussed, the payoff of loans acquired at a discount in the Alliance acquisition had a positive impact of $200 thousand dollars on net interest income in the current quarter. Excluding the interest income on the Alliance loans that were paid in full, the net interest margin would have been 3.29% for the quarter.

Provision for Loan Losses

The provision for loan losses totaled $360 thousand for the three months ended September 30, 2005 compared to $207 thousand for the same period of the prior year. The provision for loan losses is determined based on the analysis described in the Critical Accounting Policies.

Non-interest Income

Total non-interest income was $2.503 million for the three months ended September 30, 2005, compared to $2.861 million for the same three month period in 2004. The decrease of $358 thousand was primarily due to the gains on sale of loans which decreased by $296 thousand. During the third quarter of 2004, approximately $25 million of portfolio mortgage loans were sold generating a gain of $394 thousand. There have been no sales of portfolio loans during 2005.

Non-interest Expense

Non-interest expense was $7.788 million for the three months ended September 30, 2005 compared to $6.639 million for the same period in 2004. The net increase of $1.149 million was largely due to recognizing a full quarter of expenses related to the additional staff, occupancy and other expenses for the new branch locations acquired through the Alliance acquisition and new branches opened since the fourth quarter of 2004. New branches opened since the fourth quarter of 2004 include Niles Road in St. Joseph, Michigan and Main Street, in South Bend, Indiana.

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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 2004 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 2004 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on an evaluation of disclosure controls and procedures as of September 30, 2005, 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)). 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 or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

Changes In Internal Control Over Financial Reporting

There were no changes in Horizon s internal control over financial reporting identified in connection with Horizon s evaluation of controls that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, Horizon s internal control over financial reporting.

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Horizon Bancorp And Subsidiaries
Part II Other Information
For the Nine Months Ended September 30, 2005

ITEM 1. LEGAL PROCEEDINGS

Not Applicable

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents information with respect to purchases that the Company made of its Common Stock during the quarter ended September 30, 2005:

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Minimum Number of Shares That may yet be Purchased Under the Plan or Program
July 1, 2005 through July 31, 2005		$		
August 1, 2005 through August 31, 2005				
September 1, 2005 through September 30, 2005	13,919 (1)	27.75		

(1) The 13,919 shares redeemed were not part of a publicly announced repurchase plan or program. These shares were owned and tendered by an employee to Horizon as payment for taxes associated with option exercises.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

Exhibits

Exhibit 31.1	Certification of Craig M. Dwight
Exhibit 31.2	Certification of James H. Foglesong

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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
11-10-2005	/s/ Craig M. Dwight
Date	BY: Craig M. Dwight
	President and Chief Executive Officer
11-10-2005	/s/ James H. Foglesong
Date	BY: James H. Foglesong
	Chief Financial Officer

INDEX TO EXHIBITS

The following documents are included as Exhibits to this Report.

Exhibit	
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.